

# HURRIYET

## EQUITY RESEARCH

## BUY

(Maintained)

### The sleeping giant

- Hurriyet underperformed a bull market in 2007 due to lower ad spend from interest-rate sensitive sectors and the market's skeptical view on TME acquisition. We believe that there is reason to be optimistic on both fronts in 2008E.
- We expect newspaper advertising in Turkey to grow by 16% in 2008E as the consumer sectors will grow faster as the Central Bank has started cutting rates. Although we expect newspapers to continue to lose market share to the internet, we believe that Hurriyet will be able to secure a 16% ad revenue growth in Turkey both in 08E and 09E thanks to its strong positioning with its news portals and classified websites, alongside its flagship Hurriyet newspaper.
- TME integration is still continuing with the restructuring costs including the headquarters' relocation to Istanbul to appear in 4Q07 financials. However, the higher than guided for top-line growth as observed in 2Q07 and 3Q07 casts hope that this was indeed an acquisition that extends Hurriyet's foothold to high growth markets.
- We believe that the promotion costs, one-off advertising expenses as well as the relatively low ad revenue in 2007 in Turkey and the restructuring costs on TME side will ease in 2008E and we expect EBITDA margin to increase from c21% in 2007 to c25% in 2008E. However, we forecast a 9% decline in net profit to YTL101mn (or by 3% to US\$83mn) due to mostly non-cash currency losses, assuming that the YTL/US\$ will reach 1.25 at year-end. Note that 2007 earnings are artificially swollen due to the strong YTL where Hurriyet booked substantial fx gains on its net debt of US\$348mn as of 3Q07.
- Our DCF points to a new 12-mth target market capitalization of US\$1,844mn and with a 42% return potential, we reiterate our Buy rating. We do not view the lower earnings projection for 08E as a problem as earnings quality will substantially improve. However, the exchange rate moves both in and outside Turkey against the dollar present a key risk for the company, alongside other macro developments that may threaten the ad market growth in the countries Hurriyet and TME operate.

Current Price (16-Jan-08)	YTL3.60
Current Mcap (mn)	US\$1,300
12-mth Target Price	YTL5.5
12-mth Target Mcap (mn)	US\$1,844
<b>12-mth Forecast Returns (US\$)</b>	
Dividend Yield	0%
Capital Appreciation	42%
<b>12-mth Total Return</b>	<b>42%</b>

#### Stock Data

Ticker	HURGZ.IS	HURGZ.TI
Sector		Print media
# of Shares (mn)		421
3M Avg. Trd. Vol. (mn)		US\$3.8
52-week Range	YTL3.19 -	YTL4.45

#### Market Data

ISE 100	49,094
YTL/US\$	1.1659

#### Shareholder Structure

Dogan Yayin Holding	60%
Free Float	40%
Foreign Holding as % of Free Float	89%

Financials (US\$ mn)	2006	2007E	2008E	2009E
Net Sales	442	718	939	1,044
% ch yoy	1	63	31	11
EBITDA	103	153	235	282
% ch yoy	-15	50	53	20
Net Income	73	85	83	134
% ch yoy	12	17	-3	62

Margins (%)	2006	2007E	2008E	2009E
Operating Margin	13.8	13.8	18.2	20.8
EBITDA Margin	23.2	21.4	25.1	27.0
Net Profit Margin	16.5	11.8	8.8	12.9
Dividend Yield	2.2	0.0	0.0	2.6

Financial Ratios	2006	2007E	2008E	2009E
P/E (US\$, x)	17.9	15.3	15.7	9.7
Adj. EV/EBITDA (US\$, x)	11.9	12.7	8.1	6.5
Net Debt/EBITDA (US\$, x)	-0.7	2.3	1.4	0.9
Debt/Equity (%)	8.4	76.1	65.1	40.5

Price Performance	1M	3M	YTD	YoY
US\$ Absolute	4%	-8%	-1%	28%
ISE-100 Relative	12%	2%	13%	-17%



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## INVESTMENT POSITIVES

### Exposure to ad market growth

Hurriyet gives exposure to the rapid growth in advertising in Turkey as well as TME's operating territories, the largest of which is Russia. We project that the advertising spend in Turkey will grow by c14% pa in the next ten years through to 2017E, with growth rates estimated at 20% in 2008E and 18% in 2009E. This is both due to the low ad spend/GDP ratio in Turkey (0.47% in 2006) compared to eastern European countries where ad spend/GDP is above 1% and also the near-term drivers including the declining interest rates which should lead to higher ad spend from consumer-related sectors in 2008E and the new brands that have come to Turkey via privatizations or mergers/acquisitions. Four of the top ten fastest growing ad markets of the world; namely Kazakhstan, Belarus, Russia and Ukraine, from now until 2010E according to ZenithOptimedia, are among TME's operating territories.

### Solid business model

Despite the glitches in 2007 due to the acquisition of TME as well as a difficult operating environment in Turkey, Hurriyet will manage to close the year with an EBITDA margin above 21% in our view. We forecast that the EBITDA margin will grow to 25% in 2008E and gradually increase to 28% throughout our 10-year forecast horizon. That should lead to ample cash generation ability in our view.

### Reasonable valuation

We value Hurriyet on a DCF which yields a 12-mth market capitalization target of US\$1,844mn, showing 35% upside to the current market capitalization in US\$ terms. When compared to international publishing companies, Hurriyet possesses higher EBITDA growth potential which is reflected onto 2008E multiples as a premium. However, the shares are trading at par to peers' 09E EV/EBITDA of 6.6x. At 9.8x 09E earnings, Hurriyet is trading at a 19% discount to the peers'.

### Online investments

Newspaper publishers, especially those in developed countries, have been out of favor due to the threat from the internet. Staying abreast potential competition from internet which has globally been reducing the share of print media in advertising, Hurriyet is already hosting a popular news website ([www.hurriyet.com.tr](http://www.hurriyet.com.tr)), a real estate search portal ([www.hurriyetemlak.com](http://www.hurriyetemlak.com)) and a job search portal ([www.yenibiris.com](http://www.yenibiris.com)). An auto portal ([www.hurriyetoto.com](http://www.hurriyetoto.com)) and a community portal for mothers and baby care ([www.annemiz.biz](http://www.annemiz.biz)) have also been launched. Therefore Hurriyet is relatively well positioned to capture market share on the online advertising front as internet reach increases. Together with TME's growing internet business, we expect that online advertising revenue will comprise 14% of Hurriyet's consolidated ad revenue by 2012E, up from 5% in 2007E.

## RISKS

### High sensitivity to macro variables

Ad spend is highly sensitive to macro variables such as interest rates, exchange rates as well as political developments, consumer confidence and other related developments affecting economic growth expectations. We project that GDP growth will average 4-4.5% in the next 10 years in Turkey and ad spend will exhibit a CAGR of 14% between 2007-17E in YTL terms. If the economic growth pattern in Turkey is disrupted, advertising market may be adversely affected, leading to lower margins and earnings for Hurriyet. Hurriyet is now also prone to macro risks in the countries TME operates in including Belarus, Croatia, Hungary, Kazakhstan, Lithuania, Poland, Russia, Slovenia and Ukraine. Any adverse macro development in any of these countries could also lead to lower profitability for TME and thus Hurriyet.

### Potential competition from other publishers or the internet

Hurriyet has been enjoying a leading position in newspaper publishing for long in Turkey. However, the entry of a strong rival to newspaper publishing may lead to lower margins and loss of market share. The sale of key rival Sabah to Calik Holding, if approved, could be a threat in that sense. Furthermore, increasing internet usage poses a medium-term threat to newspaper ad revenue as internet advertising increases. Although Hurriyet has already established a strong foothold in hosting popular classified portals and a news portal, the barriers to entry in internet are very low and competition may toughen up hurting Hurriyet's prospects.

### Newsprint costs

Raw material costs, mainly made up of newsprint costs, amount to roughly 26% of sales. Newsprint is imported and its price moves in cycles as is the case with all commodities. In the absence of new information, we assume a flat price of US\$766/ton throughout our forecast horizon. Any increase beyond our assumptions would lead to a downward revision to forecasts.

### Currency risk

The majority of Hurriyet's revenue is YTL based while it also generates revenue in a number of different currencies in new geographies through TME. Newsprint costs are denominated in US dollars. Due to the complexity of the different operating currencies and the balance sheet exposure to foreign currencies, Hurriyet's earnings visibility is lower now, than before TME acquisition. Furthermore, Hurriyet also has a consolidated net debt of US\$348mn denominated mainly in US dollars. Therefore, a strong US dollar would lead to lower earnings when all other variables remain constant.

