

SADIA S.A.
Form 6-K
November 08, 2006

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

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

For the month of November 2006

Commission File Number 1-15184

SADIA S.A.

(Exact Name as Specified in its Charter)

N/A

(Translation of Registrant's Name)

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

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

Form 20-F Form 40-F

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

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

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

Yes No

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

SIGNATURES

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

Date: Nov 08, 2006

SADIA S.A.

By:/s/Welson Teixeira Junior

Name: Welson Teixeira Junior

Title: Investor Relations Officer

Sadia S.A.

Interim financial information
Nine-month period ended
September 30, 2006 (Unaudited)

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

Sadia S.A.

Interim financial information (Unaudited)

Nine month period ended September 30, 2006

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Independent accountants' review report

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

1. We have reviewed the interim financial information of Sadia S.A. and the consolidated interim financial information of Sadia S.A and its subsidiaries, for the nine-month period ended September 30, 2006, which comprises the balance sheets, the income statements, management report and other relevant information, prepared in accordance with the accounting practices adopted in Brazil.
2. Our review was prepared in accordance with the review standards established by IBRACON - Brazilian Institute of Independent Auditors and the Federal Council of Accounting, and included, basically: (a) inquiry and discussion with management responsible for the accounting, financial and operating areas of the Company and its subsidiaries, regarding the main criteria adopted in the preparation of the interim financial information; and (b) review of the information and subsequent events, which have, or may have, a material effect on the financial situation and the operations of the Company and its subsidiaries.
3. Based on our special review, we are not aware of any material change which should be made to the interim financial information above for it to be in accordance with accounting practices adopted in Brazil and regulations issued by the Brazilian Securities and Exchange Commission (CVM), specifically applicable to the preparation of interim financial information.
4. Our review was performed with the objective of issuing a review report on the interim financial information referred to in the first paragraph. The statements of cash flows and added value for the period ended September 30, 2006, are being presented in the notes to the interim financial information and have been included to facilitate additional analysis. This supplementary information was subject to the same review procedures as applied to the interim financial information and, we are not aware of any material change which should be made to those statements for them to be in accordance with the accounting practices adopted in Brazil and rules issued by the Brazilian Securities and Exchange Commission (CVM).

October 30, 2006

KPMG Auditores Independentes
CRC 2SP014428/O-6-S-SC

Adelino Dias Pinho
Accountant CRC 1SP097869/O-6-S-SC

Sadia S.A.

Balance sheets (Unaudited)

September 30, 2006 and June 30, 2006

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|-----------------------|------------------|---------------------|------------------|
| | September | June | September | June |
| | 30, 2006 | 30, 2006 | 30, 2006 | 30, 2006 |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 117,183 | 228,750 | 128,824 | 281,964 |
| Short-term investments | 367,300 | 417,818 | 2,206,146 | 2,289,632 |
| Accounts receivable from future contracts | 3,712 | 1,963 | 25,202 | 48,421 |
| Trade accounts receivable | 403,706 | 366,848 | 472,575 | 353,442 |
| Inventories | 1,101,521 | 1,113,964 | 1,174,028 | 1,217,352 |
| Recoverable taxes | 147,987 | 110,097 | 155,550 | 116,247 |
| Deferred tax credits | 63,609 | 62,515 | 65,797 | 64,903 |
| Other credits | <u>64,670</u> | <u>85,310</u> | <u>83,870</u> | <u>105,054</u> |
| | <u>2,269,688</u> | <u>2,387,265</u> | <u>4,311,992</u> | <u>4,477,015</u> |
| Noncurrent assets | | | | |
| Long-term investments | 125,306 | 69,805 | 125,306 | 69,805 |
| Recoverable taxes | 122,842 | 131,634 | 123,845 | 132,625 |
| Deferred tax credits | 86,043 | 94,428 | 86,043 | 94,428 |
| Judicial deposits | 75,713 | 79,015 | 75,819 | 79,121 |
| Related parties | 93,192 | 91,495 | - | - |
| Other credits | <u>95,255</u> | <u>82,343</u> | <u>97,124</u> | <u>84,178</u> |
| | <u>598,351</u> | <u>548,720</u> | <u>508,137</u> | <u>460,157</u> |
| Permanent assets | | | | |
| Investments | 1,229,008 | 1,168,843 | 60,403 | 66,367 |
| Property, plant and equipment | 2,110,236 | 1,905,195 | 2,133,749 | 1,909,877 |
| Deferred charges | <u>116,486</u> | <u>109,464</u> | <u>124,604</u> | <u>114,579</u> |
| | <u>3,455,730</u> | <u>3,183,502</u> | <u>2,318,756</u> | <u>2,090,823</u> |
| Total assets | <u>6,323,769</u> | <u>6,119,487</u> | <u>7,138,885</u> | <u>7,027,995</u> |

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

Sadia S.A.

Balance sheets (Unaudited)

September 30, 2006 and June 30, 2006

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Liabilities and shareholders' equity | | | | |
| Current liabilities | | | | |
| Loans and financing | 352,146 | 495,862 | 989,863 | 1,157,827 |
| Accounts payable from future contracts | 11 | 2,902 | 1,991 | 30,672 |
| Trade accounts payable | 496,535 | 456,674 | 502,343 | 461,849 |
| Advances from subsidiaries | 526,292 | 637,331 | - | - |
| Salaries, social charges and accrued vacation payable | 143,840 | 122,741 | 146,004 | 125,010 |
| Taxes payable | 23,725 | 21,457 | 30,097 | 26,557 |
| Deferred taxes | 11,455 | 11,455 | 11,455 | 11,455 |
| Dividends payable | 1,006 | 43,420 | 1,006 | 43,420 |
| Employees' profit sharing | 8,503 | 1,414 | 9,216 | 2,031 |
| Other accounts payable | <u>111,378</u> | <u>108,890</u> | <u>151,225</u> | <u>154,556</u> |
| | <u>1,674,891</u> | <u>1,902,146</u> | <u>1,843,200</u> | <u>2,013,377</u> |
| Noncurrent liabilities | | | | |
| Loans and financing | 1,018,783 | 927,501 | 2,729,878 | 2,522,590 |
| Related parties | 1,062,858 | 796,138 | - | - |
| Employee benefit plan | 89,404 | 86,873 | 89,404 | 86,873 |
| Provision for contingencies | 76,969 | 74,411 | 78,519 | 75,931 |
| Deferred taxes | 49,099 | 49,122 | 49,099 | 49,122 |
| Other accounts payable | <u>20,235</u> | <u>20,492</u> | <u>20,209</u> | <u>20,465</u> |
| | <u>2,317,348</u> | <u>1,954,537</u> | <u>2,967,109</u> | <u>2,754,981</u> |
| Minority interest in subsidiaries | | | 1,279 | 1,452 |
| Shareholders' equity | | | | |
| Capital | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Profit reserves | 738,417 | 738,417 | 738,417 | 738,417 |
| Treasury stock | (10,377) | (10,377) | (10,377) | (10,377) |
| Retained earnings | <u>103,490</u> | <u>34,764</u> | <u>99,257</u> | <u>30,145</u> |
| | <u>2,331,530</u> | <u>2,262,804</u> | <u>2,327,297</u> | <u>2,258,185</u> |
| Total liabilities and shareholders' equity | <u>6,323,769</u> | <u>6,119,487</u> | <u>7,138,885</u> | <u>7,027,995</u> |

