

FITCH UPGRADES ITV TO 'BB'; OUTLOOK STABLE

Fitch Ratings-London-06 August 2010: Fitch Ratings has upgraded ITV plc's (ITV) Long-term Issuer Default Rating (IDR) and senior unsecured rating to 'BB' from 'BB-' respectively. The Outlook on the Long-term IDR is Stable.

The upgrade reflects ITV's improved financial position and credit metrics after a better-than-expected H110 performance as well as medium-term clarity on the company's funding of its pension liability. ITV has outperformed its competition in a rising market, leading to net advertising revenue increasing by 18% in H110 with management expecting a further 15% increase in Q310. This should help ITV reduce its leverage to 2x by end-2010 from 3.6x at end-2009 on a lease-adjusted net debt/EBITDA basis.

"The recovery of advertising revenue thus far in 2010 and good cost control have driven ITV's improved financial position," says Damien Chew, a Director in Fitch's European Telecoms, Media and Technology team. "With continued growth in advertising revenue expected for H210, ITV should have the headroom within a 'BB' credit profile to start addressing the long-term structural challenges it is facing and weather a potential double-dip UK economic scenario in 2011."

Cyclical exposure to the UK economy remains a significant risk for ITV. A sharp drop in TV advertising revenue in a double-dip scenario could see the company's revenue and hence profitability come under pressure. However, Fitch analysis shows that in this scenario, ITV's lease-adjusted net debt/EBITDA would not breach 3x and therefore remain significantly below the levels seen in 2008 and 2009. The agency believes that a temporary spike to 3.0x leverage because of cyclical effects could be tolerated within a 'BB' rating level.

Even without the risk of the UK falling back into recession, structural changes in the media industry remain a concern. The continued growth of the internet, digitisation of content and the change in consumer viewing patterns have had a significant impact in content creation, and content aggregation and distribution. These factors could erode ITV's ability to reach a large UK audience for advertisers and therefore have a negative impact on long-term revenue and profitability. Management has laid out its plans to meet these challenges. Fitch would expect to see significant progress on this front before considering a further rating upgrade.

Further positive rating action would also require continued deleveraging by ITV. Fitch believes that ITV could see a significant reduction in net debt and leverage metrics over the next two-to-three years with a continued recovery in the UK TV advertising market, continued cost reductions and a strong operational performance that maintains ITV's leadership position. ITV's funds from operations-adjusted net leverage could be approaching 2x by end-2012 (compared with 2.9x at end-2009).

ITV has visibility of its cash contributions to its pension scheme until 2014, following agreement with the trustees of its pension scheme over the company's plan to use SDN, ITV's wholly owned digital terrestrial television multiplex operator, to provide asset-backing to the pension scheme over the long-term. Fitch believes that these pension deficit payments are unlikely to change following the next actuarial pension valuation due to take place in 2011.

Applicable criteria, 'Corporate Rating Methodology', dated 27 November 2009, are available at www.fitchratings.com.

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