

Rating Action: Independência S/A

Correction to Text, January 30th, 2009: Moody's changes Independência's outlook to negative

Approximately USD 525 million in debt securities affected

Sao Paulo, January 30, 2009 -- Substitute June 30, 2008 for June 30, 2009 in eighth paragraph, third sentence, "Quantitatively, the ratings could be downgraded if Total Debt to EBITDA remains above 6.0 times (LTM September 2008 was 6.9 times) or EBITA to Gross Interest Expense below 1.0 time (3Q08 was 0.9 times), both on a last twelve month basis as of June 30, 2009." Revised release follows:

Moody's affirmed Independência S.A.'s ("Independência") B2 local currency corporate family rating and B2 guaranteed senior unsecured rating, but changed the outlook to negative from stable.

"The negative outlook for Independência's ratings reflects our expectation that the company's leverage, as measured by Total Debt to EBITDA and by Net Debt to EBITDA, is likely to continue to be above 5.0 times and 4.0 times, respectively, which are Moody's triggers for downward pressure on the company's B2 ratings," affirmed Moody's VP Senior Analyst, Soummo Mukherjee. "At the same time, the negative outlook reflects the challenges that the Brazilian industry is experiencing in terms of beef processing overcapacity in relation to the size of the Brazilian cattle herd, combined with a weaker outlook for fresh beef and leather export prices and volumes due to the adverse global economic environment and the low availability and high cost of trade finance credit for importers, added Mukherjee"

Independência recently announced a consent solicitation to modify its debt incurrence covenant to allow greater flexibility in light of the devaluation of the BRL against the USD, and an amendment to its change of control provision, allowing the company to repurchase its notes in the case of a change in control only if there is a subsequent rating agency downgrade. Additionally, Independência announced a tender offer to its 2015 and 2017 bondholders for up to 27.5% or USD 144.4 million of its bonds outstanding, at a discount to par of 37% for bondholders that tender by February 18th and a lower discount to par of 34% for bondholders that tender by February 3rd.

We consider this an opportunistic tender offer and not a distressed exchange in the interest of default avoidance since Moody's believes Independência's motivation for the offer is to reduce USD denominated debt and consequently its forex exposure. Moody's B2 rating already considered the increase in leverage resulting from the currency devaluation, as stated in our press release on November 28th, 2008. The company's debt service burden is expected to be sustainable because of the BNDESPAR capital injection and, to a lesser extent, higher margins on its USD denominated revenues, which represent about 50% of sales. The company has stated that the tender offer will be financed with a new long-term, senior unsecured loan denominated in BRL and equivalent to up to USD 130 million. Independência's liquidity is also expected to improve with the disbursement of the remaining BRL 200 million of the BNDESPAR equity injection by the end of March 2009. The first tranche from BNDESPAR of BRL 250 million was received in November 2008.

However, with over 80% of its debt denominated in USD as of September 30th, 2008, Independência's leverage is likely to remain high despite expected higher EBITDA due to increased utilization rates of newly installed capacity and strong domestic market performance. The BRL/USD exchange rate ended 2008 at 2.36, representing 24% depreciation against the 1.99 rate on September 30th, 2008.

According to the Brazilian Foreign Commerce Secretariat ("SECEX"), average prices (USD / ton) of Brazilian fresh beef exports fell 15% in the 4th quarter of 2008 compared to the 3rd quarter. At the same time, beef export volumes fell 59%, causing overall industry beef export revenues to decline by 65% in US dollar terms and 52% in BRL terms.

The declines reflect reduced demand in many import markets, such as Europe, causing pressure on pricing, and difficulties in obtaining trade finance by importers in Russia, the most important export market for Brazilian beef exports. Many Russian importers are trying to renegotiate contracts and postpone new orders, causing an increase in inventories and receivables. Over the past few years, Russia has become the most important market for Brazilian beef exports, representing close to 36% of Brazil's fresh beef exports in 2008. Russia is also Independência's largest importer, representing 12.7% of the company's export revenues in the 3Q08. Independência and many of its peers are therefore likely to report much higher working capital needs in their 4th quarter 2008 results, leading to weaker cash flow from operations.

Independência's rating would likely be downgraded if the March 2009 second tranche of BNDESPAR's

capital increase of BRL 200 million experiences delays. Additionally, negative pressure could arise if the company experiences a significant deterioration in its ability to renew its trade finance lines, if operating margins decline sharply and/or if leverage and cash flow metrics fail to improve from current weak levels. Quantitatively, the ratings could be downgraded if Total Debt to EBITDA remains above 6.0 times (LTM September 2008 was 6.9 times) or EBITA to Gross Interest Expense below 1.0 time (3Q08 was 0.9 times), both on a last twelve month basis as of June 30, 2009. All ratios are adjusted according to Moody's standard analytic adjustments (see "Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Companies - Part I", February 2006).

A stabilization of the outlook would require evidence of improved leverage and cash flow metrics. Quantitatively, the stabilization would require Total Debt to EBITDA to be sustained below 6.0 times (LTM September 2008 was 6.9 times) and Funds from Operations (FFO) to Net Debt to be sustained above 10.0% (LTM September 2008 was 1.7%).

Moody's last rating action on Independência was on November 28, 2008, when we affirmed Independência's B2 ratings following the announcement of the capital increase of up to BRL 450 million by BNDESPAR in Independência's parent company, Independência Participações S.A., and subsequently to be transferred to Independência.

The principal methodology used in rating Independência was that for Moody's Global Natural Product Processors (published in March 2006), which can be found at www.Moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Ratings affirmed with a negative outlook:

- Independência S.A.'s Corporate Family Rating: B2
- USD 225 million 9.875% senior unsecured guaranteed notes due 2017: B2
- USD 300 million 9.875% senior unsecured guaranteed notes due 2015: B2

Headquartered in Cajamar, São Paulo, Brazil, Independência is Brazil's fourth largest producer of fresh and frozen beef and the second largest producer of wet blue leather with operations in seven Brazilian states and Paraguay. At the end of September 30th, 2008, Independência had fourteen beef slaughtering and deboning facilities, three tanneries, two dry and salted beef units, five biodiesel production modules and four cold and dry storage and distribution facilities.

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