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

Sadia S.A.**Income statements (Unaudited)**

September 30, 2006 and June 30, 2006

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

| | Parent company | | Parent company | | Consolidated | | Consolidated | |
|---|---------------------------|--------------------|--------------------------|--------------------|---------------------------|--------------------|--------------------------|--------------------|
| | Three months ended | | Nine months ended | | Three months ended | | Nine months ended | |
| | September | September | September | September | September | September | September | September |
| | 30, 2006 | 30, 2005 | 30, 2006 | 30, 2005 | 30, 2006 | 30, 2005 | 30, 2006 | 30, 2005 |
| Gross operating revenue: | 1,946,204 | 2,084,167 | 5,363,378 | 5,792,185 | 2,054,431 | 2,142,377 | 5,584,944 | 6,089,366 |
| Domestic market | 1,101,243 | 1,042,646 | 3,152,545 | 2,985,688 | 1,101,243 | 1,042,647 | 3,152,545 | 3,018,121 |
| Foreign market | <u>844,961</u> | <u>1,041,521</u> | <u>2,210,833</u> | <u>2,806,497</u> | <u>953,188</u> | <u>1,099,730</u> | <u>2,432,399</u> | <u>3,071,245</u> |
| Sales deductions: | (223,385) | (204,946) | (648,472) | (620,411) | (259,744) | (232,738) | (747,436) | (735,927) |
| Value-added tax on sales and sales deductions | (223,385) | (204,946) | (648,472) | (620,411) | (259,744) | (232,738) | (747,436) | (735,927) |
| Net operating revenue | <u>1,722,819</u> | <u>1,879,221</u> | <u>4,714,906</u> | <u>5,171,774</u> | <u>1,794,687</u> | <u>1,909,639</u> | <u>4,837,508</u> | <u>5,353,439</u> |
| Cost of goods sold | <u>(1,320,727)</u> | <u>(1,415,161)</u> | <u>(3,721,540)</u> | <u>(3,954,368)</u> | <u>(1,342,433)</u> | <u>(1,383,356)</u> | <u>(3,733,945)</u> | <u>(3,928,657)</u> |
| Gross profit | 402,092 | 464,060 | 993,366 | 1,217,406 | 452,254 | 526,283 | 1,103,563 | 1,424,782 |
| Operating income (expenses): | (319,873) | (220,307) | (845,273) | (699,888) | (368,945) | (293,381) | (951,983) | (909,360) |
| Selling expenses | (304,015) | (275,796) | (837,497) | (816,067) | (334,180) | (298,767) | (914,790) | (900,318) |
| Administrative and general expenses | (12,206) | (13,352) | (40,939) | (39,350) | (12,206) | (13,352) | (40,939) | (39,350) |
| Management fees | (3,243) | (3,230) | (9,598) | (9,523) | (3,243) | (3,230) | (9,598) | (9,523) |
| Other operating expenses | (15,567) | (12,175) | (27,716) | (25,390) | (15,633) | (9,217) | (27,379) | (23,077) |
| Financial income (expenses), net | (50,971) | 18,363 | (67,033) | 45,837 | (461) | 84,179 | 46,975 | 251,362 |
| Equity in income (loss) of subsidiaries | <u>66,129</u> | <u>65,883</u> | <u>137,510</u> | <u>144,605</u> | <u>(3,222)</u> | <u>(52,994)</u> | <u>(6,252)</u> | <u>(188,454)</u> |
| Operating income (loss) | 82,219 | 243,753 | 148,093 | 517,518 | 83,309 | 232,902 | 151,580 | 515,422 |
| Nonoperating expenses | (1,454) | (826) | (4,734) | 3,321 | (1,500) | 1,152 | (5,380) | 5,281 |
| Income (loss) before income and social contribution taxes | 80,765 | 242,927 | 143,359 | 520,839 | 81,809 | 234,054 | 146,200 | 520,703 |
| Current income and social contribution taxes | (4,771) | (56,602) | (8,005) | (80,459) | (5,444) | (57,462) | (11,419) | (81,582) |
| Deferred income and social contribution taxes | (7,268) | 367 | 18,136 | (16,700) | (7,468) | 1,192 | 18,053 | (17,254) |
| Net income before minority interest | 68,726 | 186,692 | 153,490 | 423,680 | 68,897 | 177,784 | 152,834 | 421,867 |
| Minority interest | - | - | - | - | 215 | 57 | 814 | 1,100 |
| Net income | 68,726 | 186,692 | 153,490 | 423,680 | 69,112 | 177,841 | 153,648 | 422,967 |
| Outstanding shares net of treasury stock (thousands) | 680.496 | 680.496 | 680.496 | 680.496 | 680.496 | 680.496 | 680.496 | 680.496 |
| Earnings per share - In Reais | 0,10099 | 0,27435 | 0,22556 | 0,62260 | 0,10156 | 0,26134 | 0,22579 | 0,62156 |

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

Sadia S.A.

Notes to the interim financial information (Unaudited)

Nine-month period ended June 30, 2006

(In thousands of Reais)

1 Operations

The Company's main business activities are organized into four operational segments: poultry (chickens and turkeys), pork, processed products and beef. The beef segment was included as from the beginning of this fiscal year as the Company decided to resume to this activity for export. The Company's large production chain permit its products to be commercialized in Brazil and abroad by retailers, small groceries and food service chains.

The Company distributes its products through several sales points in the local market and to countries located in Europe, Middle East, Eurasia, Asia and Americas. The Company has 13 industrial units and 16 distribution centers located within 14 Brazilian states.

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

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

2 Preparation and presentation of the interim financial information

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

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

3 Summary of the principal accounting practices

a. Income statement

Income and expenses are recognized on the accrual basis. Revenue from the Company's sales is recognized upon shipment of the products and when the following conditions are met: i) the ownership is transferred and therefore risk of loss has passed to the client; ii) collection is probable; iii) there is evidence of an arrangement; and iv) the sales price is fixed or determinable.

b. Foreign currency

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

c. Accounting estimates

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

d. Long and short-term investments

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

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

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

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

e. Trade accounts receivable

Trade accounts receivable are recorded at the amount invoiced and interest is not levied. The allowance for doubtful accounts is the best estimate the Company has and is considered sufficient by management to cover any losses arising on collection of accounts receivable. Accounts receivable are written off against the allowance for doubtful accounts after all means of collection have been exhausted and the possibility of recovery of the amounts receivable is considered remote.

f. Inventories

Finished goods, livestock (excluding breeders), work-in-progress, raw materials and supplies and others are valued at the lower of cost of acquisition or production (average method), or replacement or realization. The cost of finished goods and work-in-progress includes raw materials acquired, labor, production expenses, transport and storage relating to the purchase and production of inventories. Normal production losses are inventoried and abnormal losses are expensed immediately as cost of goods sold.

g. Investments

Investments in subsidiaries in Brazil and abroad are valued using the equity method of accounting, based on the respective shareholders' equity valued at the interim financial information date and in accordance with accounting practices adopted by the Company (see Note 9).

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

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

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

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

h. Property, plant and equipment

Property, plant and equipment are recorded at cost of acquisition, formation or construction, including the interest incurred on financing, during the period of construction, modernization and expansion of the industrial units. Expenditures that materially extend the useful lives of existing facilities and equipment are capitalized. Depreciation is calculated using the straight-line method at rates that take into account the estimated useful life of the assets, adjusted in keeping with the work shifts, as disclosed in Note 10. Depletion of forestry resources is calculated based on the extraction of timber and the average costs of the forests.

Breeding stock is recorded at the cost of formation which includes the appropriation of costs of the breeding hens, animal feed, medication and labor. These costs are accumulated for approximately six months until the breeding stock initiates the breeding cycle. From then on, the costs of the breeding stock begin to be amortized by the estimated number of offsprings. The productive cycle ranges from fifteen to thirty months.

i. Impairment of long-lived assets

The Company reviews its property, plant and equipment to verify possible losses considered permanent, whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable based on future cash flows. If these events occur, the reviews will be conducted at the lowest level of groups of assets for which the Company manages to attribute future cash flows. If the carrying amount of an asset is higher than the future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Until now, these reviews have not indicated the need to recognize impairment losses.

j. Deferred charges

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

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

k. Current and noncurrent liabilities

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

l. Provisions

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

m. Income and social contribution taxes

The income and social contribution taxes, both current and deferred, are calculated monthly based on taxable income at the rates of 15% plus a surcharge of 10% for income tax and 9% for social contribution and consider the offsetting of tax losses and negative basis of social contribution, limited to 30% of taxable income.

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

n. Employees' benefits

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

o. Environmental questions

Our production facilities and our forestry activities are subject to government environmental regulations. The risks associated with environmental questions are reduced through operational controls and procedures, as well as investments in equipment and systems for pollution control. We believe that no provision for losses related to environmental questions is currently necessary, based on existing Brazilian laws and regulations.

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

p. Supplementary information

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

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

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

q. Consolidated financial information

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

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

In accordance with the CVM Instruction 408/04, the Company consolidated the interim financial information of its investment funds Concórdia Foreign Investment Fund Class A and Taurus Fund Limited, where it is the wholly owned investment holder. These investment funds have the sole purpose of centralizing the foreign investment fund portfolio, delegating to third party the administrative functions and maximizing shareholder returns. As of September 30, 2006 and June 30, 2006, these investment funds were consolidated in the Company's financial information as they had loans collateralized by its own financial assets.

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

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

| | Shareholdings in % at | |
|---|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 |
| Sadia International Ltd. | 100.00% | 100.00% |
| Sadia Uruguay S.A. | 100.00% | 100.00% |
| Sadia Alimentos S.A. | 1.00% | 1.00% |
| Sadia Chile S.A. | 60.00% | 60.00% |
| Sadia Alimentos S.A. | 99.00% | 99.00% |
| Churrascaria Beijing Brazil Ltd. (*) | 50.00% | 50.00% |
| Concórdia Foods Ltd. (***) | 100.00% | 100.00% |
| Sadia U. K. Ltd. | 100.00% | 100.00% |
| Concórdia S.A. C.V.M.C.C. | 99.99% | 99.99% |
| Empresa Matogrossense de Alimentos Ltda. | 100.00% | 100.00% |
| Intergen Ltda. (**) | 100.00% | 100.00% |
| Rezende Óleo Ltda. | 100.00% | 100.00% |
| Rezende Marketing e Comunicações Ltda. | 0.09% | 0.09% |
| Rezende Marketing e Comunicações Ltda. | 99.91% | 99.91% |
| Sadia G.m.b.H. | 100.00% | 100.00% |
| Wellax Food Logistics C. P. A. S. U. Ltda. | 100.00% | 100.00% |
| Sadia Foods G.m.b.H. | 100.00% | 100.00% |
| Qualy B.V. | 100.00% | 100.00% |
| Sadia Panamá S.A. | 100.00% | 100.00% |
| Sadia Japan Ltd. | 100.00% | 100.00% |

(*) Joint-ventures.

(**) Control acquired on January 11, 2006 (see note 9).

