FITCH DOWNGRADES DOGAN YAYIN HOLDING TO IDR 'B+' ON LEVERAGE; OUTLOOK NEGATIVE

Fitch Ratings-London/Istanbul-23 December 2008: Fitch Ratings has today downgraded Turkey-based Dogan Yayin Holding's (DYH) Long-term local and foreign currency Issuer Default ratings (IDRs) to 'B+' from 'BB-' (BB minus). Both the Outlooks have been changed to Negative from Stable.

The downgrade reflects the upward revision of Fitch's forecast for DYH's consolidated leverage (net debt including supplier loans/EBITDA) to nearly 5x for FY08 and FY09, mainly due to the rapid depreciation of TRY versus the USD in Q408. This is compared to a leverage of 3x historically. As 97% of DYH gross debt is in FX, this is causing a currency mismatch with revenues generated locally.

DYH's creditworthiness is driven by its main operating subsidiary and a publishing concern, Hurriyet. The stable cash flow from the publishing sector accounted for 100% of DYH's consolidated EBITDA at 9M08. However, cash outflows for the retail business, and new broadcasting investments in Kanal D Romania, and at the Dogan TV level, continue to depress overall operating margins. In addition, the high level of debt under its broadcasting subsidiary, Dogan TV, remains a concern. Fitch is concerned that cash outflows related to the broadcasting segment's programming investments and capital expenditure will continue to weigh on broadcasting operating margins and cash flow in 2009-10. Fitch understands management is willing to work on strategic potential partnerships for Smile Holding and sell a minority stake in its new digital platform to a strategic partner to reduce Dogan TV's leverage in the medium-term, but the reliance on asset sales in the current difficult credit climate may prove risky.

The Negative Outlook reflects DYH's worse-than-expected operating performance in 2008 and Fitch's concern that de-leveraging will be hard to achieve in a lower ad-spend environment in 2009 and, possibly, in 2010 due to the slowdown in the Turkish economy. Evidence that DYH can improve on its operational performance in the long-term - following operating losses at the broadcasting and retail units due to new investments - would be credit-positive. The agency believes that cost-cutting measures - currently being implemented - may alleviate only some of concerns on 2009 operating margin, and will continue to closely monitor the company's operating performance. Fitch also understands that management is considering postponing certain investment plans.

DYH had USD104m gross debt and USD333m cash at the media holding company level at end-9M08. However, DYH's consolidated gross debt is high at USD1.41bn, based on 9M08 accounts, mainly due to the TME acquisition by Hurriyet in Q107 and Star TV acquisition in 2005 as well as investments in its new digital platform and Kanal D Romania. DYH's consolidated net debt is USD737m; it has a consolidated cash balance of USD678m, versus consolidated short-term obligations of USD508m and does not face any refinancing risk before 2010. Fitch expects DYH to record a net consolidated debt/EBITDA of 4.5x-5x for FY09E, in line with its current rating level. The agency also notes that the recent rights issue at the DYH level and DYH's acquisition of a 5.1% stake in Dogan TV from Axel Springer is largely cash-neutral.

Fitch notes DYH has been highly acquisitive in the past 24 months, but does not factor into the ratings any cash outflows associated with expansion in the medium-term as current leverage metrics remain tightly constrained within the rating level. If DYH uses the stand-alone cash for dividends or any further acquisitions, thus increasing its net debt position, it may have immediate negative implications for the ratings. The agency does not expect any cash outflows at the DYH level except for capital contributions to the existing businesses. Dogan Holding, DYH's parent company, has a rich cash position on its stand-alone balance sheet and is expected to fully support the core media subsidiary, if needed.

As a holding company, DYH depends on dividend flows, service income and capital gains. However, dividend flows will be limited as Fitch understands that Hurriyet will resume dividend payout only in 2009-2010. Dogan TV is also not expected by Fitch to make a contribution to dividend flows before 2010-11 as it will be paying down the debt stemming from the Star TV acquisition and new investments such as Kanal D Romania and D-SMART.

Separately, Fitch has downgraded Hurriyet to 'BB-' (BB minus) from 'BB'. (see Fitch rating actioncommentary "Fitch Downgrades Turkey's Hurriyet to 'BB-' (BB minus); Outlook Negative" dated 23 December 2008 on www.fitchratings.com).

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