

**Rating Action: Moody's places Marfrig's B1 ratings on review for possible downgrade**

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Global Credit Research - 16 Jun 2010

**Approximately USD 875 million in rated debt affected**

Sao Paulo, June 16, 2010 -- Moody's placed Marfrig Frigoríficos e Comércio de Alimentos S.A.'s ("Marfrig") B1 ratings on review for possible downgrade, following the company's announcement that it has signed a MIPA-- Membership Interest Purchase Agreement to acquire 100% of the stock of Keystone Foods for a total initial consideration of USD 1.26 billion (approximately BRL 2.5 billion). Closing of the transaction is expected to take place in the second half of 2010.

The following ratings were placed under review for possible downgrade:

- USD 500 million senior unsecured guaranteed notes due 2020: B1 (foreign currency)
- USD 375 million 9.625% senior unsecured guaranteed notes due 2016: B1 (foreign currency)
- Corporate family rating: B1 (Global scale)

Marfrig's B1 ratings were placed on review for possible downgrade based on the fast pace of acquisitions including the Keystone Foods and Seara purchases. Integrating those operations into the business will create further operating and execution challenges, in addition to those posed by the previous acquisitions. Furthermore, the capital structure that will prevail after the closing of the deal is likely to stretch Marfrig's balance sheet.

Keystone Food is a global supplier and distributor of protein products (beef, chicken and fish) primarily to McDonald's restaurants and other franchises. The company is based in the US, and through its 54 facilities in 13 countries globally, generated revenues of USD 6.4 billion in 2009.

Prior to the Keystone Foods purchase, Marfrig had acquired a dozen different companies that have operations in lamb, pork, turkey, poultry and beef processing in Argentina, Chile, Uruguay, Brazil, England, Northern Ireland, France, the Netherlands and USA. The company's stated strategy of increasing its operations in non-beef animal proteins and outside of Brazil is positive in terms of product and geographic sales mix and raw material sourcing, which are important factors in our natural product processors rating methodology. The Keystone Foods deal would also have a substantial positive impact on size and scale factors in the methodology. This acquisition would make Marfrig a leading supplier to several fast-food chains including McDonald's, Campbell's and Subway. However, the pace of acquisitions will test management's capacity to efficiently operate and integrate several companies with very different activities and still deliver credit metrics commensurate with the B1 rating category and more in line with rated peers.

Moody's review will focus on gaining a better understanding of the risks and benefits of the acquisition of the Keystone Foods assets and the future growth strategy of the company. A second important focus of the review will be on projected cash flow metrics, in light of the large number of recent acquisitions, even before the Keystone Foods deal, along with the challenging environment for cattle sourcing in Brazil.

Moody's review will also consider the amount and details of the purchase of USD 1.26 billion as Marfrig will finance the deal through the issuance of five-year mandatorily convertible debentures of BRL 2.5 billion (approximately USD 1.3 billion).

The transaction will undergo the due diligence, including approval by anti-trust authorities and is expected to be concluded during the second half of this year.

Moody's last rating action on Marfrig was on April 26, 2010, when Moody's assigned a B1 foreign currency rating to Marfrig's USD 500 million senior unsecured guaranteed notes maturing in 2020. At the same time, Marfrig's existing B1 senior unsecured and corporate family ratings were affirmed.

The principal methodology used in rating Marfrig was that for Moody's Global Food -- Protein and Agriculture Industry (published in September 2009) and available on [www.moody's.com](http://www.moody's.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Marfrig, headquartered in São Paulo, Brazil, is one of the largest beef processing companies in Brazil. With processing plants in Brazil, Argentina, Uruguay, Chile, England, Northern Ireland, France, The Netherlands and USA, Marfrig processes, prepares packages and delivers fresh, chilled and processed beef, pork and lamb products to customers in Brazil and abroad, with approximately 50% of its sales derived from exports. Along with its beef products, the company also operates a wholesale food distribution business which delivers additional food products that it imports or acquires in the local market.

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