(***) Control acquired on May 26, 2006 (see note 9)

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

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

| | <u>Net income</u> | | <u>Shareholders' equity</u> | |
|--|---------------------------|----------------------|-----------------------------|----------------------|
| | <u>September 30, 2006</u> | <u>June 30, 2006</u> | <u>September 30, 2006</u> | <u>June 30, 2006</u> |
| Financial information - Company | 153,490 | 423,680 | 2,331,530 | 2,262,804 |
| Elimination of unrealized profits on inventories in intercompany operations, net of taxes | (4,233) | (15,040) | (8,624) | (9,010) |
| Reversal of the elimination of unrealized profits in inventories, net of taxes, resulting from intercompany operations | <u>4,391</u> | <u>14,327</u> | <u>4,391</u> | <u>4,391</u> |
| Financial information - consolidated | <u>153,648</u> | <u>422,967</u> | <u>2,327,297</u> | <u>2,258,185</u> |

4 Long and short-term investments

| | | <u>Parent company</u> | | <u>Consolidated</u> | |
|-------------------------------------|------------------------------------|---------------------------|----------------------|---------------------------|----------------------|
| | <u>Interest % (annual average)</u> | <u>September 30, 2006</u> | <u>June 30, 2006</u> | <u>September 30, 2006</u> | <u>June 30, 2006</u> |
| Short-term investments | | | | | |
| Local currency | | | | | |
| Investment funds | 14.10 | 210,533 | 263,034 | 255,452 | 311,682 |
| Other | 7.65 | <u>103</u> | <u>101</u> | <u>103</u> | <u>101</u> |
| | | <u>210,636</u> | <u>263,135</u> | <u>255,555</u> | <u>311,783</u> |
| Foreign currency | | | | | |
| Investment funds | 7.50 | 156,551 | 152,861 | 1,759,156 | 1,809,140 |
| Interest-bearing current accounts | 5.25 | - | - | 189,050 | 166,887 |
| Swap contracts | | 96 | 1,822 | 96 | 1,822 |
| Interest change contracts | | <u>17</u> | <u>-</u> | <u>2,289</u> | <u>-</u> |
| | | <u>156,664</u> | <u>154,683</u> | <u>1,950,591</u> | <u>1,977,849</u> |
| Total short-term | | <u>367,300</u> | <u>417,818</u> | <u>2,206,146</u> | <u>2,289,632</u> |
| Long-term investments | | | | | |
| Local currency | | | | | |
| Treasury bills - LFT | 14.17 | 43,908 | 42,412 | 43,908 | 42,412 |
| National Treasury Certificate - CTN | 12.00 | 28,565 | 27,393 | 28,565 | 27,393 |
| Fundo de Investimentos | 14.10 | <u>52,833</u> | <u>-</u> | <u>52,833</u> | <u>-</u> |
| Total long-term | | <u>125,306</u> | <u>69,805</u> | <u>125,306</u> | <u>69,805</u> |

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

Long-term investments as of September 30, 2006 mature as follows:

Maturity:

| | |
|--------------|----------------|
| 2007 | 52,833 |
| 2008 | 43,908 |
| 2010 onwards | <u>28,565</u> |
| | <u>125,306</u> |

The investment fund portfolio in local currency is composed mainly of post-fixed Bank Deposit Certificates, National Treasury Securities and investment funds.

The investment fund portfolio in foreign currency is composed mainly of investments in dual currency, which have differentiated profitability according to the strike negotiated, and structured notes issued by first-tier American and European banks, pegged to securities of first-tier Brazilian companies and banks.

5 Accounts receivable

| | <u>Parent company</u> | | <u>Consolidated</u> | |
|-------------------------------------|-----------------------|------------------|-----------------------|------------------|
| | September 30,2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Foreign: | | | | |
| Subsidiaries | 63,551 | 136,094 | - | - |
| Customers | 144,398 | 91,433 | 282,439 | 219,104 |
| Advance on export contracts | <u>(1,812)</u> | - | <u>(1,812)</u> | - |
| Total foreign | 206,137 | 227,527 | 280,627 | 219,104 |
| Domestic customers | 211,753 | 154,622 | 211,927 | 154,778 |
| (-) Allowance for doubtful accounts | <u>(14,184)</u> | <u>(15,301)</u> | <u>(19,979)</u> | <u>(20,440)</u> |
| | <u>403,706</u> | <u>366,848</u> | <u>474,575</u> | <u>353,442</u> |

The changes in the allowance for doubtful accounts are as follows:

| | <u>Parent company</u> | | <u>Consolidated</u> | |
|--|-----------------------|------------------|-----------------------|------------------|
| | September 30,2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Balance at the beginning of the period | (15,301) | (13,646) | (20,440) | (16,799) |
| Additions | - | (1,655) | (873) | (3,641) |
| Write offs | <u>1,117</u> | - | <u>1,334</u> | - |
| Balance at the end of the period | <u>(14,184)</u> | <u>(15,301)</u> | <u>(19,979)</u> | <u>(20,440)</u> |

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The Company and its subsidiaries abroad (Sadia International Ltd. and Wellax Food Comércio de Produtos Alimentares Ltda.) entered into an agreement for sale of their receivables with an outside financial institution up to the maximum amount of US\$130 million, with interest rate of 0.375% p.a. + LIBOR.

As of September 30, 2006, the amount of receivables sold under this agreement amounted to approximately R\$280 million (R\$250 million as of June 30, 2006). During the period ended September 30, 2006, the Company received cash proceeds of approximately R\$1,440 million (R\$1,310 million for the period ended September 30, 2006) and incurred expenses of R\$10,5 million (R\$5,5 million in 2005) with respect to this agreement.

A credit insurance policy covering 90% of the value of the receivables was taken out with third parties and the beneficiaries in the event of default are the contracting financial institutions.

The Company also assigned local receivables to a Credit Assignment Investment Fund (FIDC), administered by Concórdia S.A. Corretora de Valores Mobiliarios, Câmbio e Commodities. As of September 30, 2006, the net equity of this fund was R\$ 257,174 (R\$ 245,540 at June 30, 2006), of which R\$ 156,718 (R\$ 167,124 at June 30, 2006) was represented by acquisitions of the Company's receivables on the domestic market, with a discounted cost equivalent to 95% of the CDI per senior quota. The assignment of the receivables is made without right of recourse, and the eventual losses from default for Sadia are limited to the value of the subordinated quotas, which at September 30, 2006, represented R\$ 52,833 (R\$ 48,366 at June 30, 2006).

During the period ended September 30, 2006, the Company received cash proceeds related to the local receivables sold of approximately R\$2,034 million (R\$1,865 million for the period ended September 30, 2006) and incurred expenses of R\$22 million (R\$17 million in 2005) with respect to this agreement.

For the other local receivables, the Company maintains a credit insurance policy that guarantees the collection in case of default of 90% of the uncollected amounts for customers with approved credit limits and up to R\$100 to new customers or customers with no approved credit limits.

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

6 Inventories

| | Parent company | | Consolidated | |
|--|-----------------------|------------------|-----------------------|------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Finished goods and products for sale | 362,190 | 386,985 | 431,191 | 486,711 |
| Livestock and poultry for slaughter and sale | 281,397 | 277,950 | 281,397 | 277,950 |
| Raw materials | 191,951 | 138,837 | 195,236 | 142,305 |
| Work in process | 159,569 | 160,489 | 159,569 | 160,489 |
| Packaging materials | 37,574 | 38,181 | 37,574 | 38,181 |
| Storeroom | 24,281 | 19,706 | 24,281 | 19,706 |
| Advances to suppliers | 41,542 | 86,970 | 41,763 | 86,970 |
| Imports in transit | 3,013 | 4,834 | 3,013 | 4,834 |
| Products in transit | <u>4</u> | <u>12</u> | <u>4</u> | <u>206</u> |
| | <u>1,101,521</u> | <u>1,113,964</u> | <u>1,174,028</u> | <u>1,217,352</u> |

7 Recoverable taxes

| | Parent company | | Consolidated | |
|--------------------------------------|-----------------------|------------------|-----------------------|------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| ICMS | 180,403 | 158,823 | 184,984 | 162,473 |
| IPI | 49,168 | 49,109 | 49,201 | 49,142 |
| Income and social contribution taxes | 31,403 | 31,020 | 34,989 | 34,129 |
| COFINS | 7,837 | 2,021 | 8,166 | 2,350 |
| PIS | 2,018 | 758 | 2,018 | 758 |
| Other | <u>-</u> | <u>-</u> | <u>37</u> | <u>20</u> |
| | <u>270,829</u> | <u>241,731</u> | <u>279,395</u> | <u>248,872</u> |
| Short-term portion | 147,987 | 110,097 | 155,550 | 116,247 |
| Long-term portion | 122,842 | 131,634 | 123,845 | 132,625 |

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

Composed of credits generated by the commercial operations and by the acquisition of property, plant and equipment, of a number of the Company's units and can be offset with taxes of the same nature.

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

b. IPI - Excise tax

Composed of amounts arising from the following operations: presumed credit on packaging and inputs, presumed credit for reimbursement of PIS/PASEP and COFINS on exportations and export incentives, which can be compensated with other federal taxes.

c. Income and social contribution taxes

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

d. PIS/COFINS - Contributions on sales and services

Composed of credits arising from non-cumulative collection of PIS and COFINS, which can be compensated with other federal taxes.