### Stake in DMG International

DMG International, which is 41% owned by Hurriyet and 57% by Hurriyet's parent DYH, holds a majority stake in Kanal D Romania. Kanal D Romania is a loss making TV channel and is not likely to break even before 2009. Any new venture that DYH may decide to undertake using DMG International could be a risk for Hurriyet especially if the venture is not in Hurriyet's main line of business.

## VALUATION

**Introducing our consolidated forecasts with TME...** We revisit our valuation for Hurriyet using our consolidated forecasts (including TME) for the first time. Previously we were using Hurriyet (ex-TME) forecasts and treating TME acquisition value neutral. Below are our consolidated cash flow forecasts for Hurriyet that feed into our DCF.

Free Cash Flow										
(US\$mn)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBIT	171	217	255	283	304	330	348	372	396	423
Adjusted taxes	-46	-54	-64	-71	-76	-83	-87	-93	-99	-106
NOPLAT	125	163	191	212	228	248	261	279	297	317
Depr & other non-cash charges	55	54	54	53	55	58	62	67	75	85
Gross Cash Flow	179	217	245	266	283	306	323	346	372	402
Increase in Working Capital	63	28	26	20	19	21	23	24	24	24
Capital Expenditures	65	68	69	75	80	85	91	97	103	111
Other Investments	7	-4	0	0	0	0	0	0	0	0
Gross Investment	134	92	96	95	99	106	113	120	128	135
Other	10	10	10	9	9	9	8	8	9	9
<b>Free Cash Flow</b>	<b>45</b>	<b>126</b>	<b>149</b>	<b>171</b>	<b>184</b>	<b>200</b>	<b>210</b>	<b>226</b>	<b>245</b>	<b>268</b>
<b>Assumptions - US\$ (%)</b>										
Sales growth	30.8	11.2	10.4	8.3	6.6	6.6	6.5	6.7	6.8	7.2
Gross margin	51.7	54.2	55.6	56.4	57.5	58.7	59.5	60.2	60.8	61.4
EBITDA margin	25.1	27.0	27.6	27.7	27.7	28.0	27.8	27.8	27.9	28.1
Operating Margin	18.2	20.8	22.1	22.7	22.9	23.3	23.1	23.1	23.0	23.0
Ch in working capital/sales	6.7	2.7	2.3	1.6	1.4	1.5	1.5	1.5	1.4	1.3
Capex/sales	6.9	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

Source: RJS estimates

Key assumptions												
(US\$mn)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2007-17E CAGR (%)*
Turkish ad market	2,419	3,117	3,535	3,949	4,294	4,623	4,961	5,311	5,679	6,068	6,521	10.4%
Hurriyet cons'd ad revenue	499	675	771	869	961	1,039	1,117	1,203	1,298	1,401	1,517	10.8%
Print ad revenue	473	628	703	780	845	897	951	1,017	1,089	1,167	1,254	9.3%
Online ad revenue	26	48	68	89	116	141	166	186	209	234	263	24.8%
Hurriyet (ex-TME) ad revenue	319	398	443	489	528	556	583	615	651	688	731	8.6%
TME ad revenue	180	278	328	380	433	483	533	588	647	713	787	13.3%
Hurriyet Turkey ad market share (%)	13.2	12.8	12.5	12.4	12.3	12.0	11.8	11.6	11.5	11.3	11.2	
Hurriyet Turkey newspaper ad market share (%)	40.0	39.5	39.0	38.5	38.5	38.0	37.5	37.5	37.3	37.0	36.8	
Hurriyet Turkey online ad market share (%)	12.3	12.2	12.4	13.1	13.9	14.2	14.3	14.3	14.2	14.2	14.2	
Hurriyet Turkey circulation share (%)	11.1	10.9	10.8	10.7	10.6	10.5	10.5	10.5	10.5	10.5	10.5	
Newsprint price (US\$/ton)	766	766	766	766	766	766	766	766	766	766	766	
TME revenue growth (US\$ terms)	30	20	16	15	12	11	11	10	10	10	10	
TME EBITDA margin (%)	22.5	23.5	26.7	28.5	29.1	27.7	29.4	29.3	30.2	30.9	31.6	

\* Denominator in the 10-yr CAGR calculation is adjusted for TME in 2007 which is included in the figures only starting in 2Q07

Source: Company data, RJS estimates

**Raising our DCF based 12-mth target market cap to US\$1,844mn...** Using a terminal growth rate of 2% and a WACC of 10.7%, our DCF yields a 12-mth target market capitalization of US\$1,844mn for Hurriyet. Our previous 12-mth target market capitalization was US\$1,625mn. The key reasons for the increase include the stronger YTL assumptions as well as the explicit introduction of TME into numbers which led to a lower WACC due to the leverage brought on by the external financing for TME acquisition and the debt on TME itself.

WACC Assumptions										
(%)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Risk-free Rate (RFR)	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Equity Risk Premium as a % of RFR	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Cost of Equity	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Debt Risk Premium	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Debt	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Tax Rate	27.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Cost of Debt after Tax	5.5	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Weight - Equity	60.6	71.2	80.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0
Weight - Debt	39.4	28.8	20.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
WACC	9.2	9.8	10.4	10.7	10.7	10.7	10.7	10.7	10.7	10.7

Source: RJS estimates

12-mth Target M. Cap (US\$mn)			
Perpetuity Growth Rate	1.5%	2.0%	2.5%
WACC + 1%	1,481	1,540	1,607
WACC	1,764	<b>1,844</b>	1,935
WACC - 1%	2,120	2,230	2,356

Source: RJS estimates

12-mth target price per share (YTL)			
Perpetuity Growth Rate	1.5%	2.0%	2.5%
WACC + 1%	4.4	4.6	4.8
WACC	5.2	<b>5.5</b>	5.7
WACC - 1%	6.3	6.6	7.0

Source: RJS estimates

**We maintain Buy rating on Hurriyet with a 42% upside** to our new 12-mth target market capitalization of US\$1,844mn. We now establish our 12-mth share price target as YTL5.5/share. The shares lagged the market throughout 2007 with disappointments in the quarterly earnings announcements as Turkish newspaper ad spend growth was not impressive during the election year with a slowdown in advertising from interest-rate sensitive stocks. We also believe that the market needed some time to digest the TME acquisition and the impact on Hurriyet. It has only been two quarters where TME has been consolidated in Hurriyet's financials and there are still some transition issues. But the strong top line performance of TME, ahead of the management's guidance, has been a relief in our view.

**Hurriyet is not particularly cheap vs. peers but expected to grow faster...** In order to put Hurriyet's valuation into perspective, we use consensus estimates on a number of newspaper publishers and compare their multiples to those of Hurriyet.

Multiples - Peer comparison														
Company Name	Country	Currency	Current M. Cap	EBITDA margin (%)			EBITDA 2-yr CAGR (07-09E)	EV/EBITDA			PER			
				07E	08E	09E		07E	08E	09E	07E	08E	09E	
Agora	Poland	US\$	1,047	15.0	15.9	17.3	12.9	13.3	11.5	11.0	29.4	24.4	19.4	
Calgatrone Editore	Italy	EUR	493	15.7	16.6	17.2	6.7	4.3	3.9	3.7	16.2	15.9	15.6	
Dogan Gazetecilik	Turkey	US\$	244	9.1	11.2	13.1	38.8	6.7	4.2	2.9	16.7	11.0	8.6	
Gruppo Editoriale	Italy	EUR	1,110	19.4	19.0	19.4	2.3	6.5	6.3	6.1	13.2	13.1	12.2	
Johnston Press	UK	GBP	664	33.5	33.7	33.6	1.5	6.7	6.3	5.8	6.6	6.3	6.1	
RCS MediaGroup	Italy	EUR	2,002	12.8	13.5	13.9	-15.4	7.9	6.8	6.5	12.4	12.7	11.5	
Sin Chew Media Corp	Malaysia	US\$	248	21.1	22.2	24.3	9.7	8.0	7.2	6.7	10.9	10.4	10.3	
Singapore Press Holdings	Singapore	US\$	4,984	43.6	49.2	48.5	9.3	16.1	12.0	11.3	15.1	13.5	12.2	
Star Publications	Malaysia	US\$	802	30.2	31.7	32.2	20.7	9.9	8.8	8.1	17.0	15.4	14.4	
Telegraaf Holdingstmij	Netherlands	EUR	1,200	11.7	13.5	15.3	6.9	10.9	9.6	7.3	21.9	20.9	17.7	
Min				9.1	11.2	13.1	-15.4	4.3	3.9	2.9	6.6	6.3	6.1	
Max				43.6	49.2	48.5	38.8	16.1	12.0	11.3	29.4	24.4	19.4	
Median				17.6	17.8	18.3	8.1	8.0	7.0	6.6	15.7	13.3	12.2	
Hurriyet	Turkey	US\$	1,300	21.4	25.1	27.0	28.5	12.7	8.1	6.5	15.3	15.7	9.7	
% prem/(disc) to median					21.5	40.7	47.1	252.8	59.1	15.8	-0.9	-2.4	18.1	-20.6

