SADIA S.A.
Form 20-F
June 30, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)

OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-15184

SADIA S.A.

(Exact Name of Registrant as Specified in its Charter)

Federative Republic of Brazil

(Jurisdiction of Incorporation or Organization)

N/A

(Translation of Registrant's name into English)

Rua Fortunato Ferraz, 365

Vila Anastácio, Sao Paulo, SP

05093-901, Brazil

(Address of principal executive offices)

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

Title of Each Class	Name of Each Exchange on which Registered
Preferred Shares, no par value per share,	New York Stock Exchange
each represented by American Depositary Shares	

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

None

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

None

The total number of issued shares of each class of stock of SADIA S.A. as of December 31, 2005, was:

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

423,495,712 Preferred Shares, no par value per share

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

Yes X No __

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1034.

Yes __ No X

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

Yes _X_ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

(X) Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the Registrant has elected to follow Item 17 ___ Item 18 _X_ .

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

Ross Kaufman, Greenberg Traurig, LLP

200 Park Avenue, New York, New York 10166

CONTENTS

GENERAL

Unless otherwise indicated, all references contained herein, to the "Company", to "Sadia", or to "Sadia Group" are references to Sadia S.A., a corporation organized under the laws of the Federative Republic of Brazil ("Brazil"), and its consolidated subsidiaries: Sadia International Ltd.; Sadia GmbH; Rezende Marketing e Comunicaçao Ltda., Rezende Óleo Ltda., and Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities.

Presentation of Certain Financial Information

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

Forward-Looking Statements

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

U.S. GAAP Presentation

The selected financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by reference to, the U.S. GAAP financial statements of the Company and "Operating and Financial Review and Prospects" appearing elsewhere herein. The consolidated financial data for the Company as of December 31, 2005, 2004, 2003, 2002, and 2001 are derived from the audited U.S. GAAP financial statements, which differ in certain respects from accounting practices adopted in

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

SADIA S.A.

SELECTED FINANCIAL DATA

Years ended December 31, 2005, 2004, 2003, 2002 and 2001 (In thousands of *reais* - R$, except numbers of shares and per share amounts)

	2005	**2004**	**2003**	**2002**	**2001**
Net Operating Revenue	7,317,842	6,109,225	5,081,717	4,139,070	3,602,470
Operating Income	680,903	635,029	401,009	345,322	487,853
Net income	603,268	489,501	473,268	284,262	203,484
Basic earnings per thousand shares in R$:					
Preferred	885.08	742.42	717.80	431.14	308.62
Common	885.08	674.93	652.54	391.94	280.56
Diluted earnings per thousand share in R$:					
Preferred	884.38	742.42	717.80	431.14	308.62
Common	884.38	674.93	652.54	391.94	280.56
Dividends paid per thousand shares in R$:					
Preferred	231.96	234.68	170.08	106.89	69.75
Common	210.87	213.34	154.61	97.18	63.41
Total Current Assets	4,588,176	3,944,802	3,645,379	2,759,217	1,562,713
Total Assets	6,707,284	5,830,973	6,149,453	4,975,627	3,325,305
Total Current Liabilities	2,625,812	2,766,719	2,969,833	2,591,383	1,335,176
Total Liabilities	4,081,472	3,064,254	3,179,620	2,384,244	1,990,129
Total Shareholders' Equity	2,228,117	1,838,364	1,521,585	1,057,759	967,181
Weighted average number of shares outstanding:					
Preferred	424,595,712	425,695,712	425,695,712	425,695,712	425,695,712
Common	257,000,000	257,000,000	257,000,000	257,000,000	257,000,000

The exchange rates of *real* amounts into U.S. dollars for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and January 2006 through May 2006 are shown in the table below:

	Reais per U.S. Dollar			
Year Ended December 31,	**High**	**Low**	**Average**	**End of Period**
2001	2.8007	1.9353	2.3532	2.3204
2002	3.9552	2.2709	2.9983	3.5333
2003	3.6623	2.8219	3.0600	2.8892
2004	3.2051	2.6544	2.9171	2.6544
2005	2.7621	2.1633	2.4125	2.3407

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	Reais per U.S. Dollar	
Months Ended	**High**	**Low**
January 2006	2.3460	2.2116
February 2006	2.2217	2.1177
March 2006	2.2238	2.1067
April 2006	2.1542	2.0892
May 2006	2.3711	2.0586

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk Factors

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on the Company's business and the market price of the preferred shares.

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

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

- fluctuations in exchange rates;
- interest rates;
- inflation;
- tax policies;
- exchange controls;
- energy shortages;

- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

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

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

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

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

Fluctuations in the value of Brazil's currency against the value of the U.S. dollar may result in uncertainty in the Brazilian economy and the Brazilian securities market, which may adversely affect the Company's financial condition and results of operations and, consequently, the market value of the preferred shares and ADSs.

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

The *real* appreciated 22.3% in 2003, 8.9% in 2004 and 13.4% in 2005 against the dollar. On December 31, 2005, the U.S. dollar/*real* exchange rate was US$1.00 per R$2.3407.

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

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

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

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

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

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

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

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

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

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

Enforcement of civil liabilities may be difficult

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

Brazilian counsel has advised the Company that Brazilian courts will enforce