Rating Action: Vestel Elektronik Sanayi Ve Ticaret A.S.

Moody's downgrades Vestel's ratings to B2

Approximately USD225 million of rated debt securities affected

London, 28 January 2008 -- Moody's Investors Service today downgraded the ratings of Vestel Elektronik Sanayi ve Ticaret A.S. ("Vestel" or "the company") to B2 from B1. The outlook remains negative.

The following ratings were affected:

- B2 Corporate Family Rating and Probability of Default Rating

- B2 rating on the USD225 million 8.75% Guaranteed Notes due 2012

"This rating action follows a detailed assessment of Vestel's results for the first nine months of 2007 in conjunction with the consideration of possible operating performance trends looking prospectively into 2008, and reflects Moody's concerns given the challenges faced by the company in improving its operational performance and restoring profitability, particularly in its TV business, that Vestel's financial risk profile and degree of financial flexibility has moved more into line with a weaker B2 rating" says Ayse Kayral, lead analyst for Vestel at Moody's.

Moody's noted that the deterioration in the company's operating performance -- which is largely due to the market saturation in CRT TVs and the fierce competition in LCD TVs with a declining LCD price trend, coupled with the appreciation of the Turkish lira against the US dollar and the euro -- continued into the third quarter of 2007. Although the year-on-year decline in Vestel's TV revenues in the first nine months of 2007 (-12%) was less significant than that in the first half of the year alone (-20%), together with continuing pressures on profitability, resulted in a negative EBITDA margin of -0.9% for the first nine months at the consolidated level.

"Although Moody's acknowledges that seasonal factors are likely to have resulted in some improvement in the fourth quarter of 2007, looking into 2008 there is lack of visibility with regard to the timing and extent of any recovery in the company's operating performance -- which may ultimately exert further pressure on the company's cash flow generation capacity over the next 12 months," Mrs Kayral adds.

Vestel reported total debt of USD783 million (excluding letters of credit) at September 2007; USD406 million of which had a short-term maturity profile (vs. USD261 million at June 2007) following the refinancing of a USD125 million syndicated letters of credit through a short-term bank loan. Moody's anticipates that the company's cash balance, which stood at USD380 million at September 2007, is to be applied to reduce gross debt in order to ease the limited headroom under the covenants in the indenture of the notes, and should broadly enable the company to cover its short-term debt maturities (excluding letters of credit) in the next twelve months to September 2008.

Although the anticipated decline in gross debt and interest expense are positive credit factors, Moody's considers Vestel's liquidity profile to be weak based upon current expectations for other possible cash demands. The B2 ratings also take account of the potential risks associated with the company's lack of any committed back-up facility in place as of year-end 2007, and the uncertainties surrounding the possible sale of 36.3% of Vestel White Goods to Whirlpool, which could generate some USD210 million under current market valuations. Moody's notes that, given the lack of sufficient information at this stage to make an accurate assessment, the B2 ratings do not incorporate the potential impact of a possible joint venture with Whirlpool on Vestel's business and financial risk profile. In the event that a deal were to be reached, Moody's would evaluate its impact, if any, on Vestel's ratings.

The negative outlook reflects Moody's view that: (i) the headroom under the covenants (which stood below 15% under the consolidated indebtedness/EBITDA ratio and just over 3% under the fixed charge coverage ratio as of June 2007) is expected by Moody's to remain tight at year-end 2007; and (ii) the combination of the sustained competitive pressure in key segments and the continued strength in the Turkish lira could increase the constraints on Vestel's liquidity further and result in the headroom under the covenants remaining at levels not compatible with a B2 rating.

Headquartered in Istanbul, Turkey, Vestel is a leading manufacturer of consumer electronic products,

including televisions, digital products and white goods. In the nine months to September 2007, the company reported USD2.4 billion in revenues and negative USD22 million in EBITDA (excluding foreign exchange gains).

London
Ayse Kayral
Analyst
Corporate Finance Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

London
David G. Staples
Managing Director
Corporate Finance Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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