Source: RJS estimates, Bloomberg consensus

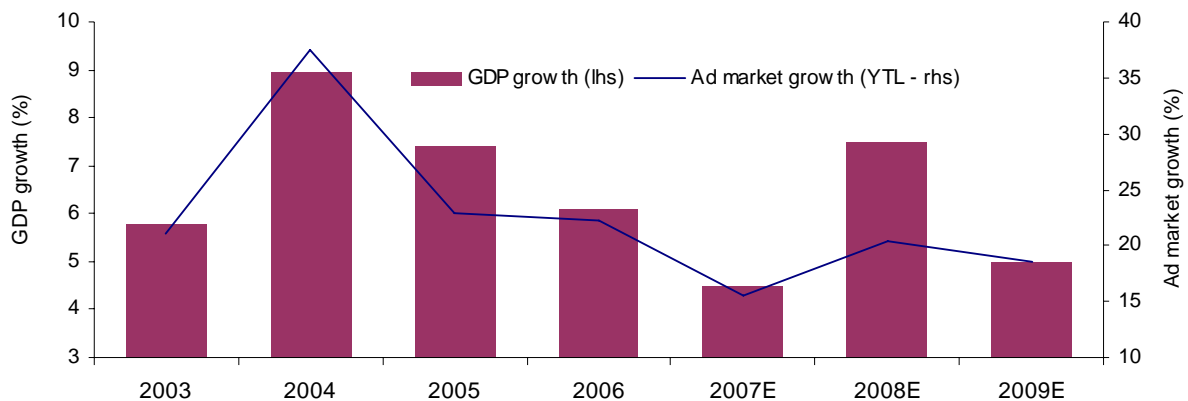
2007 was a transition year, with TME being only partially consolidated into the financials, therefore we focus on 2008 and 2009 multiples. Hurriyet is trading at a minority adjusted 2008E EV/EBITDA of 8.1x which is at a 16% premium to the median of international peers and at an 2009E EV/EBITDA of 6.5x, slightly below par to the median EV/EBITDA of the peers. Hurriyet is also trading at an 18% premium to the median of 2008E PERs of the peers. On the other hand, at 9.7x 2009E earnings, the shares are trading at a 20% discount to the median 09E PER of peers. Hurriyet's expected 2-yr EBITDA CAGR of c29% is impressive in our view as the second fastest growing company among the publishers we use in this comparison and therefore the stock may command a premium. The only company expected to grow faster at the EBITDA level is Dogan Gazetecilik <DGZTE TI> whose growth is from an extremely low base. We should also note that newspaper publishers have been out of favor for a while now as they are rapidly losing market share to the internet especially in developed countries. This is evident in our comparison table too, as most of the lower multiples belong to the companies operating in developed markets with already low ad spend growth rates. We believe that Hurriyet, following the TME acquisition will benefit from the growth in ad spend (print and online) in not only Turkey but Russia, Hungary, Poland, Ukraine, Croatia, etc as well.

## TURKISH ADVERTISING MARKET

### Near-term outlook

As the Turkish economy has exhibited a more stable growth pattern since 2002, advertising market has also shown consistent growth. The strength of local currency prompted advertising tariffs to be denominated in YTL since 2004 and the nominal ad market growth rates have been between 15-25% in the last three years. Although 2007 growth has been plagued by lower ad spend in particular sectors, bringing the overall growth down to 15% on our forecasts, we foresee that a revival in the economy will lead to a 20% ad market growth in 2008E. We expect GDP growth to be 4.5% in 2007E, followed by 7.5% in 2008E.

#### Turkish Ad Market Growth Forecasts



Source: DYH, RJS estimates

### Drivers of growth

**Interest rate sensitive sectors...** Advertising from some of the interest rate sensitive sectors' showed a slowdown since mid-2006 when Turkish Central Bank started tightening. The data for the first nine months of 2007 show that automotive sector's advertising has declined sharply, followed by furniture companies. On the other hand, advertising from some of the other interest-rate sensitive sectors like finance and real estate did not cut pace. We believe that brand advertising, rather than product advertising, particularly for banks, was the reason behind this. For real estate, the need to fund the ongoing construction with pre-sales prompted construction and real estate companies to continue advertising. These examples also show that unlike what we had seen prior to 2002, a higher interest rate

#### Ad spend by sector

(%breakdown)	Ad market (total excl internet)			Newspaper advertising			TV advertising		
	9M06	9M07	% nom. chg	9M06	9M07	% nom. c	9M06	9M07	% nom. chg
Automotive	8	6	-16%	14	11	-20%	5	4	-18%
Finance	9	10	25%	8	9	25%	10	11	24%
Communication	8	11	61%	4	5	47%	9	14	62%
Real Estate	6	6	12%	9	9	3%	4	4	31%
Food	10	9	0%	1	1	-11%	15	14	0%
Furniture	5	4	-8%	4	3	-20%	5	5	-5%
Electronics	5	4	2%	2	2	18%	6	6	2%
Retail	4	4	8%	7	7	15%	2	2	-15%
FMCG	5	5	6%	1	1	-7%	8	8	9%
Beverage	4	4	11%	2	2	0%	5	5	15%
Other	36	37	10%	48	50	14%	31	27	6%
Total growth	100	100	11%	100	100	8%	100	100	11%

Source: DYH

environment did not lead to a halt in advertising but rather a soft-landing. Central Bank's easing cycle that started in September 2007 has already led to a decline in interest rates but we believe that there is more to come in market rates especially in the second half of 2008. That should prompt consumer and housing loan rates to decline further and increase the range of products to be offered to the consumer to stimulate spending. The advertising of such products will be one of the growth drivers in 2008E, in our view.

**Brand investments to continue...** Vodafone, who entered Turkish market after acquiring Telsim in 2005, has led to a jump in the telecommunications sector advertising in 2007 as they mainly invested in building the image of the new Vodafone name. We expect similar newcomers investing in to drive the growth in 2008E, such as advertising from ING Bank which completed the acquisition of Oyak Bank in 2007. The entry of new electronics and furniture companies as well as the opening of new shopping malls should also support growth.

**A closer look at ad spend by medium**

**Internet emerging as a new medium of advertising...**

Internet was the only medium that has increased its share of the advertising pie in the first nine months of 2007 to almost 5% from 2% during the same period in 2006. Although the data for internet advertising may not be reliable, there is a trend towards online advertising to the disadvantage of print media. Classifieds are increasingly moving to online platforms from print medium

Turkey ad spend			
(YTLmn)	9M06	9M07	% ch yoy
TV	964	1,072	11
Newspaper	655	707	8
Magazine	71	81	13
Outdoor	100	117	17
Cinema	20	25	28
Radio	76	82	8
Internet	35	100	186
<b>Total ad spend</b>	<b>1,920</b>	<b>2,183</b>	<b>14</b>
<b>% breakdown</b>			
TV	50.2	49.1	
Newspaper	34.1	32.4	
Magazine	3.7	3.7	
Outdoor	5.2	5.4	
Cinema	1.0	1.1	
Radio	4.0	3.8	
Internet	1.8	4.6	

Source: DYH, RJS estimates

which is one of the reasons behind lower ad spend in newspapers. 21% of the population is actively using the internet in Turkey, according to a sector report cited in the Turkish press earlier this month. With this figure Turkey ranks 61st in the world. We believe that there is significant room for growth in online advertising as internet use increases.

**Drop in the share of newspapers in total ad spend...** Ad spend data for the first nine months of 2007 show that share of newspapers in total ad spend declined alongside a slight drop in the share of TV advertising. The two key reasons for the drop in the share of newspaper advertising are the lower advertising from some of the interest rate sensitive sectors as discussed earlier and the loss of some business, especially on the classifieds, to the internet. We believe that the former is a function of interest rates and the overall macro environment in Turkey, thus will recover nicely in 2008. On the other hand, the shift to internet is here to stay and will continue to put pressure on newspaper advertising in the years to come in our view.