8 Related party transactions and balances

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

| | Balance sheet | |
|---|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 |
| Accounts receivable | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 56,810 | 112,476 |
| Sadia International Ltd. | - | 14,440 |
| Sadia Alimentos S.A. | 1,946 | 1,658 |
| Sadia Uruguay S.A. | 922 | 870 |
| Qualy B.V. | 290 | 4,181 |
| Sadia Chile S.A. | <u>3,583</u> | <u>2,469</u> |
| | <u>63,551</u> | <u>136,094</u> |
| Interest on shareholders' equity | | |
| Concórdia C.V.M.C.C. | <u>4,548</u> | <u>4,548</u> |
| | <u>4,548</u> | <u>4,548</u> |
| Loans | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 91,752 | 90,074 |

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

Balance sheet

| | September 30, 2006 | June 30, 2006 |
|---|-------------------------------|--------------------------|
| Empresa Matogrossense de Alimentos Ltda. | 744 | 724 |
| Rezende Óleo Ltda. | 874 | 874 |
| Rezende Marketing e Comun. Ltda. | <u>57</u> | <u>57</u> |
| | 93,192 | 91,495 |
| | <hr/> | <hr/> |
| Advances from subsidiaries | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | <u>(1,587,275)</u> | <u>(1,431,604)</u> |
| Sadia International Ltd. | (1,875) | (1,865) |
| | <u>(1,589,150)</u> | <u>(1,433,469)</u> |
| | <hr/> | <hr/> |

Statement of income

| | September 30, 2006 | June 30, 2006 |
|---|-------------------------------|--------------------------|
| Sales | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 1,334,688 | 1,729,827 |
| Sadia International Ltd. | 109,541 | 1,439 |
| Sadia Chile S.A. | 10,547 | 11,725 |
| Sadia Alimentos S.A. | 7,094 | 9,090 |
| Sadia Uruguay S.A. | 4,046 | 3,761 |
| Só Frango Produtos Alimentícios Ltda. | - | 1,312 |
| Qualy B. V. | <u>23,640</u> | <u>-</u> |
| | 1,489,556 | 1,757,154 |
| | <hr/> | <hr/> |
| Purchase of goods | | |
| Só Frango Produtos Alimentícios Ltda. | = | <u>16,030</u> |
| | - | 16,030 |
| | <hr/> | <hr/> |
| Net financial result | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | (5,728) | 70,552 |
| Sadia International Ltd. | <u>140</u> | <u>423</u> |
| | (5,588) | 70,975 |
| | <hr/> | <hr/> |

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

| 9 Investments | Ownership | Shareholders' equity | Net income (loss) for the period | Equity result | Investment balances | |
|--|------------------|-----------------------------|---|----------------------|----------------------------|--------------------|
| | | | | | September 30, 06 | June 30, 06 |
| Sadia G.m.b.H. | 100,00% | 1,040,201 | 138,477 | 138,061 | 1,040,201 | 979,433 |
| Sadia International Ltd. | 100,00% | 88,400 | 1,537 | (5,046) | 88,400 | 84,077 |
| Concórdia S.A. CVMCC | 99,99% | 61,436 | 5,022 | 7,757 | 61,436 | 60,098 |
| Rezende Óleo Ltda. | 100,00% | 1,112 | (27) | (30) | 1,112 | 1,085 |
| Empresa Matogrossense de Alimentos Ltda. | 100,00% | 780 | (570) | (570) | 780 | 780 |
| Intergen Ltda. | 100,00% | 555 | 73 | 73 | 555 | 534 |
| Rezende Marketing e Comunicação Ltda. | 99,91% | (27) | (2) | (2) | - | - |
| Total in subsidiaries | | | | 140,243 | 1,192,484 | 1,126,007 |
| Goodwill in acquisition of investments | | | - | 35,140 | 41,452 | |
| Other investments | | | | - | <u>1,384</u> | <u>1,384</u> |
| Total investments of the Company | | | | 140,243 | 1,229,008 | 1,168,843 |
| Other investments of subsidiaries/affiliates | | | - | 23,879 | 23,531 | |
| Investments eliminated on consolidation | | | | <u>(143,762)</u> | <u>(1,192,484)</u> | <u>(1,126,007)</u> |
| Total consolidated investments | | | | <u>(3,519)</u> | <u>60,403</u> | <u>66,367</u> |

Changes in the investments in the quarter:

| | Shareholding result | | |
|--|----------------------------|------------------|----------------------|
| | Amortization | Operating | Non-operating |
| Sadia G.m.b.H. | - | 60,768 | - |
| Sadia International Ltd. | - | 4,323 | - |
| Concórdia S.A. CVMCC | - | 989 | 349 |
| Rezende Óleo Ltda. | - | 27 | - |
| Intergen Ltda. | - | <u>21</u> | - |
| | - | 66,128 | 349 |
| Goodwill in acquisition of investments | <u>(6,312)</u> | - | - |
| Others Investments | <u>(6,312)</u> | 66,128 | 349 |

The accumulated income from equity interest on the consolidated financial statements is represented by translation losses of R\$ 6,252 and a non-operating income of R\$ 2,733.

On January 11, 2006 the Company acquired 100% of the quotas representing the capital of the Intergen Ltda. The acquisition generated a goodwill in the amount of R\$ 514, classified as other economical reasons and therefore amortized directly in the income statement as other operating expenses. The acquired company's business relates to porks genetics.

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

On May 26, 2006 Sadia acquired by the book value the remaining 50% equity interest in Concórdia Foods Ltd.

On September 30, 2006, the net balance of goodwill amounted to R\$ 35,140 and was comprised of: i) goodwill related to the acquisition of Só Frango Produtos Alimentícios Ltda. in the amount of R\$62,505 with accumulated amortization of R\$ 18,936 (R\$ 16,484 in 2005) and ii) goodwill related to the acquisition of Empresa Matogrossense de Alimentos Ltda. (start-up phase) in the amount of R\$8,055, that will be amortized once it starts its operations forecasted for 2007. Such goodwill has been recorded based on projections of future profitability.

10 Property, plant and equipment

| | Parent company | | | |
|-------------------------------|------------------------------------|-----------------------|-----------------------|-----------------------|
| | Depreciation % (annual average) | Cost | Depreciation | Residual amount |
| | | September 30, 2006 | September 30, 2006 | September 30, 2006 |
| Lands | - | 89,821 | - | 89,821 |
| Buildings | 4% | 814,121 | (348,551) | 465,570 |
| Machinery and equipment | 15% | 1,190,857 | (589,820) | 601,037 |
| Installations | 10% | 303,623 | (137,206) | 166,417 |
| Vehicles | 27% | 12,820 | (7,576) | 5,244 |
| Breeding stock | - | 290,083 | (170,679) | 119,404 |
| Forestation and reforestation | - | 28,775 | (5,345) | 23,430 |
| Other | - | 1,378 | (1,241) | 137 |
| Construction in progress | - | 584,666 | - | 584,666 |
| Advances to suppliers | - | <u>54,510</u> | <u>-</u> | <u>54,510</u> |
| | | 3,370,654 | (1,260,418) | 2,110,236 |
| | | 21 | | 1,905,195 |

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

| | Depreciation % (annual average) | Consolidated | | | |
|-------------------------------|---------------------------------------|-----------------------|-----------------------|-----------------------|------------------|
| | | Cost | Depreciation | Residual amount | |
| | | September 30, 2006 | September 30, 2006 | September 30, 2006 | June 30, 2006 |
| Lands | - | 90,036 | - | 90,036 | 83,849 |
| Buildings | 4% | 815,232 | (349,133) | 466,099 | 457,582 |
| Machinery and equipment | 15% | 1,193,910 | (591,424) | 602,486 | 526,274 |
| Installations | 10% | 303,893 | (137,310) | 166,583 | 160,488 |
| Vehicles and airplane | 20% | 20,290 | (8,029) | 12,261 | 5,077 |
| Breeding stock | - | 290,359 | (170,805) | 119,554 | 111,778 |
| Forestation and reforestation | - | 28,775 | (5,345) | 23,430 | 22,689 |
| Other | - | 2,886 | (2,086) | 800 | 932 |
| Construction in progress | - | 597,990 | - | 597,990 | 446,428 |
| Advances to suppliers | - | <u>54,510</u> | <u>-</u> | <u>54,510</u> | <u>94,780</u> |
| | | 3,397,881 | (1,264,132) | 2,133,749 | 1,909,877 |

We present the changes in the cost of property, plant and equipment below:

| | Consolidated | | | | Balances at September 30, 2006 |
|----------------------------------|--------------------------------------|-----------|----------|-----------------|--------------------------------------|
| | Balances at September 30, 2006 | Additions | Disposal | Transfers | |
| Lands | 83,849 | 6,190 | (3) | - | 90,036 |
| Buildings | 799,781 | 4,909 | (51) | 10,593 | 815,232 |
| Machinery and equipment | 1,101,987 | 9,503 | (7,195) | 89,615 | 1,193,910 |
| Installations | 292,161 | 1,994 | (198) | 9,936 | 303,893 |
| Breeding stock | 260,325 | 30,034 | - | - | 290,359 |
| Forestation and reforestation | 29,198 | 1,084 | (1,509) | 2 | 28,775 |
| Vehicles and airplane | 13,389 | 7,764 | (873) | 10 | 20,290 |
| Other | 3,011 | 47 | (187) | 15 | 2,886 |
| Construction in progress | 446,428 | 212,070 | (266) | (60,242) | 597,990 |
| Advances to suppliers | <u>94,780</u> | <u>-</u> | <u>-</u> | <u>(40,270)</u> | <u>54,510</u> |
| Total Cost of acquisition | 3,124,909 | 273,595 | (10,282) | 9,659 | 3,397,881 |

a. The construction in progress is mainly represented by projects related to expansion and optimization of the industrial units.

b. In accordance with CVM Deliberation 193/96 the interest incurred in the period arising from financing of projects for modernization and expansion of the industrial units has been recorded in the respective costs of the construction in progress in the amount of R\$ 30,181 (R\$ 12,084 in the period ended on September 30, 2006).

