

Capital Goods/Turkey
Credit Update

Vestel Elektronik Sanayi ve
Ticaret A.S.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Vestel Elektronik Sanayi ve Ticaret A.S.			
Foreign Currency			
IDR*	BB-	BB-	Jul 2006
Local Currency			
Long-Term IDR*	BB-	BB-	Jul 2006
Vestel Electronics Finance Ltd			
Senior Unsecured	BB-	B+	Jan 2005
Rating Outlook			Stable
Turkey Long-Term IDR* / Outlook			BB- / Stable
Turkey Country Ceiling			BB

* IDR – Issuer Default Rating

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Profile

Vestel, is a leading manufacturer of television sets and white goods in Turkey. Listed on the Istanbul and London Stock Exchanges, Vestel is 51.6% owned by Çollar Holding BV, which is itself wholly-owned by Ahmet Nazif Zorlu, chairman of Zorlu Holding, which has interests in textiles, energy, tourism and banking/financial services. The balance is free-float.

Rating Outlook

The Stable Outlook reflects Fitch's expectations that barring the adverse currency effects and recurrence of the price competition of FY05, sales growth and operating margin performance at Vestel and Vestel White should recover in FY06 with additional volumes both in Turkey and Russia. Future rating or Outlook changes may be affected by:

Positive Rating Factors

- Commencement of net free cash flow generation after successful completion of new investments.
- Stabilising profit margins.

Negative Rating Factors

- Significant cash outflow other than debt servicing or outside Vestel's main business.
- Price competition in domestic and export markets.

■ Rating Rationale

Vestel Elektronik Sanayi ve Ticaret's ("Vestel") ratings were removed from Rating Watch Negative (RWN) on 26 July 2006. Fitch Ratings had placed the ratings on RWN on 12 April 2006 following Vestel's announcement that it was raising its stake in white goods manufacturer Vestel Beyaz Esya Sanayi ve Ticaret ("Vestel White"). While this transaction was expected, the RWN reflected Fitch's concern that the transaction would weaken Vestel's financial profile. The eventual net cash outflow of TRY96 million as a result of the transaction was lower than Fitch's expectations, hence impact on net leverage is considered to be within the current ratings parameters. As Vestel already has had direct management control, it consolidated Vestel White in its financials before the transaction. It will continue to consolidate the 69% subsidiary fully after the transaction. Fitch notes that the profitability of both Vestel and Vestel White deteriorated during 2005, partly due to increased competition and Vestel White's efforts to build its market share in Turkey. In Fitch's view, Vestel White is an important component of Vestel's aim to grow in the consumer durables business in Turkey and nearby markets. Free cash flow was negative in FY05 as a result of the increased working capital needed to support growth and financing of additional production capacity. Free cash flow is also expected to be slightly negative in 2006, primarily because of capital expenditure and the Vestel White transaction.

■ Recent Developments

On April 13, 2006 Vestel announced the increase of its stake in Vestel White to 69% from 35% by acquiring the interests from parent company Zorlu Group, causing net cash outflow from Vestel. Vestel paid TRY287m cash to acquire Zorlu Group shares in Vestel White and at the same time received TRY191m cash from the IPO proceeds of Vestel White.

■ Liquidity and Debt Structure

Vestel closed FY05 with TRY698m gross and TRY116m net debt. Compared with end FY04, Vestel's FY05 gross debt increased marginally while net debt almost tripled. On a pro-forma basis, FYE05 consolidated net debt/EBITDA increased to 0.8x from 0.4x as a result of the acquisition of the additional stake in Vestel White. Despite the capex requirements of its growing lines of businesses and the recent share acquisition in Vestel White, Vestel's total debt to EBITDA multiple is expected to remain sustainable at below 3.0x in 2006. While gross leverage is forecast to remain unchanged, net leverage is expected to double in FY06 due to the Vestel White transaction and planned capital expenditure.

27 September 2006

Financial Summary

VESTEL ELEKTRONIK SANAYI VE TICARET A.S.