### Ad market assumptions summary

In light of the observations from 2007, the trends in the sector and our macro expectations, we make the following assumptions in setting our ad spend forecasts:

- **14% CAGR in ad spend between 2007E-17E:** We believe that the Turkish economy will continue to grow in the range of 3-5% between 2010E-2017E which should enable a nominal 14% CAGR in ad spend over the next 10 years in YTL terms. Accordingly, we project that Turkish ad spend will reach 0.81% of GDP by 2017E, from 0.49% in 2007E.
- **Televisions to continue to dominate advertising:** We believe that TVs will continue to get lion share of ad spend in Turkey. We believe that the restrictions to be imposed by the broadcasting regulator RTUK may lead to a slight drop in televisions share in advertising in 2008E but that should eventually lead to higher prices and the share of TVs in the total ad pie will remain at 49%.
- **Share of newspaper advertising to drop gradually:** As an extension of the global trend where advertisers in print media move increasingly to the internet, we believe that the share of newspaper advertising will drop from 33% in 2006 to 26% by 2017E. Although there is a case for the existence of newspapers as the examples in developed countries like the UK and the USA show, the ads will be split between the print medium and internet in our view.
- **Share of internet to pick up, together with outdoor and cinema:** We believe that the share of internet advertising will grow from almost nil in 2005 to 12% by 2017E. Other media like outdoor and cinema are also expected to grow faster due to the low base and the potential created with the entry of new players. ZenithOptimedia predicts that internet's share in global ad spend will rise from 6% in 2006 to 11.5% in 2010E.

Turkey ad spend													
(YTLmn)	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
TV	1,130	1,413	1,600	1,888	2,221	2,578	2,940	3,324	3,729	4,184	4,695	5,277	5,932
Newspaper	820	902	999	1,154	1,337	1,528	1,700	1,873	2,064	2,274	2,530	2,814	3,131
Magazine	87	105	121	142	160	191	221	254	291	326	365	418	479
Outdoor	97	137	154	189	220	253	286	320	359	409	467	523	586
Cinema	21	29	38	61	71	74	87	99	112	136	153	171	192
Radio	78	97	106	128	143	150	161	173	213	250	280	304	330
Internet	0	43	130	230	340	450	570	700	830	960	1,100	1,250	1,430
<b>Total ad spend</b>	<b>2,233</b>	<b>2,726</b>	<b>3,148</b>	<b>3,792</b>	<b>4,492</b>	<b>5,225</b>	<b>5,965</b>	<b>6,743</b>	<b>7,598</b>	<b>8,540</b>	<b>9,590</b>	<b>10,758</b>	<b>12,079</b>
% growth yoy		22	15	20	18	16	14	13	13	12	12	12	12
Ad spend/GDP (%)	0.46	0.47	0.49	0.53	0.57	0.62	0.64	0.67	0.69	0.72	0.75	0.78	0.81
<b>% breakdown</b>													
TV	50.6	51.8	50.8	49.8	49.5	49.3	49.3	49.3	49.1	49.0	49.0	49.1	49.1
Newspaper	36.7	33.1	31.7	30.4	29.8	29.2	28.5	27.8	27.2	26.6	26.4	26.2	25.9
Magazine	3.9	3.9	3.9	3.8	3.6	3.7	3.7	3.8	3.8	3.8	3.8	3.9	4.0
Outdoor	4.3	5.0	4.9	5.0	4.9	4.8	4.8	4.7	4.7	4.8	4.9	4.9	4.8
Cinema	0.9	1.1	1.2	1.6	1.6	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Radio	3.5	3.6	3.4	3.4	3.2	2.9	2.7	2.6	2.8	2.9	2.9	2.8	2.7
Internet	0.0	1.6	4.1	6.1	7.6	8.6	9.6	10.4	10.9	11.2	11.5	11.6	11.8

Source: DYH, RJS estimates

**What has changed?** Our total ad market growth assumptions are maintained at 20% for 2008E and 18% for 2009E, as published in our 'Equity Strategy 2008' report dated January 3, 2008. However, following our talks with the companies since then, we have fine-tuned the breakdown of ad spend allowing for higher growth in online advertising and slower growth in newspapers. More specifically, we have reduced the share of newspaper advertising from 31.4% to 30.4% in 2008E and from 30.5% to 29.8% in 2009E. We also expect that the share of online advertising will increase from 5.6% to 6.1% in 2008E and from 6.7% to 7.6% in 2009E.

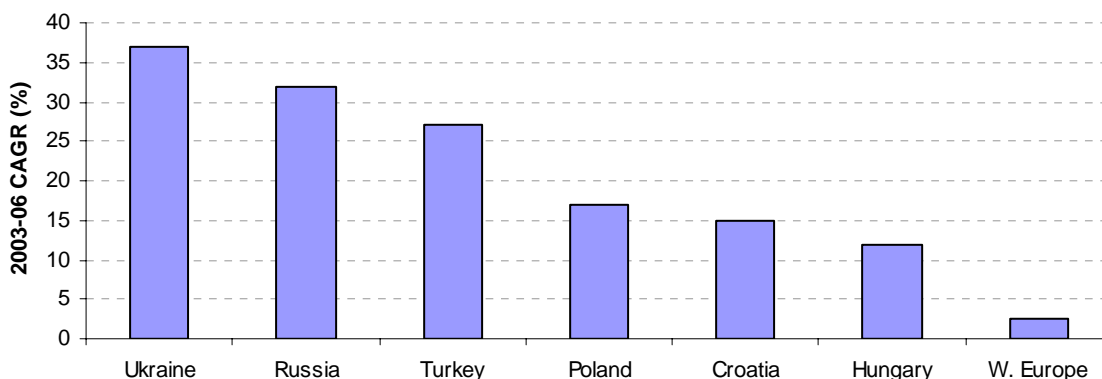
## HURRIYET OVERVIEW

### TME acquisition

**TME in brief...** A major milestone in Hurriyet's history was the acquisition of Trader Media East (TME). Hurriyet acquired 67.3% of TME for US\$336.5mn on March 29, 2007. The remaining 32.7% of TME's shares are listed on the London Stock Exchange (Reuters: TMEq.L, Bloomberg: TME LI). TME is a leading provider of print and online classified advertising in Russia, CIS and Eastern Europe. TME's business activities include advertisements from private and business sellers and distribution of ads physically or via the internet platform to reach potential buyers. TME has strong brands with c193 print titles reaching c5 million readers per week and 15 websites with 6.6mn unique monthly visitors. The branded classified advertising websites and publications and related specialized services have leading positions in specific markets in Belarus, Croatia, Hungary, Kazakhstan, Lithuania, Poland, Russia, Slovenia and Ukraine.

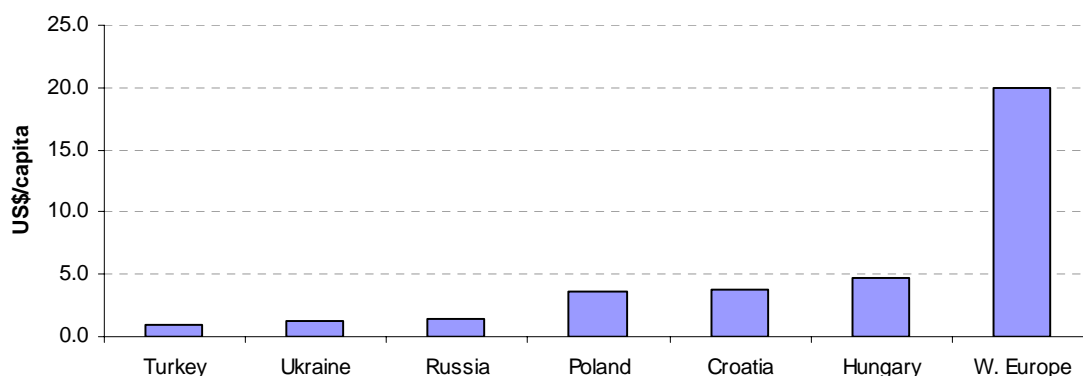
**Rationale behind the acquisition...** Hurriyet's motive in acquiring TME was to extend its foothold to other countries in the region which exhibit high ad market growth with a low classified ad spend/capita. The acquisition of TME has made Hurriyet a regional player, helping diversify its revenue base to include other growth markets.

