

## **FITCH AFFIRMS ITV AT 'BB-'; MAINTAINS NEGATIVE OUTLOOK**

Fitch Ratings-London-07 August 2009: Fitch Ratings has today affirmed ITV plc's Long-term Issuer Default Rating (IDR) at 'BB-', and maintained the rating Outlook at Negative. The agency has also affirmed ITV's senior unsecured rating at 'BB-'.

The rating affirmation follows the August 6 release of the UK broadcaster's interim results which showed a fall in net advertising revenue (NAR) of 15% in the half year to 30 June 2009, and a fall in EBITA of GBP75m to GBP46m.

"The big question for ITV's performance is whether the advertising market is bottoming or not," says Alex Griffiths, Senior Director, Fitch's TMT team in London. "Results for H109 were expected to be weak, reflecting the effects of deep ad market falls in the first half with only part of the benefit of cost cuts."

Fitch had previously signalled that a 15% fall in advertising revenues for the full year 2009 was likely to be consistent with financial leverage of over 5.0x which, if sustained, would be more consistent with a 'B+' rating profile than 'BB-'. A 15% revenue fall in the first half of 2009 does not necessarily suggest revenues will decline 15% for the full year, as the comparatives against which the last four months of 2009 will be measured are much easier - with advertising down 16% y-o-y in September 2008 and 9% in Q408. ITV stated in its results announcement that while September year-on-year performance, based on forward bookings, sees a fall mitigating to only high single digits, the group currently has no meaningful insight into October onwards. The mildly positive development in September mirrors reports from other UK ad-funded media, which in their recent results have typically pointed to a moderation of advertising declines.

Fitch believes, on balance, that the current risks remain reflected in ITV's present ratings and outlook. The agency will continue to review evidence of whether the market has or has not stabilised. ITV's high operational gearing means its results remain volatile to changes in UK TV advertising spending.

The decision to maintain ITV's rating at its current level also reflects a number of positive operational and financial factors. ITV has continued, on a family of channels basis, to largely hold its share of viewing, and increased its share of the UK ad market by approximately 2% in H109. Its cost saving programme, due to yield savings of GBP155m in 2009, mostly second-half weighted, and ultimately GBP285m by 2011, is on track. In addition, the regulatory environment appears to be improving with an expected relaxation of Contract Rights Renewal likely to be announced later this year and potential positive messages for ITV from Ofcom's Public Sector Broadcasting review. ITV's cash flow generation has also improved from 2008 with a greater focus on the management of programming inventory and other working capital. The group's exchange offer for its EUR500m (GBP345m) 2011 bond has also pushed back GBP200m of this maturity until 2013. Fitch had previously signalled 2011, under certain stress scenarios, as a potential liquidity pinch point.

Fitch notes the increase in ITV's accounting pension deficit to GBP538m from GBP178m. The agency will continue to focus more on the immediate cash impact of pension financing, which is based on actuarial, rather than accounting valuations. ITV's current agreement with its trustees sees top-up payments of GBP30m per annum. Of more concern to the agency is the buyout valuation on which, in a liquidation, any claim by the pension scheme would be based. The agency estimates that this has fallen to GBP1.4bn at 30 June 2009 from GBP1.8bn at 31 December 2008 based on the movement in UK gilt yields between the two dates. Despite the decline, this level still represents a large, and potentially structurally senior creditor which could negatively impact the recoveries of bondholders in a recovery scenario. As noted in a 26 March 2009 comment, Fitch continues to see ITV as sufficiently far from default with a 'BB-' rating to give it time to address these issues, possibly amend its capital structure, and for the pension deficit to shrink as market conditions

normalise. The agency notes that if ITV's IDR was downgraded to 'B+', indicating it was closer to potential default, its senior unsecured ratings could be downgraded by more than one notch.

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