

FITCH AFFIRMS TURKEY'S VESTEL ELEKTRONIK AT 'BB-'

Fitch Ratings-London/Istanbul/Milan-18 December 2006: Fitch Ratings has today affirmed Turkey-based Vestel Elektronik Sanayi ve Ticaret A.S.'s ("Vestel") foreign and local currency Issuer Default ratings at 'BB-' (BB minus) with Stable Outlooks.

The ratings reflect Vestel's sustained sound position in the European television market and growing revenues from both branded and private label products. They also reflect the company's expansion in the relatively higher-margin white goods segment both in Turkey and Russia as well as sustained geographical sales diversification. The company continues to face pricing and margin pressure in the conventional televisions and electronic consumer goods segments, continued capital expenditure and working capital requirements. Vestel has been reducing its volumes and sales in conventional televisions and electronic consumer products (mostly DVD players) since 2004 and focusing on higher-margin flat panel TVs and white goods.

The Stable Outlook reflects Fitch's expectations that Vestel will be able to sustain its sales growth, primarily by volumes, and maintain its EBITDA margin at around 7% after 2006. Fitch notes that the profitability of both Vestel and Vestel Beyaz Esya Sanayi ve Ticaret A.S. ("Vestel White") deteriorated during 2005, partly due to increased competition and Vestel White's efforts to build its market share in Turkey. In 2006, however, Vestel's interim results show a marked year-on-year increase in its EBITDA margin, primarily due to the sharp depreciation of the Turkish lira ("TRY") in May-June 2006. The currency has stabilised at around its pre-May levels, causing the currency effect on Vestel's TRY-based revenues and cost of goods sold to dissipate by Q306. Fitch will continue to monitor Vestel's operating profit margins in both the electronics and white goods businesses.

Free cash flow was negative in FY05 as a result of increased working capital and capacity expansion investments. Vestel had USD87 million net debt at end-FY05. Free cash flow is expected to turn positive in FY06. Vestel's gross debt-to-EBITDA is expected to remain manageable at below 2.5x in 2006. Vestel Electronics Finance Ltd has two outstanding bonds, rated 'BB-' (BB minus). The bonds require Vestel to remain under 4x consolidated debt/EBITDA, whereby for the purposes of bond covenants calculation, debt includes trade-related letters of credit issued for component procurement. Vestel was in compliance with the covenants of its two bonds as of H106.

Vestel is a leading manufacturer of television sets with USD3,321m sales and USD216m EBITDA, including USD598m sales and USD66m EBITDA in the white goods business in FY05. Vestel derived 72% of its sales from exports in FY05. Collar Holding BV (Netherlands), a Zorlu Group company wholly-owned by Ahmet Nazif Zorlu, chairman of Zorlu Holding, has 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 via Vestel White where Vestel holds a 72.6% stake with the rest of the company quoted on the Istanbul Stock Exchange.

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