#### 2003 - 2006 CAGR advertising spend



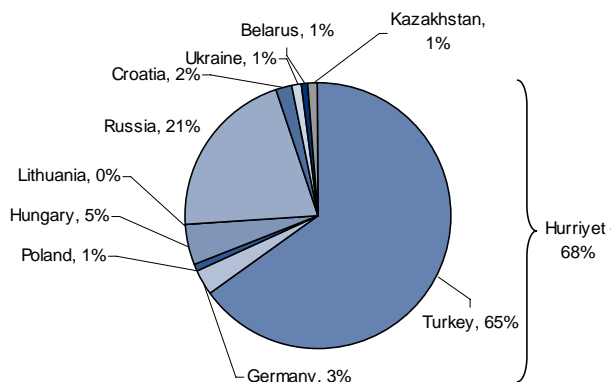
Source: Company data

#### Classified ad spend per capita - 2006



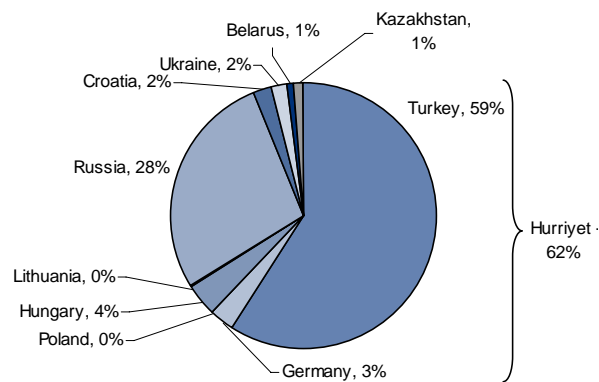
Source: Company data

2006 Revenue Breakdown with TME - proforma



Source: Company data

2006 Operational EBITDA Breakdown with TME - proforma



Source: Company data

If Hurriyet had acquired TME in 2006, TME would have made up of 32% and 38% of Hurriyet's consolidated revenue and EBITDA respectively. Hurriyet started consolidating TME as of 2Q07, following the completion of the acquisition.

**Financing...** Hurriyet obtained a five-year US\$241mn loan with a two-year grace period at the time of the acquisition, in addition to a two-year US\$55mn loan. The remaining US\$40mn was financed with Hurriyet's cash resources.

Highlights from 2007

Hurriyet - Quarterly Results

(YTLmn)	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Revenue	142	182	151	158	141	265	254
Hurriyet	142	182	151	158	141	171	160
TME						94	93
EBITDA	31	50	37	30	17	63	58
EBITDA margin (%)	21.7	27.5	24.2	18.6	12.2	23.6	22.7
Hurriyet (ex-TME) EBITDA	31	50	37	30	17	41	33
Hurriyet EBITDA margin (%)	21.7	27.5	24.2	18.6	12.2	23.8	20.7
TME EBITDA						22	25
TME EBITDA margin (%)						23.3	26.3
Net profit	17	48	25	14	6	34	44
Net margin (%)	12.1	26.6	16.4	8.8	4.4	13.0	17.5
Net debt/(cash)	-109	-76	-92	-106	411	486	419

Source: Company data, RJS

Ad revenue - Quarterly

(YTLmn)	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Print ad revenue	76	111	86	102	78	183	164
Hurriyet	76	111	86	102	78	109	94
TME	0	0	0	0	0	74	70
Online ad revenue	1	2	2	1	4	9	10
Hurriyet	1	2	2	1	4	4	4
TME	0	0	0	0	0	5	6
<b>Total ad revenue</b>	<b>77</b>	<b>113</b>	<b>88</b>	<b>102</b>	<b>82</b>	<b>192</b>	<b>174</b>
<b>%ad revenue attributable to TME</b>						<b>41</b>	<b>44</b>
Ad revenue (% of consolidated revenue)	54.3	62.1	58.4	64.5	58.3	72.4	68.5
<b>Ad market share - Turkey (%)*</b>							
Newspaper ad market share	42.4	42.0	40.4	41.1	39.9	40.5	38.8
Online ad market share	N/A	9.6	17.5	7.5	12.5	9.1	14.0
<b>Hurriyet market share - Turkey</b>	<b>14.5</b>	<b>13.9</b>	<b>15.2</b>	<b>12.7</b>	<b>12.8</b>	<b>12.8</b>	<b>14.8</b>

\* based on IFRS figures, thus may differ from management data

Source: Company data, RJS estimates

Before we go onto discussing our forecasts, we take a brief look at the key issues that affected Hurriyet's financials in 2007.

**TME impact on operations and balance sheet...** TME was consolidated into Hurriyet starting in 2Q07. Accordingly, TME comprised 36% and 37% of Hurriyet's consolidated revenue in 2Q07 and 3Q07 respectively. The impact on ad revenue was more pronounced as TME comprised 41% and 44% of Hurriyet's consolidated ad revenue in 2Q07 and 3Q07 respectively. TME's organic revenue growth was 19% yoy in 2Q07 and 18% yoy in 3Q07 which were pleasantly ahead of the management's original guidance of 12-14% growth. EBITDA attributable to TME was 35% of consolidated EBITDA in 2Q07 and 43% in 3Q07. Because the majority of the TME acquisition is financed with long-term debt and TME also had debt on its balance sheet, Hurriyet's capital structure had changed drastically since the acquisition. Hurriyet had net cash at the end of 2006 but had some US\$483mn in total debt and US\$343mn net debt at the end of 3Q07. Accordingly Net Debt/Equity was 0.58x at the end of 3Q07.

**Hurriyet lost ad market share in Turkey in 9M07**, during a period where newspaper advertising had suffered as discussed on pp.7. The loss of market share was due to

Hurriyet increasing its tariffs on the main newspaper, according to the management. Rivals opted for lowering ad tariffs in order not to lose business altogether but Hurriyet, in light of previous experience, remained firm on the pricing front in order

<b>Ad revenue Turkey - 9M07</b>			
<b>(YTLmn)</b>	<b>9M06</b>	<b>9M07</b>	<b>%ch yoy</b>
Turkish ad spend	1,920	2,183	14
Newspaper ad spend	655	707	8
Online ad spend	35	100	186
Hurriyet cons'd ad revenue	278	448	61
Hurriyet ex-TME ad revenue	278	293	5
Print	272	281	3
Online	5	11	111
Hurriyet ex-TME market share (%)*	14.5	13.4	
Newspaper market share (%)	41.6	39.8	
Online market share (%)	15.4	11.4	

\* based on IFRS figures, thus may differ from management data  
 Source: Company data, RJS estimates

to benefit when the market started to recover and sacrificed some 2% of ad market share in newspaper advertising. Another important development in 2007 was the removal of the classifieds section from the main paper and offering it as a supplement. The aim was to offer classified advertising services in a more diverse set of subjects. On the other hand, the prices in the classified section were cut by around 20% to attract more individual and professional advertisers. The unchanged portion of ad revenue generated from classifieds at 16% in both 9M06 and 9M07 shows that the volume growth has compensated for the price cuts in classified advertising.

**Turkish online advertising revenue more than doubled...** Hurriyet's online advertising revenue more than doubled to YTL11mn in 9M07, comprising 3.9% of the advertising revenue generated by Hurriyet (excluding TME). Hurriyet's online platforms also appear to have lost market share in the first nine months of the year. However, we believe that there may be glitches in the market data for internet revenue and view the 10%+ market share as success. Together with TME, online advertising revenue comprised 4.8% and 5.6% of Hurriyet's consolidated ad revenue in 2Q07 and 3Q07 respectively. Hurriyet operates the following websites in Turkey in addition to community websites like www.aneyiz.biz:

- [www.hurriyet.com.tr](http://www.hurriyet.com.tr) : Hurriyet news portal

- [www.hurriyetoto.com](http://www.hurriyetoto.com): Classified auto website
- [www.hurriyetemlak.com](http://www.hurriyetemlak.com): Classified real estate website
- [www.yenibiris.com](http://www.yenibiris.com): Job search website

As these sites become more popular with the growing use of the internet, Hurriyet will be able to recover some of the business lost on the print side from its online portals in our view.

**Growing circulation yet lower circulation revenue...** Hurriyet's average daily circulation grew by 8% yoy to 591k copies as of the end of the first nine months of 2007, increasing its circulation market share to 11.4% from 10.7% in 9M06. However, increasing circulation led only to a 1% yoy growth in circulation revenue. Distribution of free promotional materials, in response to rival Sabah's similar campaigns, drove circulation up. However, there were paid promotional materials that accompanied the newspaper sales in 2006, therefore the average price was lower in 2007 with the promotional giveaways such as books, magazines compared to 2006.

<b>Hurriyet Circulation Data</b>							
('000 copies/day)	1Q06	1H06	9M06	2006	1Q07	1H07	9M07
Avg daily circulation in Turkey	5,072	5,131	5,153	5,145	5,235	5,200	5,201
% ch yoy					3%	1%	1%
Hurriyet avg daily circulation	540	540	549	545	618	593	591
% ch yoy					14%	10%	8%
Hurriyet circulation share (%)	10.6	10.5	10.7	10.6	11.8	11.4	11.4
Hurriyet circulation revenue (YTLmn)	22.3	43.3	62.1	81.0	23.0	42.7	63.0
% ch yoy					3%	-1%	1%

Source: Company data, RJS estimates

**Promotion impact on margins...** Without accompanying revenue (circulation or ad), promotions appear to have merely increased costs in 2007. The printing costs plus operating expenses weighed on the margins. Hurriyet insists that the promotions were not desirable but were a direct result of the competition from rival Sabah. Sabah has not cut promotions despite the fact that there was no real benefit to them either. Therefore, we have a difficulty grasping the rationale behind these promotions but it appears that Hurriyet will not be able to abandon them before rival Sabah does to make sure that it does not fall behind in circulation share.

