

Correction: Fitch Changes Turkey's Vestel Outlook to Negative; IDRs Affirmed at 'BB-'

Fitch Ratings-London/Istanbul-13 August 2007: This corrects the announcement published earlier today, referencing Q107 (from Q106) in paragraph two.

Fitch Ratings has today changed Turkey-based Vestel Elektronik Sanayi ve Ticaret A.S.'s ("Vestel") Outlook for its Long-term foreign and local currency Issuer Default Ratings ("IDR") to Negative from Stable. Its Long-term foreign and local currency IDRs are affirmed at 'BB-' (BB minus). Fitch also affirmed the senior unsecured rating of Vestel Electronics Finance Ltd.'s issue of USD225m 8.75% notes at 'BB-' (BB minus).

The change in Outlook reflects Fitch's concerns about the profitability decline in Vestel's television business, which is putting pressure on Vestel's consolidated operating margins and cash flow generation capacity. The falling panel and end product prices, as well as the recent performance of television sales growth is likely to hinder Vestel's profitability over 2007- 2008. Fitch notes that Vestel reported consolidated sales growth and improved operating margins in FY06. However, Vestel reported TRY29.6m consolidated operating losses in Q107, due to material underperformance in the television business. The ratings also take into account the relatively low (0.9x net debt / EBITDA) leverage at FY06. The company was free cash flow negative for the third year in a row at end-FY06, mostly due to heavy capital expenditures. Fitch expects lower projected capital expenditures in FY07 and FY08 to partially improve free cash flow generation capacity. The company has significant foreign exchange revenues (77% of FY06 revenues), easing concerns regarding foreign exchange-denominated debt servicing. Vestel continues to command a considerable presence in the domestic and European TV and white goods markets with resident operations in Turkey and Russia.

Fitch further notes Vestel's expansion in the relatively higher margin white goods segment both in Turkey and Russia, as well as sustained geographical diversification of its sales. The company continues to face pricing and margin pressure in the conventional and flat screen televisions and electronic consumer goods segments coupled with continued capital expenditures and working capital requirements. Vestel has been reducing its volumes in conventional televisions since 2004 and focusing on higher margin flat panel televisions and white goods.

Vestel Electronics Finance Ltd. has an outstanding bond maturing in 2012. The bond's financial covenants stipulate Vestel to remain under 4x consolidated gross debt/EBITDA and over 2.25x fixed charge coverage, whereby for the purposes of bond covenants gross debt includes trade related letters of credit issued in the course of component procurement. Vestel was in compliance with all the covenants of its bond as of end-FY06, but Fitch notes that there was limited headroom under both covenants.

Vestel is a manufacturer of television sets with USD3,712m consolidated sales and USD267m EBITDA, including USD783m sales and USD94m EBITDA in the white goods manufacturing business in FY06. Vestel derived 77% of its sales from exports in FY06. Collar Holding BV (Netherlands), a Zorlu Group company wholly-owned by Ahmet Nazif Zorlu, chairman of Zorlu Holding, holds majority control in Vestel with a 51.6% stake. The remaining 48.4% of Vestel is quoted on the Istanbul Stock Exchange. Vestel conducts its white goods business under Vestel Beyaz Esya Sanayi ve Ticaret A.S., where Vestel holds a 68.5% stake with the rest of the company quoted on the Istanbul Stock Exchange.

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