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

11 Deferred charges

| | | Parent company | | | |
|--------------------------|-------------|-------------------------------|-------------------------------|-------------------------------|--------------------------|
| | | Cost | Amortization | Residual value | |
| | Rate | September 30, 2006 | September 30, 2006 | September 30, 2006 | June 30, 2006 |
| Softwares implementation | 25% | 117,790 | (53,326) | 64,464 | 62,408 |
| Product development | 20% | 17,489 | (5,246) | 12,243 | 12,942 |
| Reorganization expenses | 20% | 27,962 | (4,110) | 23,852 | 21,307 |
| Start up costs | 20% | 21,654 | (6,115) | 15,539 | 12,349 |
| Other | 20% | <u>772</u> | <u>(384)</u> | <u>388</u> | <u>458</u> |
| | | 185,667 | (69,181) | 116,486 | 109,464 |
| | | Consolidated | | | |
| | | Cost | Amortization | Residual value | |
| | Rate | September 30, 2006 | September 30, 2006 | September 30, 2006 | June 30, 2006 |
| Softwares implementation | 25% | 118,928 | (53,864) | 65,064 | 63,022 |
| Product development | 20% | 21,032 | (5,246) | 15,786 | 15,757 |
| Reorganization Expenses | 20% | 27,962 | (4,110) | 23,852 | 21,307 |
| Start up costs | 20% | 25,645 | 6,252 | 19,393 | 13,906 |
| Other | 20% | <u>1,035</u> | <u>(526)</u> | <u>509</u> | <u>587</u> |
| | | 194,602 | (69,998) | 124,604 | 114,579 |

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

12 Loans and financing - Short-term

| | Parent company | | Consolidated | |
|--|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Short-term | | | | |
| <i>Foreign currency</i> | | | | |
| Net working financing obtained from the custodian financial institution of structured notes invested by the Company subject to LIBOR variation for 1-month deposits (5.32% in September 2006) plus interest of 0.10% p.a., guaranteed by its investments. | - | - | 371,245 | 368,983 |
| Advanced collection relating to the receivables sold, with no interest | 13,912 | - | 133,891 | 145,719 |
| Credit lines for the development of foreign trade, with interest rates of 5.33% p.a., guaranteed by promissory notes or sureties. | - | - | 4,585 | 4,479 |
| Currency swap contracts | 2,458 | 4,736 | 2,458 | 4,736 |
| Interest rate swap contracts | - | 14 | - | 14 |
| | <u>16,370</u> | <u>4,750</u> | <u>512,179</u> | <u>523,931</u> |
| <i>Local currency</i> | | | | |
| Rural credit lines with interest rates of 8.75% p.a. | 209,905 | 277,450 | 209,905 | 277,450 |
| Currency swap contracts | <u>8,413</u> | <u>35,932</u> | <u>8,413</u> | <u>35,932</u> |
| | <u>218,318</u> | <u>313,382</u> | <u>218,318</u> | <u>313,382</u> |
| | <u>234,688</u> | <u>318,132</u> | <u>730,497</u> | <u>837,313</u> |
| Short-term portion of the long-term debt | | | | |
| <i>Foreign currency</i> | | | | |
| Export financing composed of prepayment in amount of R\$ 37,724 subject to LIBOR variation for 6-month deposits (5.37% in September 2006) and interest of 4.35% p.a. and a line focused on the incentive for foreign trade activities, in amount of R\$ 141,908, subject to LIBOR variation for 6-month deposits plus annual interest of 1.40% guaranteed by promissory notes or sureties. | 37,724 | 39,111 | 179,632 | 181,895 |

IFC (International Finance Corporation) funding in foreign currency for investment in property, plant and equipment, with interest rate of 9.05% p.a., guaranteed by real estate mortgages.

| | | | |
|--------|--------|--------|--------|
| 16,612 | 19,314 | 16,612 | 19,314 |
|--------|--------|--------|--------|

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|-----------------------|------------------|-----------------------|------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Short-term | | | | |
| Short-term portion of the long-term debt | | | | |
| BNDES (National Bank for Economic and Social Development), for investments and exports credit lines, composed as follows: FINEM in the amount of R\$ 9,584 subject to the weighted average of exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME in the amount of R\$ 3,166 subject to the weighted average of exchange variation of currencies traded by BNDES-UMBNDES and fixed interest of 3.50%, guaranteed by mortgage bonds and real estate mortgage. | <u>12,750</u> | <u>10,914</u> | <u>12,750</u> | <u>10,914</u> |
| | 67,086 | 69,339 | 208,994 | 212,123 |
| Local currency | | | | |
| BNDES (National Bank for Economic and Social Development), investments and exports credit lines, composed as follows: FINAME in the amount of R\$ 21,843 subject to the Long-Term Interest Rate -TJLP (7.50% p.a. in September 2006) and interest of 3.59% p.a., and FINEM in the amount of R\$ 13,740 subject to TJLP and interest of 3.50% p.a., guaranteed by mortgage bonds and real estate mortgages. | 35,583 | 95,030 | 35,583 | 95,030 |
| PESA - Special Aid for Agribusiness payable in installments, subject to IGPM variation and annual interest of 9.89%, guaranteed by sureties | 4,140 | 2,781 | 4,140 | 2,781 |
| Others subject to interest from 1% to 14% p.a. | <u>10,649</u> | <u>10,580</u> | <u>10,649</u> | <u>10,580</u> |
| | 50,372 | 108,391 | 50,372 | 108,391 |
| | <u>117,458</u> | <u>177,730</u> | <u>259,366</u> | <u>320,514</u> |
| Short-term portion of long-term debt | <u>352,146</u> | <u>495,862</u> | <u>989,863</u> | <u>1,157,827</u> |
| Total short-term | | | | |

At September 30, 2006 the weighted average interest on short-term loans was 6.12% p.a. (6.73% p.a. at June 30, 2006).

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

13 Loans and financing - Long-term

| Parent company | | Consolidated | |
|-------------------------------|--------------------------|-------------------------------|--------------------------|
| September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The noncurrent portions of financings at September 30, 2006 mature as follows:

| | Parent Company | Consolidated |
|--------------|---------------------------|---------------------|
| Maturity: | | |
| 2007 | 48,827 | 107,530 |
| 2008 | 188,970 | 245,492 |
| 2009 | 276,648 | 276,648 |
| 2010 | 154,130 | 1,167,300 |
| 2011 onwards | <u>350,208</u> | <u>932,908</u> |
| | <u>1,018,783</u> | <u>2,729,878</u> |

14 Pension plans for employees

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

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

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

15 Commitments and contingencies***Commitments***

The Company has non-cancelable leasing agreements for industrial units that expire over the next three years. These leasing are subject to renewal for 4 more years and do not require any penalty if the Company does not renew them. The Company does not pay execution costs, such as maintenance and insurance. The rental expenses totaled R\$ 47,223 in the period ended September 30, 2006 (R\$ 20,423 in the same period of 2005).

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The table below shows the future payments related to the leasing agreement at September 30, 2006:

| | |
|-------|----------------|
| 2006 | 16,300 |
| 2007 | 65,200 |
| 2008 | <u>34,200</u> |
| Total | <u>115,700</u> |

In addition the Company signed purchase agreements for production purposes (packaging) in the approximate amount of R\$ 255 million on September 30, 2006, payable until 2010.

Contingencies

The Company and its subsidiaries have several on going claims of a labor, civil and tax nature, resulting from its normal business activities. The respective provisions for contingencies were constituted based on the opinion of the Company's legal counsel, which considered that unfavorable outcomes are likely.

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

| | Parent company | | Consolidated | |
|-------------------|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Tax proceedings | 45,160 | 41,846 | 46,709 | 43,365 |
| Civil proceedings | 9,140 | 13,624 | 9,140 | 13,624 |
| Labor proceedings | <u>22,669</u> | <u>18,941</u> | <u>22,670</u> | <u>18,942</u> |
| | 76,969 | 74,411 | 78,519 | 75,931 |

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The changes in the provision for contingencies are presented as follows:

| | Consolidated | | | | |
|-------------------|--------------------------------------|------------------|------------------|-----------------------------|---|
| | Balances at June 30, 2006 | Additions | Disposals | Monetary Updates | Balances at September 30, 2006 |
| Tax proceedings | 43,365 | 9,168 | (5,418) | (406) | 46,709 |
| Civil proceedings | 13,624 | 3,281 | (7,843) | 78 | 9,140 |
| Labor proceedings | <u>18,942</u> | <u>4,905</u> | <u>(1,177)</u> | - | <u>22,670</u> |
| | 75,931 | 17,354 | (14,438) | (328) | 78,519 |

Tax litigation

The main tax contingencies involve the following cases:

a. Income and social contribution taxes on net income

Provision for income and social contribution taxes on net income amounting to R\$ 16,003, of which R\$ 11,283 recorded on the acquisition of the subsidiary Granja Rezende (incorporated in 2002), R\$ 3,852 on withholding income tax on investments of Granja Rezende and R\$ 868 for other provisions.

b. Sales TAX (ICMS)

The Company is a defendant in several administrative cases involving ICMS, mainly in the States of São Paulo, Rio de Janeiro and Amazonas (SUFRAMA), totaling a probable contingency estimated at R\$ 20,043.

c. Other tax contingencies

Several cases related to payment of IOF (Tax on Financial Operations), PIS (Social Integration Program Tax), COFINS (Tax for Social Security Financing) and others totaling a probable loss of R\$10,663.

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The Company has other tax contingencies where the claimed amount is R\$ 318,085, which were assessed as possible losses by the Company's legal counsel and management and, therefore, no provision was recorded.