**Elections and advertising costs...** Parliamentary elections held in July 22, 2007 led to a somewhat higher advertising in print media at the beginning of 3Q07 which was reflected onto Hurriyet's ad revenue growth figures at home. 3Q07 advertising revenue grew by 10% yoy on the print side for Hurriyet-Turkey, the highest growth achieved in the first three quarters, although the newspaper ad spend grew by 14% yoy in 3Q07, indicating a market share loss for Hurriyet. It should also be noted that 3Q06 may have presented a low base as well since that was the first quarter after Turkish Central Bank started its tightening cycle in June 2006. Around and after elections Hurriyet spent an unusually high budget on advertising to revitalize its image, putting pressure on the margins in 3Q07 which we do not expect to repeat. On the other hand, the company had initiated some cost-cutting programs as part of parent DYH's strategy to curb costs, with some downsizing, the full impact of which is to be seen in the financials in 2008E.

**TME cost side...** TME incurred several one-off expenses relating to the acquisition of Hurriyet such as stock based compensation expenses and some corporate costs. One of

the key reorganization projects, moving TME's headquarters from Paris to Istanbul, was to be completed in 4Q07 to the most part, therefore we believe that the margins at TME may be hit with the relocation cost estimated at US\$4.5mn in 4Q07, which we estimate to be c6% of 4Q07 revenue.

***Impact of subsidiary DMG International...*** Hurriyet holds a 41.3% stake in DMG International, the majority of which is owned by parent Dogan Yayin Holding (DYH). DMG International is the owner of Kanal D Romania, DYH's first broadcasting venture outside Turkey which started operations in 2007. The entity made a loss as of 9M07 and is not expected to break even before 2009 according to our understanding. The attributable loss that appeared in Hurriyet's financials was YTL10.8mn (US\$8mn) as of 9M07.

## FORECASTS

Turkey ad spend							
(YTLmn)	2006	2007E	2008E	2009E	% ch yoy		
					07E/06	08E/07E	09E/08E
TV	1,413	1,600	1,888	2,221	13	18	18
Newspaper	902	999	1,154	1,337	11	16	16
Magazine	105	121	142	160	16	17	12
Outdoor	137	154	189	220	13	22	17
Cinema	29	38	61	71	30	60	17
Radio	97	106	128	143	9	21	12
Internet	43	130	230	340	202	77	48
<b>Total ad spend</b>	<b>2,726</b>	<b>3,148</b>	<b>3,792</b>	<b>4,492</b>	<b>15</b>	<b>20</b>	<b>18</b>
% growth yoy	22	15	20	18			
Ad spend/GDP (%)	0.47	0.49	0.53	0.57			
<b>% breakdown</b>							
TV	51.8	50.8	49.8	49.5			
Newspaper	33.1	31.7	30.4	29.8			
Magazine	3.9	3.9	3.8	3.6			
Outdoor	5.0	4.9	5.0	4.9			
Cinema	1.1	1.2	1.6	1.6			
Radio	3.6	3.4	3.4	3.2			
Internet	1.6	4.1	6.1	7.6			

Source: DYH, RJS estimates

**Hurriyet's ad revenue growth in Turkey to be 16% in both 2008E and 2009E....** We expect newspaper ad spend to grow by 16% in both 2008 and 2009 while we expect internet advertising to grow at substantially higher rates at 77% in 2008E and 48% in 2009E, reflecting the low base effect. Accordingly we expect newspaper ad spend to continue to lose some market share particularly to the internet. Hurriyet should benefit from the growth on both fronts in 2008E and 2009E. We expect 4Q07 to be a relatively strong quarter too and Hurriyet will end 2007 with an ad revenue growth of 9% according to our estimates. The management has not yet provided official guidance for 2008 ad revenue but we believe that we may be slightly more optimistic in terms of ad revenue growth for Hurriyet. However, we foresee declining market shares going forward with only some of the market share lost in newspaper advertising to be gained on the online front. We expect that Hurriyet's overall market share will decline to 11.2% by 2017E with stronger competition from sister company Dogan Gazetecilik's titles as well as a more aggressive Sabah, the key rival, under new owner Calik Group, following regulatory approvals.

Hurriyet-only ad revenue							
(YTLmn)	2006	2007E	2008E	2009E	% ch		
					07E/06	08E/07E	09E/08E
Print ad revenue	374	400	456	521	7	14	14
Online ad revenue	6	16	28	42	167	75	50
<b>Hurriyet-only ad revenue</b>	<b>380</b>	<b>416</b>	<b>484</b>	<b>563</b>	<b>9</b>	<b>16</b>	<b>16</b>
% growth		9.4	16.4	16.4			
<b>Ad market share (%)</b>							
Newspaper ad market share	41.5	40.0	39.5	39.0			
Internet ad market share	14.0	12.3	12.2	12.4			
<b>Hurriyet total ad market share</b>	<b>13.9</b>	<b>13.2</b>	<b>12.8</b>	<b>12.5</b>			

Source: Company data, RJS estimates

**Circulation share to drop slightly...** We believe that the increase in circulation share that came in 2007 with the free promotional items temporarily increased the circulation figures for Hurriyet. We do not expect the promotions to continue at the same pace and therefore foresee a slight drop in circulation share from an estimated 11.1% in 2007E to 10.9% in 2008E. We expect that Hurriyet's circulation share will go down to 10.5% by 2017E.

#### Hurriyet circulation data

(copies/day)	2006	2007E	2008E	2009E	% ch		
					07E/06	08E/07E	09E/08E
Avg daily circulation in Turkey	5,145,000	5,200,000	5,252,000	5,304,520	1.1	1.0	1.0
Hurriyet avg daily circulation	545,000	577,000	572,468	572,888	5.9	-0.8	0.1
Hurriyet circulation share (%)	10.6	11.1	10.9	10.8			

Source: Company data, RJS estimates

#### Newsprint cost assumptions

	2006	2007E	2008E	2009E	% ch		
					07E/06	08E/07E	09E/08E
Newsprint price (US\$/ton)	747	766	766	766	2.5	0.0	0.0
Avg number of pages - Hurriyet Turkey	84	86	88	90	2.4	2.3	2.3

Source: Company data, RJS estimates

**Newsprint prices to remain stable throughout our forecast horizon...** We expect a flat US\$766/ton newsprint price from 2007E to 2017E in the absence of any new information from the company. We expect a 2% increase in the number of pages in each of 2007E, 2008E and 2009E. Raw material costs, mainly comprised of newsprint costs, are at c30% of Hurriyet's revenue and c22% of TME's revenue, according to Hurriyet. Therefore, this is a major cost item, denominated in US dollars, presenting a currency mismatch risk for both the local operations and TME's operations in Russia, Hungary, etc. A depreciating US dollar against almost all the currencies in Hurriyet's greater operating territories more than compensated for the estimated 3% increase in the newsprint prices in 2007E. Although we expect YTL to remain overvalued in the next two years, we do expect some correction in 2008 where we foresee the YTL/US\$ exchange rate to hit 1.25 at the end of the year. However, we foresee a lower average exchange rate in 2008E vs. 2007, helping the margins in Turkey.

#### Exchange Rate Assumptions

	2006	2007E	2008E	2009E	% ch		
					07E/06	08E/07E	09E/08E
YTL/US\$ (year-end)	1.4056	1.1593	1.2507	1.2907	-17.5	7.9	3.2
YTL/US\$ (year-avg)	1.4318	1.3017	1.2166	1.2707	-9.1	-6.5	4.4

Source: Company data, RJS estimates

**TME revenue to grow by 20% in 2008E...** Due to our limited knowledge on the operating and competitive environment in TME's markets, as well as our limited insight into the operating currencies in these markets, we make conservative assumptions on TME. Our 2008E revenue growth estimate for TME is 20% in US dollar terms although our understanding is that the management expects stronger growth, particularly with acquisitions, and also the continuation of strong local currencies against the US dollar. If we are wrong, there is room for upside in our numbers as to the contribution of TME.

