# FITCH DOWNGRADES TURKEY'S VESTEL TO 'B'; OUTLOOK STABLE

Fitch Ratings-London/Istanbul-11 September 2008: Fitch Ratings has today downgraded Turkey-based Vestel Elektronik Sanayi ve Ticaret A.S.'s ("Vestel") Long-term foreign and local currency Issuer Default Ratings ("IDR") to 'B' from 'BB-' (BB minus). The Outlook on both IDRs is Stable. Fitch has also downgraded the senior unsecured rating of Vestel Electronics Finance Ltd.'s guaranteed issue of USD225m 8.75% 2012 maturity notes to 'B'/'RR4' from 'BB-' (BB minus).

The downgrades reflect Fitch's concerns about the depressed profitability in Vestel's television business, which is putting pressure on consolidated operating margins and cash flow generation capacity. The on-going technological transition from conventional televisions to flat panel displays had an impact on Vestel's margins in the TV business in FY07. Whilst the TV operations continue to command a sizeable presence in domestic and European TV markets with around 11% and 40% market share in unit volumes in Europe and Turkey respectively, they face pricing and margin pressure in both the conventional and flat panel display segments due to falling product prices. Vestel also has continued capital expenditures and working capital requirements to fund where Vestel spends around TRY120m on recurring capex annually.

Vestel reported a 1.4% EBITDA margin for FY07, down from 7.2% in FY06. Whilst it reported a 9.4% EBITDA margin in its H108 interim results, the company suffered a TRY73m bottom line loss due to TRY177m of consolidated non-operating financial expenses, driven by exchange rate volatility. At end H108, the company had TRY696m gross debt and TRY113m net debt compared to TRY662m gross and TRY196m net debt at end FY07. Fitch notes that whilst net debt reduced in 2007, Vestels's very weak profitability caused net debt/EBITDA leverage to deteriorate to 2.4x in FY07 from 0.9x in FY06.

Vestel is a net exporter (exports constitute 72% of FY07 sales), providing foreign currency cash flows to service its largely foreign currency denominated debt. The company is also a large scale component importer. Vestel's operating results reflect high exchange rate volatility. Vestel's non-operating results are also sensitive to exchange rate movements due to its USD550m short foreign exchange position end H108. Vestel White makes use of some hedging instruments to manage its fx exposure.

Vestel is also active in the relatively higher margin white goods segment both in Turkey and Russia, through its 72.6% stake in Vestel White (Vestel Beyaz Esya Sanayi ve Ticaret A.S., not rated). Vestel White reported 5.6% EBITDA and 6.3% net profit margin in FY07 followed by 13% EBITDA and 5.4% net profit margin for the H108 reporting period. Vestel is currently negotiating with Whirlpool Corp. (Whirlpool, rated BBB/Stable) for a potential sale of half of its 72.6% stake in Vestel White. Vestel's long term financing is mainly provided by a USD225m bond maturing in 2012. Its financial covenants stipulate that Vestel must remain under 4x consolidated gross debt/EBITDA and over 2.25x fixed charge coverage. Vestel was in compliance with these covenants as of end-1H08, although Fitch notes the limited headroom under both covenants.

The Stable Outlook reflects Fitch's assessment that Vestel should be able to maintain its leverage and coverage metrics at their respective FY07 levels based on Fitch's forecast operating profitability and leverage levels in the intermediate term.

Vestel is a manufacturer of television sets with USD3.6bn consolidated sales and USD50m EBITDA, including USD906m sales and USD49m EBITDA in the white goods manufacturing business in FY07.

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Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. A broad overview of Fitch's RR methodology as it relates to specific sectors, including a Case Study webcast, can be found at www.fitchratings.com/recovery.