	31 Dec 2005	31 Dec 2004	31 Dec 2003	31 Dec 2002
	TRYm	TRYm	TRYm	TRYm
	Original	Original	Original	Original
Income Statement				
Revenues	4,456.2	4,604.9	3,130.2	2,645.6
Revenue Growth	-3.2	153.4	18.3	25.6
EBIT	170.0	269.1	225.4	349.7
Interest Expense Net of Interest Income	-58.8	-57.1	-68.2	92.2
Net Income	83.3	86.9	69.1	46.7
Balance Sheet				
Cash and Equivalents	581.1	623.1	496.7	462.3
Total Assets	4,390.8	3,856.5	2,865.1	2,511.8
Short-term Debt	171.9	156.8	250.8	251.8
Senior Long-Term Debt	525.6	509.0	470.7	536.9
Subordinated Debt	n.a.	n.a.	n.a.	n.a.
Total Debt	697.5	665.8	721.5	788.7
Common Equity	1,138.0	1,070.7	862.5	898.6
Off-Balance Sheet Debt	0.0	0.0	0.0	0.0
Total Adjusted Capitalisation	1,995.9	1,847.2	1,638.7	1,688.1
Total Adjusted Debt	697.5	665.8	721.5	788.7
Preferred Stock + Minority Interests	160.4	110.7	54.7	0.8
Cash Flow				
Operating EBITDAR (Op. EBITDAR)	289.2	378.4	299.4	440.9
Cash Interest Paid, Net of Interest Received	7.2	-38.7	-50.3	111.3
Cash Tax Paid	57.1	36.8	40.0	37.0
Associate Dividends	n.a.	n.a.	n.a.	n.a.
Other Changes before Funds From Operations**	-120.5	-151.0	-244.2	28.5
FUNDS FROM OPERATIONS	104.4	229.3	65.5	321.1
Working Capital	-10.6	-4.8	328.1	-74.5
CASH FLOW FROM OPERATIONS	93.8	224.5	393.6	246.6
Non-Operational Cash Flow*	1.8	0.1	30.9	-3.2
Capital Expenditure	285.2	265.4	376.7	61.4
Dividends Paid	n.a.	n.a.	n.a.	n.a.
FREE CASH FLOW	-189.6	-40.8	47.8	182.0
Receipts from Asset Disposals	51.8	24.9	n.a.	n.a.
Business Acquisitions	n.a.	n.a.	n.a.	0.0
Business Divestments	n.a.	n.a.	n.a.	-26.6
Exceptional & Other Cash Flow Items	-34.4	14.9	0.0	0.0
NET CASH IN/OUTFLOW	-172.2	-1.0	47.8	155.4
Equity Issuance/(Buyback)	34.1	45.6	n.a.	0.0
FX movement	n.a.	n.a.	n.a.	n.a.
Other Items Affecting Cash Flow**	64.4	239.7	53.8	-60.6
NET CASH FLOW AVAILABLE FOR FINANCING	-73.7	284.3	101.6	94.8
CLOSING NET DEBT	116.4	42.7	224.8	326.4
Profitability				
Op. EBITDAR/Revenues (%)	6.5	8.2	9.6	16.7
EBIT/Revenues (%)	3.8	5.8	7.2	13.2
FFO Return on Adjusted Capital (%)	8.0	15.8	9.7	32.0
Credit Ratios				
Funds From Operations/Gross Interest Expense (x)	2.9	4.7	1.7	2.5
FFO Fixed Charge Cover (x)	2.9	4.7	1.7	2.5
Op. EBITDAR/Net Fixed Charges (x)	-4.9	-6.6	-4.4	4.8
FFO Adjusted Leverage (x)	4.4	2.3	4.6	1.5
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	0.4	0.1	0.8	0.7
Total Adjusted Debt/Total Adjusted Capitalisation (%)	35.0	36.0	44.0	46.7

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.

* Includes Analyst Estimate

** Balancing Item