TME Assumptions							
(*)						% ch	
(US\$mn)	2006	2007E	2008E	2009E	07E/06	08E/07E	09E/08E
Russia	158	215	263	310	36.5	22.0	18.0
Hungary	35	35	36	37	2.5	1.8	2.8
Poland	7	7	8	9	2.9	17.1	15.0
Croatia	12	15	18	20	21.0	20.0	13.0
Slovenia	0	1	3	3	N/A	114.3	15.0
<b>TME Consolidated Revenue</b>	<b>211</b>	<b>274</b>	<b>328</b>	<b>380</b>	<b>29.6</b>	<b>19.6</b>	<b>16.0</b>
<b>Revenue Breakdown</b>							
Print revenues							
Display	94	124	149	172	32.4	20.0	15.0
Classified	70	85	104	121	21.6	22.0	17.0
Circulation	27	28	29	30	5.3	3.6	3.4
Services and other	12	20	21	22	68.9	4.8	6.5
Total Print Revenues	202	258	303	345	27.2	17.7	14.0
Online Revenues	9	17	25	35	83.3	50.0	40.0
TME Revenue	211	274	328	380	29.6	19.6	16.0
Online as % of total revenue	4.3	6.0	7.5	9.1			
(*) TME is consolidated into Hurriyet only starting in 2Q07							
Source: Company data, RJS estimates							

**We expect Hurriyet's consolidated revenue to grow by 22% in 2008E and 18% in 2009E...** A summary of our consolidated revenue assumptions for Hurriyet is tabulated below.

Revenue Breakdown							
(YTLmn)	2006	2007E*	2008E	2009E	07E/06*	08E/07E	09E/08E
					% ch yoy		
Print ad revenue	374	616	764	894	65	24	17
Hurriyet	374	400	456	521	7	14	14
TME	0	216	308	372		42	21
Online ad revenue	6	34	58	86	460	73	48
Hurriyet	6	16	28	42	167	75	50
TME	0	18	30	44		71	46
Circulation revenue	81	111	120	128	37	9	6
Hurriyet	81	83	85	89	2	3	5
TME	0	28	35	38		26	8
Printing revenue	118	126	146	161	7	16	10
Hurriyet	118	126	146	161	7	16	10
TME**	0	0	0	0			
Other revenue	53	48	54	59	-10	13	8
Hurriyet	53	27	29	30	-49	5	5
TME	0	21	26	28		24	11
<b>Hurriyet cons'd revenue</b>	<b>632</b>	<b>935</b>	<b>1,143</b>	<b>1,327</b>	<b>48</b>	<b>22</b>	<b>16</b>
<b>Breakdown by company (%)</b>							
Hurriyet	100	70	65	64			
TME	0	30	35	36			
<b>Breakdown by activity (%)</b>							
Print ad revenue	59	66	67	67			
Online ad revenue	1	4	5	6			
Circulation revenue	13	12	11	10			
Printing revenue	19	14	13	12			
Other revenue	8	5	5	4			

\* TME is included starting in 2Q07, therefore 07E/06 comparison is not accurate

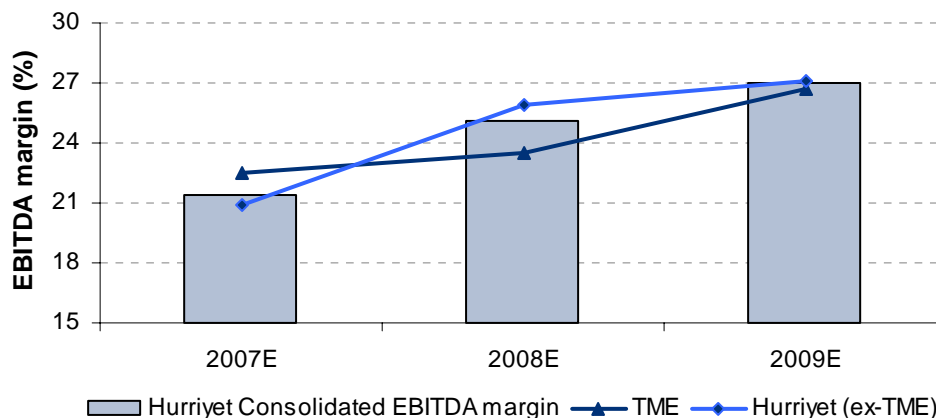
\*\* TME has positive but negligible printing revenue which we include under 'Other revenue'

Source: Company data, RJS estimates

**We expect EBITDA margin to expand to 25.1% in 2008E...** We expect TME's margins to remain relatively flat in 2008E compared to 2007 as the company is likely to continue with advertising and revenue incentives particularly in Russia to ensure revenue growth. Hurriyet's local operations will see a major recovery in the EBITDA

margin, on the other hand, due to the continued currency strength, better advertising market and lower cost pressures in our view. We believe that the full impact of the cost cutting measures which were kicked off in 2007 will be seen in 2008E. We expect the consolidated EBITDA margin to rise further to 27% in 2009E, with increasing ad revenues creating an operating leverage.

**EBITDA margin (%)**



Source: RJS estimates

**Earnings quality to rise but the absolute earnings to drop in 2008E...** We expect 2008E net profit to go down by 9% yoy to YTL101mn from YTL 111mn in 2007E. Despite all the positive developments that we expect above the operating profit line, the short foreign currency position on the balance sheet will give rise to mainly non-cash currency losses which will hurt the bottom line in 2008E in our view. That does not hurt the earnings quality, because 2007 earnings are artificially swollen due to net financial income, rather than a financial expense. In other words, the company recorded currency gains which more than offset the associated interest costs in 2007, during a period where YTL gained 21% against the US dollar. Hurriyet had a total debt of US\$483mn as of 3Q07 almost all of which is denominated in US dollars and the majority of which is long-term. The footnotes to the financial statements show that the short fx position on the balance sheet was YTL631mn (US\$524mn) at the end of 3Q07. There is no significant debt repayment in 2008E, which suggests that the foreign currency exposure through debt is not likely to change. As we expect YTL to lose 7% against the US\$ to reach 1.25 at the end of 2008, we forecast a net financial expense in 2008E lowering the bottom line. A simple sensitivity

**Bottom line sensitivity to YTL/US\$**

	2008-end YTL/US\$		
	1.20	1.25	1.30
Net profit 2008E (YTLmn)	115	101	89
Diff. to base case (%)	14	0	-12
Net profit 2008E (US\$m)	96	83	72
Diff. to base case (%)	17	0	-13

Source: RJS estimates

analysis, assuming a year-end YTL/US\$ of 1.20 and 1.30 is presented in the table above. Our earnings estimate would be 14% higher in YTL terms, than what we foresee in our base case scenario, if the year-end exchange rate is 1.20, instead of 1.25. Conversely, if the YTL/US\$ is 1.30 at the end of 2008, our net profit estimate would be 12% lower compared to what it is at the moment. This analysis does not

take into account what would happen with currency fluctuations in any of the countries TME operates in, ie, assumes that the operating currencies in TME territories remain constant against the US dollar.

**We expect a significant jump in earnings in 2009E...** The continued improvement in the EBITDA margin, coupled with a lower debt position as the repayments start in 2009E drive our 72% earnings growth expectation in 2009E to YTL170mn.

**No dividends in 2008E...** We do not expect Hurriyet to pay out dividends in 2008 as the company will not have started debt repayments by 2009. This will be the second year in a row where Hurriyet will not have distributed any dividends.

**What has changed?** We are publishing forecasts for Hurriyet's consolidated financials for the first time with this note. Previously, we had published pro-forma numbers based on consensus estimates for TME. However, we present here a summary table for Hurriyet (ex-TME) figures to show the changes that our forecasts have gone through. Strong YTL is the reason for the higher US\$-based revenue while we have lowered the EBITDA margins to reflect the cost pressures observed in 2007.