Civil litigation

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

The Company has other civil contingencies where the claimed amount is R\$ 29,291, which were assessed as possible losses by the Company's legal counsel and management and, therefore, no provision was recorded.

Labor claims

The company is involved in approximately 2,356 labor claims. These labor lawsuits refer mainly to claims for overtime, and health exposure and hazard claims, none of which involve a significant amount on an individual basis. The total amount involved is R\$ 47,605, for which the provision in the amount of R\$ 22,670 was recorded based on historical information, representing the best estimate for probable losses.

Court deposits

Whenever necessary the Company has made court deposits, as follows:

| | Parent company | | Consolidated | |
|-------------------|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Tax proceedings | 59,538 | 63,890 | 59,538 | 63,890 |
| Labor proceedings | 14,755 | 14,080 | 14,755 | 14,080 |
| Civil proceedings | <u>1,420</u> | <u>1,045</u> | <u>1,526</u> | <u>1,151</u> |
| | <u>75,713</u> | <u>79,015</u> | <u>75,819</u> | <u>79,121</u> |

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

Guarantees

The Company provides guarantees to loans obtained by certain out growers located in the central region of the country as part of a special development program for that region. Such loans are used to improve the out growers farms installations and will be repaid in 10 years, where the Company obtain from the out growers their farms and installations as a collateral for such guarantees provided. The amount for such guarantees provided as of September 30, 2006 amounted R\$ 19,577 (R\$ 18,962 in June 30, 2006).

16 Shareholders' equity - Parent company***a. Capital***

Subscribed and paid-in capital is represented by the following shares with no par value:

| | September 30, 2006 | June 30, 2006 |
|---------------------------------|-------------------------------|--------------------------|
| Common shares | 257,000,000 | 257,000,000 |
| Preferred shares | 426,000,000 | 426,000,000 |
| Total shares | <u>683,000,000</u> | <u>683,000,000</u> |
| Preferred shares in treasury | <u>(2,504,288)</u> | <u>(2,504,288)</u> |
| Total outstanding shares | <u>680,495,712</u> | <u>680,495,712</u> |

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

b. Changes in shareholders' equity

| | Capital | Profit reserves | Treasury stock | Retained earnings | Total |
|---------------------------------------|------------------|------------------------|-----------------------|--------------------------|------------------|
| Balances at December 31, 2005 | <u>1,500,000</u> | <u>738,417</u> | <u>(10,377)</u> | <u>—</u> | <u>2,228,040</u> |
| Interest on shareholders' equity | - | - | - | (50,000) | (50,000) |
| Net income for the quarter | <u>—</u> | <u>—</u> | <u>—</u> | <u>69,618</u> | <u>69,618</u> |
| | 1,500,000 | 738,417 | (10,377) | 19,618 | 2,247,658 |
| Balances at March 31, 2006 | <u>1,500,000</u> | <u>738,417</u> | <u>(10,377)</u> | <u>19,618</u> | <u>2,247,658</u> |
| Net income for the quarter | <u>—</u> | <u>—</u> | <u>—</u> | <u>15,146</u> | <u>15,146</u> |
| | 1,500,000 | 738,417 | (10,377) | 34,764 | 2,262,804 |
| Balances at June 30, 2006 | <u>1,500,000</u> | <u>738,417</u> | <u>(10,377)</u> | <u>34,764</u> | <u>2,262,804</u> |
| Net income for the quarter | <u>—</u> | <u>—</u> | <u>—</u> | <u>68,726</u> | <u>68,726</u> |
| | 1,500,000 | 738,417 | (10,377) | 103,490 | 2,331,530 |
| Balances at September 30, 2006 | <u>1,500,000</u> | <u>738,417</u> | <u>(10,377)</u> | <u>103,490</u> | <u>2,331,530</u> |

c. Treasury stock

The Company's treasury stock consists of 2,504,288 preferred shares acquired for R\$10,377 for future sale and/or use in the stock option plan. At September 30, 2006 the market value corresponded to R\$14,800 (R\$14,400 at June 30, 2006).

d. Market value

The market value of Sadia S.A. shares according average quotation of shares negotiated on the São Paulo Stock Exchange - BOVESPA, corresponded to R\$ 5.91 per share at September 30, 2006 (R\$5.75 at June 30, 2006). Net equity on that date was R\$ 3.43 per share (R\$ 3.33 at June 30, 2006).

17 Stock option plan

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

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The plan will be managed by a Management Committee, composed of the Chief Executive Officer and the Human Resources Committee of the Board of Directors.

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

The composition of the options granted is presented as follows:

| Grant date | Date | | Number of shares | Price of shares | | |
|------------|----------|----------|------------------|-------------------------|----------------|-----------------|
| | Start | Final | | Price on the Grant date | Updated - INPC | Market 30/09/06 |
| 24/06/05 | 23/06/08 | 23/06/10 | 2,200,000 | 4,55 | 4,69 | 5,91 |

Since the Company has treasury shares earmarked for the stock option plan, the difference between the market value and the updated price for the year will not affect the Company's results.

18 Employees' profit sharing

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

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

19 Financial result

| | Parent company | | Consolidated | |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Financial expenses | | | | |
| Interest | (135,149) | (159,254) | (172,427) | (172,521) |
| Monetary variations - Liabilities | (9,390) | (2,829) | (9,390) | (10,130) |
| Exchange variations - Liabilities | 29,845 | 302,456 | 71,897 | 292,532 |
| Others | <u>(37,966)</u> | <u>(31,449)</u> | <u>(47,983)</u> | <u>(43,251)</u> |
| | (152,660) | 108,924 | (157,903) | 66,630 |
| Financial income | | | | |
| Interest | 49,649 | 68,195 | 156,078 | 158,108 |
| Monetary variations - Assets | 1,535 | 185 | 1,535 | 185 |
| Exchange variations - Assets | (24,998) | (145,729) | (22,039) | 4,847 |
| Others | <u>59,441</u> | <u>14,262</u> | <u>69,304</u> | <u>21,592</u> |
| | 85,627 | (63,087) | 204,878 | 184,732 |
| Financial result, net | (67,033) | 45,837 | 46,975 | 251,362 |

20 Income and social contribution taxes

Income before the provision for income tax and social contribution on net income was composed as follows:

| | Parent company | | Consolidated | |
|---------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Local | 143,359 | 520,839 | 6,184 | 197,005 |
| Foreign | — | — | <u>140,016</u> | <u>323,698</u> |
| | 143,359 | 520,839 | 146,200 | 520,703 |

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The break down of income and social contribution taxes is as follows:

| | Parent company | | Consolidated | |
|----------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Local | | | | |
| Current | (8,005) | (80,459) | (11,007) | (81,564) |
| Deferred | <u>18,657</u> | <u>(16,673)</u> | <u>18,574</u> | <u>(17,227)</u> |
| | 10,652 | (97,132) | 7,567 | (98,791) |
| Foreign | | | | |
| Current | - | - | (412) | (18) |
| Deferred | <u>(521)</u> | <u>(27)</u> | <u>(521)</u> | <u>(27)</u> |
| | <u>(521)</u> | <u>(27)</u> | <u>(933)</u> | <u>(45)</u> |
| | 10,131 | (97,159) | 6,634 | (98,836) |

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

| | Parent company | | Consolidated | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Income before taxation/profit sharing | 143,359 | 520,839 | 146,200 | 520,703 |
| Interest on shareholders' equity | <u>(50,000)</u> | <u>(55,977)</u> | <u>(50,000)</u> | <u>(55,977)</u> |
| Income before income and social contribution taxes | 93,359 | 464,862 | 96,200 | 464,726 |
| Income and social contribution taxes at nominal rate - 34% | (31,742) | (158,053) | (32,708) | (158,007) |
| Adjustment to calculate the effective rate | | | | |
| Permanent differences: | | | | |
| Equity in earnings of subsidiaries | 47,682 | 49,922 | 45,872 | 47,016 |
| Others | (5,287) | 10,999 | (6,008) | 12,182 |
| Provision for income and social contribution taxes on foreign subsidiary | <u>(522)</u> | <u>(27)</u> | <u>(522)</u> | <u>(27)</u> |
| | 10,131 | (97,159) | 6,634 | (98,836) |
| Income and social contribution taxes at effective rate | | | | |

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The break down of deferred income and social contribution taxes is as follows:

| | Parent company | | Consolidated | |
|--|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 | September 30, 2006 | June 30, 2006 |
| Assets | | | | |
| Deferred taxes: | | | | |
| Tax loss carryforwards and negative basis of social contribution | 62,519 | 74,904 | 62,519 | 74,904 |
| Employees' benefits plan | 30,397 | 29,537 | 30,397 | 29,537 |
| Provision for contingencies | 24,229 | 25,300 | 24,756 | 25,817 |
| Allowance for doubtful accounts | 12,292 | 9,810 | 12,292 | 9,810 |
| Provision for loss on property, plant and equipment | 5,013 | 5,018 | 5,013 | 5,018 |
| Amortization of goodwill | 6,024 | 4,939 | 6,024 | 4,939 |
| Summer plan depreciation | 2,447 | 2,564 | 2,447 | 2,564 |
| Employees' profit sharing | 2,891 | 481 | 3,134 | 691 |
| Others | <u>3,840</u> | <u>4,390</u> | <u>5,258</u> | <u>6,051</u> |
| | 149,650 | 156,943 | 151,840 | 159,331 |
| Total deferred tax asset | | | | |
| Short-term portion | 63,609 | 62,515 | 65,797 | 64,903 |
| Long-term portion | 86,043 | 94,428 | 86,043 | 94,428 |
| Liability: | | | | |
| Deferred tax: | | | | |
| Depreciation on rural activities | 55,628 | 53,871 | 55,628 | 53,871 |
| Provision for grains update | <u>4,926</u> | <u>6,706</u> | <u>4,926</u> | <u>6,706</u> |
| | 60,554 | 60,577 | 60,554 | 60,577 |
| Total deferred tax liability | | | | |
| Short-term portion | 11,455 | 11,455 | 11,455 | 11,455 |
| Long-term portion | <u>49,099</u> | <u>49,122</u> | <u>49,099</u> | <u>49,122</u> |
| | 89,098 | 96,366 | 91,286 | 98,754 |
| Net balance | | | | |

Management considers that the deferred assets arising from temporary differences will be realized in proportion to the final solution of the contingencies and to the payment of the liabilities forecast for the employees' benefit plans.

