

## FITCH: HURRIYET REMAINS ON NEGATIVE WATCH

Fitch Ratings-London/Istanbul-10 January 2011: Fitch Ratings is maintaining Hurriyet Gazetecilik ve Matbaacilik A.S.'s (Hurriyet), a newspaper subsidiary of Dogan Yayin Holding AS (DYH, 'B'/RWN), Long-term foreign and local currency Issuer Default Ratings (IDRs) of 'B+' on Rating Watch Negative (RWN). Hurriyet's National Long-term rating of 'A(tur)' also remains on RWN.

The maintained RWNs are related to Hurriyet's exposure to DYH group-wide risks that is a credit constraint on its ratings given the rating linkage between the company and DYH. However, Fitch sees Hurriyet as a stronger entity than DYH on a stand-alone basis given its strong market position as Turkey's leading national newspaper (by circulation) and robust cash flow generation. This is despite the structural decline of the newspaper industry which is expected to have an adverse effect on Hurriyet's revenues over the next five to 10 years.

Hurriyet's Long-term IDRs are rated one-notch above the IDRs of its parent company, Dogan Yayin Holding AS (DYH, 'B'/RWN - see "Dogan Yayin Holding Remains on Watch Negative" rating action commentary released today). On a stand-alone basis, Hurriyet's ratings would be higher but they are constrained by the linkage with DYH. These linkages include Hurriyet being DYH's main operating subsidiary and the key driver of DYH's creditworthiness, and management overlap. This is despite weak links between DYH and Hurriyet due to inherent dividend restrictions (DYH has a 67% stake in Hurriyet, the rest is free float). Although DYH's guarantee over Hurriyet's debt only relates to the acquisition of TME, Hurriyet does not provide any cross-guarantees for other DYH group companies. This approach is consistent with Fitch's Parent and Subsidiary Rating Linkage criteria, and results in the one notch differential between Hurriyet's and DYH ratings.

A downgrade or upgrade of DYH's rating would have direct implications for Hurriyet's ratings. A reduction of consolidated net debt/EBITDA to less than 2x as a result of stronger free cash flow (FCF) generation and higher EBITDA margins - would also be positive for the ratings.

The ratings also reflect Hurriyet's proven strong FCF (2009: USD55m) generation capability, improved EBITDA margins at 9M10 in line with the pick-up in the ad market and its leading newspaper market position. The company has a 12.5% (including Radikal) share of daily newspaper sales in Turkey and 37% of domestic newspaper advertising revenue. Hurriyet's FCF generation has remained strong despite historically low EBITDA margins. The company is not expected to pay any dividends before 2012, as it concentrates on generating FCF and reducing consolidated leverage following an increase in leverage metrics to well above historical levels in 2008-2009. Fitch expects the company to report consolidated net debt (including interest-bearing trade liabilities) of less than 2.2x (net debt/EBITDA) at end-2010.

Hurriyet faces limited competition due to the oligopolistic nature of the local market, but Fitch notes the underlying trend of falling circulation and the declining share of newspapers in total ad market spending relative to TVs and internet since 2008. Fitch expects this trend to continue in the medium-term as internet increases its share in ad spending to double digits from the current 5%. Fitch also notes that Hurriyet's international subsidiary TME faces pricing pressure and serious competition over the long term from internet, mainly from Russia (due to low barriers to entry). Therefore, a further decline in TME's revenues and possibly margins is in prospect.

Fitch has made major improvements to its credit research on EMEA and AsiaPac corporates. To view these improvements, visit our 'Clear Thinking' web page at <http://clearthinking.fitchratings.co.uk/Index.html>.

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Applicable criteria, 'Corporate Ratings Criteria', dated 16 August 2010, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:  
Corporate Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=546646](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646)

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