<b>Hurriyet (ex-TME) forecast revisions</b>		
<b>(US\$mn)</b>	<b>2007E</b>	<b>2008E</b>
Revenue - old	486	533
Revenue - new	501	611
<i>% ch new vs. old</i>	3.1	14.7
EBITDA - old	133	154
EBITDA - new	104	158
<i>% ch new vs. old</i>	-21.4	2.9

*Source: RJS estimates*

## FINANCIAL STATEMENTS

<b>Hurriyet Consolidated Income Statement (YTL)</b>					
<b>(YTLmn)</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>9M07</b>
Net sales	632	935	1,143	1,327	659
Cost of sales	-423	-503	-552	-608	-373
Gross Profit	209	432	590	719	287
<i>Gross Margin (%)</i>	33.1	46.2	51.7	54.2	43.5
Operating expenses	-122	-303	-382	-443	-202
Amortisation charge for goodwill	0	0	0	0	0
Other income - net	0	0	0	0	0
<b>Profit from operations</b>	<b>87</b>	<b>129</b>	<b>208</b>	<b>276</b>	<b>85</b>
<i>Operating margin (%)</i>	13.8	13.8	18.2	20.8	12.9
Other income	78	37	46	44	47
Other expense	-39	-35	-29	-27	-41
Financial income/ (expense) - net	-13	38	-79	-52	34
<b>Income/(Loss) before taxes and minority ii</b>	<b>113</b>	<b>168</b>	<b>146</b>	<b>241</b>	<b>125</b>
Minority interest	1	-7	-9	-14	-5
<b>Profit before tax</b>	<b>114</b>	<b>161</b>	<b>138</b>	<b>227</b>	<b>120</b>
Taxes	-10	-50	-37	-57	-34
Income from continuing operations	104	112	101	171	86
Income/(loss) from discontinued ops	0	-1	0	0	-1
<b>Net income/(loss)</b>	<b>104</b>	<b>111</b>	<b>101</b>	<b>171</b>	<b>85</b>
<i>Net margin (%)</i>	16.5	11.8	8.8	12.9	12.9
<b>EBITDA</b>	<b>147</b>	<b>200</b>	<b>286</b>	<b>358</b>	<b>137</b>
<i>EBITDA Margin (%)</i>	23.2	21.4	25.1	27.0	20.8

Source: Company data, RJS estimates

<b>Hurriyet Consolidated Income Statement (US\$)</b>					
<b>(US\$m)</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>9M07</b>
Net sales	442	718	939	1,044	493
Cost of sales	-296	-386	-454	-478	-278
Gross Profit	146	332	485	566	214
<i>Gross Margin (%)</i>	33.1	46.2	51.7	54.2	43.5
Operating expenses	-85	-232	-314	-348	-151
<b>Profit from operations</b>	<b>61</b>	<b>99</b>	<b>171</b>	<b>217</b>	<b>63</b>
<i>Operating margin (%)</i>	13.8	13.8	18.2	20.8	12.9
Other income	54	28	38	35	35
Other expense	-27	-27	-23	-21	-31
Financial income/ (expense) - net	-9	29	-65	-41	26
<b>Income/(Loss) before taxes and minority interest</b>	<b>79</b>	<b>129</b>	<b>120</b>	<b>190</b>	<b>93</b>
Net monetary gain/(loss)	0	0	0	0	0
Minority interest	1	-5	-7	-11	-3
<b>Profit before tax</b>	<b>80</b>	<b>124</b>	<b>113</b>	<b>179</b>	<b>90</b>
Taxes	-7	-38	-31	-45	-26
<b>Income from continuing operations</b>	<b>73</b>	<b>86</b>	<b>83</b>	<b>134</b>	<b>64</b>
Income/(loss) from discontinued operations	0	-1	0	0	-1
<b>Net income/(loss)</b>	<b>73</b>	<b>85</b>	<b>83</b>	<b>134</b>	<b>64</b>
<i>Net margin (%)</i>	16.5	11.8	8.8	12.9	12.9
<b>EBITDA</b>	<b>103</b>	<b>153</b>	<b>235</b>	<b>282</b>	<b>103</b>
<i>EBITDA Margin (%)</i>	23.2	21.4	25.1	27.0	20.8

Source: Company data, RJS estimates

<b>Hurriyet Consolidated Balance Sheet (YTL)</b>					
<b>(YTLmn)</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>9M07</b>
<b>Current assets</b>					
Cash and due from banks	142	154	143	69	155
Investment securities	23	7	8	8	7
Trade receivables	156	206	251	292	187
Due from related parties	39	56	69	80	32
Inventories	18	26	32	37	24
Other current assets	30	37	46	53	39
<b>Total current assets</b>	<b>407</b>	<b>486</b>	<b>548</b>	<b>538</b>	<b>444</b>
<b>Non-current assets</b>					
Goodwill	11	474	474	474	474
Financial assets	11	6	10	15	7
PPE - net	518	523	542	569	548
Intangible assets - net	1	140	154	154	134
Other non-current assets	21	23	24	25	24
<b>Total non-current assets</b>	<b>562</b>	<b>1,166</b>	<b>1,204</b>	<b>1,237</b>	<b>1,187</b>
<b>Total assets</b>	<b>969</b>	<b>1,653</b>	<b>1,753</b>	<b>1,775</b>	<b>1,631</b>
<b>Current liabilities</b>					
Bank borrowings	7	63	177	165	27
Financial leasing	5	3	4	5	3
Trade payables	49	55	58	62	61
Due to related parties	3	5	6	6	9
Taxes on income	27	50	37	57	26
Other current liabilities	15	22	27	32	39
<b>Total current liabilities</b>	<b>106</b>	<b>199</b>	<b>310</b>	<b>327</b>	<b>165</b>
<b>Non-current liabilities</b>					
Bank borrowings	39	501	368	219	545
Financial leasing	8	6	7	8	6
Trade payables	78	90	100	110	87
Other non-current liabilities	36	98	100	101	96
<b>Total non-current liabilities</b>	<b>161</b>	<b>695</b>	<b>575</b>	<b>438</b>	<b>734</b>
<b>Total liabilities</b>	<b>267</b>	<b>894</b>	<b>885</b>	<b>765</b>	<b>899</b>
Minority interest	0	5	14	28	5
<b>Shareholders' equity</b>					
Paid-in-capital	417	421	421	421	417
Capital reserves	81	77	188	246	81
Income reserves	72	93	93	93	93
Net profit	104	111	101	171	85
Accumulated losses	29	52	52	52	52
Total shareholders' equity	703	754	854	982	728
<b>Total liabilities and shareholders' equity</b>	<b>969</b>	<b>1,653</b>	<b>1,753</b>	<b>1,775</b>	<b>1,631</b>

Source: Company data, RJS estimates

<b>Hurriyet Consolidated Balance Sheet (US\$)</b>					
<b>(US\$mn)</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>9M07</b>
<b>Current assets</b>					
Cash and due from banks	101	133	114	53	129
Investment securities	16	6	6	6	6
Trade receivables	111	177	201	226	156
Due from related parties	27	48	55	62	26
Inventories	13	23	26	29	20
Other current assets	21	32	37	41	32
<b>Total current assets</b>	<b>289</b>	<b>420</b>	<b>438</b>	<b>417</b>	<b>369</b>
<b>Non-current assets</b>					
Goodwill	8	409	379	367	394
Financial assets	8	5	8	12	6
PPE - net	369	451	434	441	455
Intangible assets - net	1	121	123	119	111
Other non-current assets	15	20	19	19	20
<b>Total non-current assets</b>	<b>400</b>	<b>1,006</b>	<b>963</b>	<b>958</b>	<b>985</b>
<b>Total assets</b>	<b>690</b>	<b>1,426</b>	<b>1,401</b>	<b>1,375</b>	<b>1,354</b>
<b>Current liabilities</b>					
Bank borrowings	5	55	142	128	23
Financial leasing	3	3	3	4	3
Trade payables	35	48	46	48	51
Due to related parties	2	4	4	5	7
Taxes on income	19	43	30	44	21
Other current liabilities	11	19	22	25	32
<b>Total current liabilities</b>	<b>75</b>	<b>171</b>	<b>248</b>	<b>253</b>	<b>137</b>
<b>Non-current liabilities</b>					
Bank borrowings	28	432	294	170	453
Financial leasing	6	5	6	6	5
Trade payables	55	78	80	85	72
Other non-current liabilities	26	85	80	78	80
<b>Total non-current liabilities</b>	<b>115</b>	<b>600</b>	<b>460</b>	<b>340</b>	<b>609</b>
<b>Total liabilities</b>	<b>190</b>	<b>771</b>	<b>707</b>	<b>593</b>	<b>746</b>
Minority interest	0	4	11	21	4
<b>Shareholders' equity</b>					
Total paid-in-capital	296	363	337	326	346
Capital reserves	58	66	150	190	67
Income reserves	51	80	74	72	77
Net profit	74	96	80	132	71
Accumulated losses	20	45	42	40	43
<b>Total shareholders' equity</b>	<b>500</b>	<b>650</b>	<b>683</b>	<b>761</b>	<b>604</b>
<b>Total liab &amp; shareholders' equity</b>	<b>690</b>	<b>1,426</b>	<b>1,401</b>	<b>1,375</b>	<b>1,354</b>

Source: Company data, RJS estimates

**Raymond James Securities – Turkey**

***Rating definitions:***

- 1-Strong Buy** : The analyst has high conviction that the stock will appreciate and produce a total return of at least 25% in US\$ terms over the next 12 months.
- 2-Buy** : The analyst believes that the stock will appreciate and produce a total return of at least 15% in US\$ terms over the next 12 months.
- 3-Hold** : The analyst believes that the stock will produce a total return of less than 15% in US\$ terms over the next 12 months.
- 4-Sell** : The analyst believes that the stock will generate a negative return in US\$ terms over the next 12 months.
-

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