

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

**Moody's downgrades Vestel's ratings to B3**

**Approximately USD225 million of rated debt securities affected**

London, 08 October 2008 -- Moody's Investors Service today downgraded the ratings of Vestel Elektronik Sanayi ve Ticaret A.S. ("Vestel" or "the company") to B3 from B2. The outlook remains negative.

The following ratings were affected:

- B3 Corporate Family Rating and Probability of Default Rating
- B3 rating on the USD225 million 8.75% Guaranteed Notes due 2012

This rating action reflects the accelerating deterioration in the group's operating environment together with Moody's concerns regarding the limited visibility on the outlook for the year 2009, against the challenging macroeconomic backdrop in Vestel's markets.

Moody's noted that the sharp decline in LCD TV prices in recent months (prices for 32" and 42" LCD TVs have fallen by high-teens percent in the past three months) due to a combination of high competition and efforts to boost demand will take a toll on Vestel's LCD TV revenues in 2008. Although panel prices in the sector have also declined as a result of over-supply, these represent roughly half of the cost base and, therefore, the overall impact of end-product price weakness on profitability is likely to be negative.

In the white goods segment, Vestel reported a 3% increase in exports in H1 2008 in terms of units sold. However, in light of the unsupportive macroeconomic outlook, Moody's anticipates that demand for white goods in Europe will be sluggish in H2 2008, which may ultimately put pressure on the profitability of this segment. The domestic market both for TVs and white goods is likely to remain challenging in the near term. As regards digital products, the sustained operational underperformance should pave the way for scaling down in this segment going forward. In addition, the number of units sold in old tech CRT TVs continues to rapidly decline given the market saturation.

From a financial risk point of view, although the company's cash position has strengthened over the past three quarters due to favourable working capital management, Moody's expects its cash level -- which stood at USD476 million as of June 2008 -- to decline in Q3 2008 together with soaring stocks ahead of the traditionally stronger TV sales period in Q4. Nevertheless, the remaining cash balance should broadly enable the company to cover its short-term debt maturities (excluding letters of credit) in the next nine months to June 2009. However, Moody's considers Vestel's liquidity profile to be vulnerable based upon its reliance, to a significant extent, on funding provided by letters of credit. To the extent that the availability of these credit lines were to decline in relation to an accelerating deterioration in the group's operating environment, any demand for faster payment to suppliers could hurt Vestel's cash flows. The potential risks associated with the company's lack of adequate committed back-up facility in place contribute to Moody's liquidity concerns.

More positively, Moody's notes that the depreciation of the Turkish lira against the euro and the US dollar should have a positive impact on Vestel's price competitiveness and EBITDA margins. However, considering the company's short foreign exchange position, net foreign exchange losses in a period of sharp depreciation of the local currency are likely to continue to have a negative impact on its bottom-line result.

The negative outlook reflects: (i) the sustained competitive pressure and the challenging operating environment in key segments against the backdrop of a deteriorating macroeconomic environment; and (ii) Moody's view that the headrooms under the covenants (which stood around 9% under the fixed charge coverage ratio and 15% under the consolidated indebtedness to EBITDA ratio as of June 2008) are likely to remain tight at year-end 2008 while being vulnerable to increasing borrowings costs in the financial markets.

Moody's previous rating action on Vestel was in January 2008, when the ratings were downgraded to B2 from B1.

Headquartered in Istanbul, Turkey, Vestel is a leading manufacturer of consumer electronic products, including televisions, digital products and white goods. In the six months to June 2008, the company reported USD1.792 billion in revenues and USD162 million in EBITDA (excluding net foreign exchange losses).

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