

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

### **Moody's changes outlook on Vestel's B1 ratings to negative**

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

London, 06 December 2007 -- Moody's Investors Service today affirmed the B1 ratings of Vestel Elektronik Sanayi Ve Ticaret A.S. ("Vestel" or "the company") but changed the outlook to negative from stable.

The following ratings were affected:

- B1 Corporate Family Rating and Probability of Default Rating
- B1 rating on the USD225.0 million 8.75% Guaranteed Notes due 2012

The change in outlook takes account of a number of factors. "Firstly, Moody's recognises the continued deterioration in the company's margins, which is largely due to increasing competition, market saturation for CRT TVs, the fact that LCD TV prices are still showing a declining trend although they are starting to stabilise, and negative foreign exchange movements, which continued throughout the first half of 2007," explained Stefano del Zompo, lead analyst for Vestel at Moody's. "The outlook change also reflects the negative impact of lower production volumes on profitability and ultimately on the company's cash flows and the expectation of continued weakness in domestic demand for TVs, with the decline in demand for CRT TVs demand unlikely to be fully offset by a similar increase in LCD TV sales in the short to medium term." Finally, Moody's has factored the limited headroom under the covenants set in the indenture of the notes.

Vestel's current ratings also reflect: (i) the contingent nature of some of the factors affecting the company's performance, in particular the Turkish lira/US dollar exchange rate and the rapid decrease in LCD TV prices experienced over recent months, although these factors might persist in the medium term; (ii) the expected commoditisation of LCD TV products, which will likely benefit Vestel as outsourcing of their production will intensify; (iii) the company's relatively high cash balance, which at the end of September 2007 stood at USD368 million, which should reduce the risk of short-term liquidity shortages; and (iv) the expected improvement in the headroom under the covenants as a result of the announced joint venture with Whirlpool, which is expected to complete in the first quarter of 2008.

The continued decline in Vestel's profitability, leading to a reported EBITDA margin of just 0.4%, coupled with an increase in gross debt from USD979 million to USD1.01 billion, left the headroom under the consolidated Indebtedness / EBITDA ratio below 15% at the end of June 2007 while the headroom under the fixed charge coverage ratio was just over 3%. While Moody's expects the headroom under the covenants to remain close to the current level at the end of 2007, it nonetheless derives comfort from the large cash balance that could be used to reduce debt and interest expenses in the short term, while the successful completion of the sale of 36.3% of Vestel White Goods to Whirlpool should increase the headroom under the covenants going forward. Moody's notes that current ratings assume Vestel will use the proceeds of the transaction to repay debt.

"The negative outlook reflects Moody's concerns that continued strength in the Turkish lira, sustained competitive pressure in key segments or slower-than-expected improvements in production efficiency could increase the constraints on Vestel's liquidity and result in the headroom under the covenants remaining at levels not compatible with a B1 rating," Mr del Zompo said.

The ratings could face further downward pressure in the event that the company's operating environment stabilises at current levels, leading to EBITDA margins in the low single digits, a Debt/EBITDA ratio in the region of 4.0x (excluding letters of credit and Notes payable) or a delay in the planned sale of 36.3% of Vestel White Goods. Conversely, the rating outlook could be changed back to stable in the event of an improvement in the company's EBITDA margins to the high single digits, sustained positive free cash flow generation, a Debt/EBITDA ratio of below 3.0x and an increase in the headroom under the covenants to above 20% as expected.

Moody's previous rating action on Vestel was in June 2007, when it downgraded the company to B1 from Ba3, mainly reflecting the deterioration in the company's profitability and credit metrics.

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

including televisions, digital products and white goods. In the last twelve months to June 2007, the company reported USD3.4 billion in revenues and USD73 million in EBITDA (excluding foreign exchange gains).

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