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

The deferred tax assets related to the income tax loss carryforwards and negative basis of social contribution, represented by R\$ 52,897 of Parent and R\$ 9,622 from a foreign subsidiary will be realized base on future taxable income on such companies. Management estimates that the deferred tax asset related to the Parent will be fully realized during this year and the deferred tax asset related to the foreign subsidiary will be realized within three years.

21 Risk management and financial instruments

The Company's operations are exposed to market risks, principally in relation to exchange rate variations, credit risk and grain purchase prices. These risks are monitored by the Risk Management Area that uses a specific system to calculate the "VAR -Value at Risk, Stress Test and Back Testing", and permanently monitored by the finance committee, composed of members of the Board of Directors and other finance executives of the Company, who are responsible for defining the Board's risk management strategy by determining the position and exposure limits. In September 30, 2006 the Value at Risk (VAR) of the financial assets and liabilities, for one year, with a 95% of confidence rating, represents R\$ 73,933, representing 3.18% of equity (not reviewed by auditors).

a. Exchange rate and interest risk

The exchange rate risk for loans, financing and any other payables denominated in foreign currency is hedged by short-term investments denominated in foreign currency, with same interest rates, and by derivative financial instruments, such as rate swaps (dollar to CDI), interest rate swap contracts (Libor to pre-fixed or vice-versa) and future market agreements, in addition to foreign receivables from exports, which also reduce exchange variations by serving as a "natural hedge".

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

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The result realized from the futures contracts in the period ended September 30, 2006, generated a gain of R\$ 42,564 (R\$ 148,989 in the same period of 2005), recorded as financial results in positive exchange variances.

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

Unearned income from contracted operations with future maturities is not recognized in the financial information. The market value of these contracts, if they were settled at September 30, 2006, would generate a loss of approximately R\$ 39,595.

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

| | Consolidated | |
|---|-------------------------------|--------------------------|
| | September 30, 2006 | June 30, 2006 |
| Assets and liabilities in foreign currency | | |
| Cash and short-term investments | 1,961,162 | 2,030,091 |
| Amounts receivable from futures contracts | 25,202 | 48,421 |
| Trade accounts receivable, net | 274,851 | 213,973 |
| Suppliers | (35,126) | (27,821) |
| Loans and financing | (2,837,700) | (2,632,703) |
| Amounts payable for futures contracts | (1,991) | (30,672) |
| Swap contracts (dollar for CDI) | <u>27,567</u> | <u>62,279</u> |
| | <u>(586,035)</u> | <u>(336,432)</u> |

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Notes to the interim financial information (Unaudited)

(In thousands of Reais)

Consolidated hedge contracts outstanding at September 30, 2006 with their respective payment schedules are as follows:

| Derivative instruments | Position September 30, 2006 | Payment schedule | | |
|-------------------------------|--|-------------------------|-------------|-------------|
| | | 2006 | 2007 | 2008 |
| Currency swap contracts: | | | | |
| Base value - R\$ | 27,567 | 5,283 | 12,908 | 9,376 |
| Base value - US\$ | 9,336 | 1,832 | 4,347 | 3,157 |
| Receivables/payables: | | | | |
| Asset | 96 | 96 | - | - |
| Liability | (18,951) | (4,462) | (8,393) | (6,096) |
| Rate swap contracts: | | | | |
| Base value - R\$ | 563,481 | 569,481 | - | - |
| Base value - US\$ | 259,167 | 259,167 | - | - |
| Amount receivable | 2,289 | 2,289 | - | - |
| Futures contracts: | | | | |
| Long position - US\$ | 465,000 | 465,000 | - | - |
| Short position - US\$ | 692,500 | 692,500 | - | - |
| Short position - Euro | 15,427 | 15,427 | - | - |
| Short position - Libra | 26,336 | 26,336 | - | - |
| Options: | | | | |
| Long put option | 110,000 | 110,000 | - | - |
| Long call option | 395,000 | 395,000 | - | - |
| Short put option | 285,000 | 285,000 | - | - |
| Short call option | 120,000 | 120,000 | - | - |
| Amounts to be received | 25,202 | 25,202 | - | - |
| Amounts to be paid | (1,991) | (1,991) | - | - |

b. Credit risk

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

credit and financing committees.

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(In thousands of Reais)

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

c. Grain purchase price risks

The Company's operations are exposed to the volatility in prices of grain (corn and soybean) used in the preparation of animal feed for its breeding stock, where the price variation results from factors beyond the control of management, such as climate, the size of the harvest, transport and storage costs and government agricultural policies, among others. The Company does not enter into futures or options contracts to hedge against fluctuations in the prices of the commodities, however it maintains a risk management strategy, based on physical control, which includes purchase of grain at fixed and fixable prices. The Company has a Grains Committee, composed of the chief executive officer and financial and operational executives. Its aim is to permanently monitor changes in scenarios, establishing limits of authority for purchase or sale.

d. Estimated market values

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

The Company used the following methods and assumptions to estimate the disclosure of the fair value of its financial instruments as of September 30, 2006 and June 30, 2006:

. Cash and cash equivalents: The book values of cash and banks recorded in the balance sheet are similar to the respective fair values.

. Short-term financial investments: The fair value of short-term financial investments is estimated based on the market quotations of comparable contracts.

. Accounts receivable and payable: The book values of accounts receivable and payable recorded in the balance sheet are similar to their respective fair values.

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. Short and long-term loans and financing: The market values of loans and financing were calculated based on their present value calculated through the future cash flows and using interest rates applicable to instruments of similar nature, terms and risks, or based on the market quotation of these securities. The market values of BNDES financing are similar to the book values, since there are no similar instruments with comparable maturities and interest rates.

. Exchange and interest rate swap contracts: The fair values of exchange and interest rate swap contracts were estimated based on market quotations for comparable contracts. As of September 30, 2006 the contracted amounts in force totaled R\$ 2,213,372

(R\$ 126,557 in June 30, 2006) and the valuation of these contracts to fair value would result in losses of R\$ 45,229 (losses of R\$44,219 in June 30, 2006). The effective cash settlements of the contracts occur on the respective maturities of each agreement. The Company does not intend to settle these contracts before their maturity.

The market values were estimated on the balance sheet date, based on “relevant market information”. Changes in the assumptions may significantly affect these estimates.

The book values and the estimated fair values of the Company’s financial instruments as of September 30, 2006 and June 30, 2006 are presented in the table below. The fair value of a financial instrument is the amount for which the instrument could be traded between interested parties under current market conditions.

| | Consolidated | | | |
|--|---------------------------|---------------|----------------------|---------------|
| | September 30, 2006 | | June 30, 2006 | |
| | Cost Value | Market | Cost Value | Market |
| Cash and cash equivalents | 128,824 | 128,824 | 281,964 | 281,964 |
| Short and Long Term Investments - Local currency | 380,861 | 380,861 | 381,588 | 381,588 |
| Short and Long Term Investments - Foreign currency | 1,950,591 | 1,950,593 | 1,977,849 | 1,977,990 |
| Trade accounts receivable | 492,554 | 492,554 | 353,442 | 353,442 |
| Loans and financing | 3,719,741 | 3,766,605 | 3,680,417 | 3,654,656 |
| Suppliers | 502,343 | 502,343 | 461,849 | 461,849 |
| Futures contracts, net | 23,211 | 23,211 | 17,749 | 17,749 |

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(In thousands of Reais)

e. Financial indebtedness**Consolidated - Currency**

| | September 30, 2006 | | | June 30, 2006 | | |
|---|--------------------|------------------|------------------|----------------|------------------|------------------|
| | Local | Foreign | Total | Local | Foreign | Total |
| Assets | | | | | | |
| Cash and cash equivalents | 118,253 | 10,571 | 128,824 | 229,722 | 52,242 | 281,964 |
| Short-term investments | 255,555 | 1,950,591 | 2,206,146 | 311,783 | 1,977,849 | 2,289,632 |
| Accounts receivable from future contracts | — | <u>25,202</u> | <u>25,202</u> | — | <u>48,421</u> | <u>48,421</u> |
| Total current assets | 373,808 | 1,986,364 | 2,360,172 | 541,505 | 2,078,512 | 2,620,017 |
| Long-term investments | <u>125,306</u> | — | <u>125,306</u> | <u>69,805</u> | — | <u>69,805</u> |
| Total noncurrent assets | <u>125,306</u> | — | <u>125,306</u> | <u>69,805</u> | — | <u>69,805</u> |
| Total financial assets | <u>499,114</u> | <u>1,986,364</u> | <u>2,485,478</u> | <u>611,310</u> | <u>2,078,512</u> | <u>2,689,822</u> |
| Liabilities | | | | | | |
| Short-term financing | 268,690 | 721,173 | 989,863 | 421,773 | 736,054 | 1,157,827 |
| Accounts payable from future contracts | - | 1,991 | 1,991 | - | 30,672 | 30,672 |
| Swap contracts - Short-term | <u>15,140</u> | <u>(15,140)</u> | — | <u>46,675</u> | <u>(46,675)</u> | — |
| Total current liabilities | 283,830 | 708,024 | 991,854 | 468,448 | 720,051 | 1,188,499 |
| Long-term financing | 613,351 | 2,116,527 | 2,729,878 | 625,941 | 1,896,649 | 2,522,590 |
| Swap contracts - long-term | <u>12,427</u> | <u>(12,427)</u> | — | <u>15,604</u> | <u>(15,604)</u> | — |
| Total noncurrent liabilities | <u>625,778</u> | <u>2,104,100</u> | <u>2,729,878</u> | <u>641,545</u> | <u>1,881,045</u> | <u>2,522,590</u> |
| Total financial liabilities | 909,608 | 2,812,124 | 3,721,732 | 1,109,993 | 2,601,096 | 3,711,089 |
| Financial income (expenses), net | (410,494) | (825,760) | (1,236,254) | (498,683) | (522,584) | (1,021,267) |

22 Insurance (not reviewed by auditors)

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

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

23 Private pension plan

a. Defined contribution plan

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

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

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

At September 30, 2006 and 2005, the parent company contributions totaled R\$ 1,496 and R\$1,525 respectively, and the consolidated contributions, R\$ 1,548 and R\$ 1,565, respectively.

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

At September 30, 2006 the Foundation had a total of 20,797 participants (21,071 at June 30, 2006), of which 17,137 were active participants (17,438 at June 30, 2006).

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

b. Defined contribution plan

As from January 1, 2003, the Company began to adopt new supplementary social security plans under the defined contribution modality for all employees hired by Sadia and its subsidiaries. Under the terms of the regulations, plans are funded on an equitable basis so that the portion paid by the Company is equal to the payment made by the employee in accordance with a contribution scale based on salary bands that vary between 1.5% and 6% of the employee's remuneration, observing a contribution limit that is updated annually. The contributions made by the Company at September 30, 2006 and 2005 totaled R\$ 2,068 and R\$ 1,644 respectively. As of September 30, 2006 this plan had 13,487 participants (13,839 at June 30, 2006).

24 Subsequent event

On October 26, the Company obtained recognition of the final, favorable, unappealable decision on the COFINS proceedings referring to the unconstitutionality of Law 9718/98, which changed the basis for the calculation of PIS and COFINS by including operating and financial income. This matter was judged and considered unconstitutional by the Superior court of Justice on November 9, 2005. The Company is in the process of calculating the value of the credit, which is estimated at approximately R\$80 million to be recognized in the financial statements for the final quarter of 2006.

25 Additional information

The statements of cash flow and added value are presented as additional information to the financial information.

a. Statement of cash flow

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

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Net income for the period | 153,490 | 423,680 | 153,648 | 422,967 |
| Adjustments to reconcile net income to cash generated by operating activities: | | | | |
| Variation in minority interest | - | - | (537) | 1,099 |
| Accrued interest, net of paid interest | (1,549) | (181,307) | (63,205) | (232,991) |
| Depreciation, amortization and depletion allowances | 172,923 | 132,719 | 173,425 | 133,785 |
| Amortization of goodwill in acquisition of investments | 19,451 | 7,246 | 19,451 | 7,246 |
| Equity in income (loss) of subsidiaries | (140,243) | (146,831) | 3,519 | 184,256 |
| Deferred taxes | (18,136) | 16,700 | (18,053) | 17,254 |
| Contingencies | 7,431 | 9,196 | 6,572 | 9,421 |
| Disposal of permanent assets | 3,692 | 3,373 | 4,421 | 3,366 |
| Variation in operating assets and liabilities | | | | |
| Trade accounts receivable | 77,448 | 236,443 | 37,040 | (48,967) |
| Inventories | (152,961) | (87,835) | (181,538) | (84,957) |
| Recoverable taxes and others | (29,533) | (161,883) | (48,140) | (76,100) |
| Judicial deposits | 2,577 | (1,217) | 2,577 | (1,217) |
| Suppliers | 5,876 | 7,900 | 6,585 | 11,990 |
| Advances from subsidiaries | 729,436 | 671,873 | - | - |
| Taxes payable, salaries payable and others | <u>(35,515)</u> | <u>44,846</u> | <u>(20,083)</u> | <u>(187,561)</u> |
| Net cash generated by operating activities | 794,387 | 974,903 | 75,682 | 159,591 |
| Investment activities | | | | |
| Funds from the sale of permanent assets | 5,434 | 2,612 | 5,462 | 2,612 |
| Investments in subsidiaries | (1,000) | (29,702) | - | - |
| Purchase of property, plant and equipment | (766,090) | (475,819) | (792,494) | (479,801) |
| Portion paid in the acquisition of a subsidiary, net of cash | (485) | (54,021) | (485) | (54,021) |
| Short-term investments | (590,949) | (272,156) | (3,048,991) | (1,411,660) |
| Redemption of investments | <u>558,449</u> | <u>242,041</u> | <u>2,897,643</u> | <u>1,262,219</u> |
| Net cash from investment activities | (794,641) | (587,045) | (938,865) | (680,651) |
| Loans | | | | |
| Loans received | 951,350 | 635,700 | 2,272,544 | 1,981,258 |
| Loans repaid | (816,110) | (827,203) | (1,307,139) | (1,318,425) |
| Dividends paid | (169,704) | (129,721) | (169,704) | (129,721) |
| Loans to subsidiaries | 3,185 | - | - | - |
| Purchase of treasury shares | <u>-</u> | <u>(10,179)</u> | <u>-</u> | <u>(10,179)</u> |
| Net cash from loans | (31,279) | (331,403) | 795,701 | 522,933 |

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| | | | | |
|--|------------------------|----------------------|------------------------|---------------------|
| Cash and cash equivalents at beginning of period | 148,716 | 84,270 | 196,306 | 155,600 |
| Cash and cash equivalents at end of period | <u>117,183</u> | <u>140,725</u> | <u>128,824</u> | <u>157,473</u> |
| Net increase (decrease) in cash | <u>(31,533)</u> | <u>56,455</u> | <u>(67,482)</u> | <u>1,873</u> |

Sadia S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais)

b. Statement of consolidated added value

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

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

| | Consolidated | |
|--|-------------------------------|-------------------------------|
| | September 30, 2006 | September 30, 2005 |
| Revenues/income | <u>5.674.646</u> | <u>6.021.697</u> |
| Revenues generated by operations | 5,496,937 | 6,020,119 |
| Sale of products, goods and services | 5,496,937 | 6,020,119 |
| Income from third parties | 177,709 | 1,578 |
| Other operating results | (15,536) | 18 |
| Financial income | 204,878 | 184,732 |
| Equity pickup | (3,519) | (184,256) |
| Other nonoperating results | (8,114) | 1,084 |
| Raw materials acquired from third parties | (2,575,915) | (3,009,629) |
| Services rendered by third parties | (1,170,946) | (1,046,936) |
| Added value to be distributed | 1,927,785 | 1,965,132 |
| Distribution of added value | | |
| Human resources | 761,186 | 696,504 |
| Interest on third-party capital | 134,467 | (92,554) |
| Government | 677,362 | 792,611 |
| Shareholders (dividends) | 50,000 | 55,977 |
| Retention | 304,770 | 512,594 |
| Depreciation/amortization/depletion | 192,876 | 141,031 |
| Retained profits | 102,835 | 365,890 |
| Others | 9,059 | 5,673 |

Sadia S.A.

Board of Directors

Walter Fontana Filho
Chairman

Eduardo Fontana D'Ávila
Member

Osório Henrique Furlan
Member

Alcides Lopes Tápias
Member

Everaldo Nigro dos Santos
Member

Francisco Silverio Morales Cespede
Member

José Marcos Konder Comparato
Member

Luiza Helena Trajano Inácio Rodrigues
Member

Norberto Fatio
Member

Romano Ancelmo Fontana Filho
Member

Vicente Falconi Campos
Member

Sadia S.A.

Officers

Gilberto Tomazoni
Chief Executive Officer

Alexandre de Campos
**International Sales
Director**

Cláudio Lemos Pinheiro
**Administrative and
Controllership Director**

Flávio Riffel Schmidt
**Investment project
Director**

Ronaldo Korbagg Muller
**Poultry Production
Director**

Sérgio Carvalho Mandin Fonseca
National Sales Director

Antonio Paulo Lazzaretti

Ernest Sícoli Petty
Supply Director

Flávio Luís Fávero
**Industrialized
Production Director**

Gilberto Meirelles Xandó Baptista
**Internal Market
Commercial
Director**

Guilherme Henderson Larrobla
**International Sales
Director**

José Augusto Lima de Sá
**International
Relationships
Director**

Paulo Francisco Alexandre Striker
Logistics Director

Roberto Banfi

**Technology and
Quality Guarantee
Director**

**International Sales
Director**

Sadia S.A.

Ricardo Fernando Thomas Fernandes
**Grain Purchase
Director**

Valmor Savoldi
**Planning, Logistics
and Supplies
Director**

Welson Teixeira Júnior
**Investor Relations
Director**

* * *

Gustavo Teixeira de Freitas
Accounting Manager

Giovanni F, Lipari
Accountant
CRC 1SP201389/0-7-S-SC