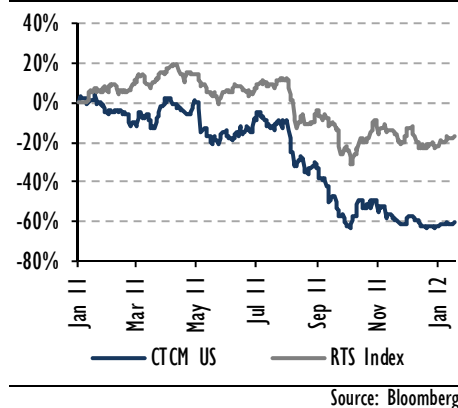


CTC Media audience monitor: November-December 2011

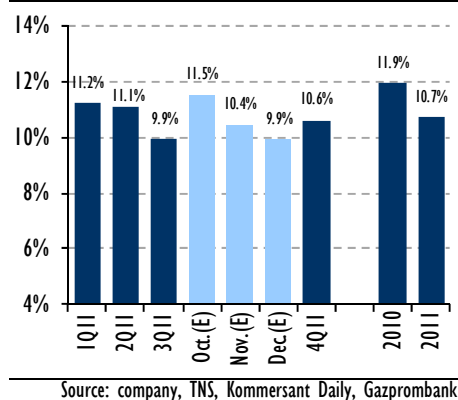


CTC Media	NEUTRAL
Ticker	CTCM US
Current price (as of January 17)	\$9.33
Target price	\$24.9
Upside, %	167%
Market capitalization, \$mln	1,468
Common shares outstanding, mln	157.3
Free float	36.6%

CTC Media shares vs. RTS Index, YTD



CTC target audience share (all 6-54)



CTC Media has recently announced audience share numbers for 4Q11 and FY2011.

- ▶ *CTC channel's audience dynamic missed our expectations for 4Q11 due to fairly weak performance in November and December. The channel's audience share stood at unimpressive 10.6% in the last quarter of the year, an 1.0 pps erosion from 4Q10.*
- ▶ *Domashny's target audience share remained at strong 3.3% in 4Q11; at the same time, the recently launched Peretz channel managed to maintain stable audience over the last quarter.*
- ▶ *The weak audience share numbers of the flagship CTC channel, as well as some TV advertiser demand deterioration seen at the end of 2011, point for unimpressive set of 4Q11 results by CTC Media. However, this is already of no surprise for investors, and we see no downside risk in the stock on the next quarterly reporting (due by the end of February).*

We reiterate our current 12M target price of \$24.9 and the NEUTRAL view on CTC Media shares.

CTC Media channels' target audience share

	4Q10	1Q11	2Q11	3Q11	4Q11	YoY	QoQ	2010	2011	YoY
CTC (all 6-54)	11.6%	11.2%	11.1%	9.9%	10.6%	-1.0 pps	0.7 pps	11.9%	10.7%	-1.2 pps
CTC (all 14-44)	12.6%	12.0%	11.7%	10.2%	11.2%	-1.4 pps	1.0 pps	12.6%	11.3%	-1.3 pps
Domashny (females 25-60)	2.9%	2.8%	3.1%	3.3%	3.3%	0.4 pps	0.0 pps	3.1%	3.1%	0.0 pps
Domashny (females 25-59)	n/a	2.8%	3.2%	3.3%	3.3%	n/a	0.0 pps	n/a	3.2%	n/a
Peretz (all 25-54)	2.3%	2.0%	2.1%	2.0%	2.0%	-0.3 pps	0.0 pps	2.1%	2.0%	-0.1 pps
Peretz (all 25-59)	n/a	2.0%	2.1%	1.9%	2.0%	n/a	0.1 pps	n/a	2.0%	n/a
Channel 31 (all 6-54)	11.8%	14.8%	15.8%	17.7%	15.7%	3.9 pps	-2.0 pps	11.4%	15.9%	4.5 pps

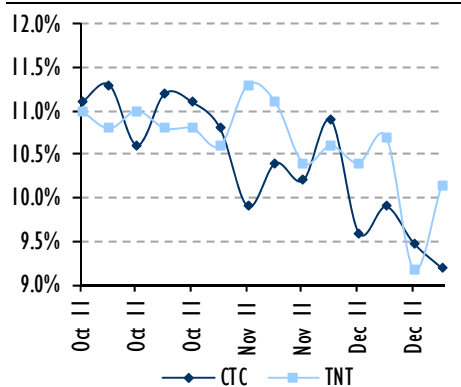
Source: company, Gazprombank

CTC: slow finish of the year. CTC channel's target audience (all 6-54) share stood at 10.6% in 4Q11, posting a visible 0.7 pps improvement from the previous quarter, but was 1.0 pps below 4Q10 level. The general audience share, which is less indicative for revenues, was 7.4% in the last quarter of 2011, as compared to 7.8% in 1H11 and 7.0% in 3Q11. CTC's 4Q11 audience share missed our expectations by 0.4 pps due to fairly weak performance of the channel in November and December. According to our estimates, the target audience share dropped from 11.5% in October to 10.4% in November and further to 9.9% in December. The cumulative rating (in all 4+ audience) of CTC's ten most watched weekly programs was 262 in November and December with the YoY decline accelerating to 14% in the last two months of the year from 12% in October. We estimate CTC's GRP inventory shortage at 13% YoY in 4Q11, as compared to 17% in 1Q11, 8% in 2Q11 and 21% in 3Q11.

CTC audience share decline at the end of the year was mainly due to the fact that the channel postponed launch of a number of cost-intensive premier programs until the beginning of 2012 amid softened TV advertiser demand. At the same time, core prime-time content including *Voroniny*, *Traffic Light* and *Boarding School* performed in line with company expectations. We also note the successful launch of new *Just Married* series and *H-Men* mystic weekend prime-time show. As a result, CTC finished 2011 with the average general audience share of 7.5% (down 0.8 pps YoY) and the target audience (all 6-54) share of 10.7%, which is a substantial 1.2 pps decline from 2010 and 0.2 pps below our projection. The share among older target demographic (all 14-44) decreased 1.3 pps YoY to 11.3%.

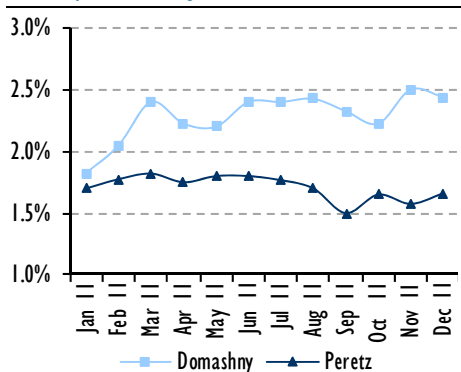
Audience share likely to recover in 1Q12. We believe CTC has the potential to improve its audience share in 1Q12, as the channel will continue broadcasting proven original content (including *Traffic Light*, *Voroniny*, *Just Married* series as well as comedy shows) and launch a number of new projects. *The 1980s* and *The Babby* will follow the new *Doctor Zaitseva's Diary* series, which started on

CTC and TNT share in 6-54 demographic by week



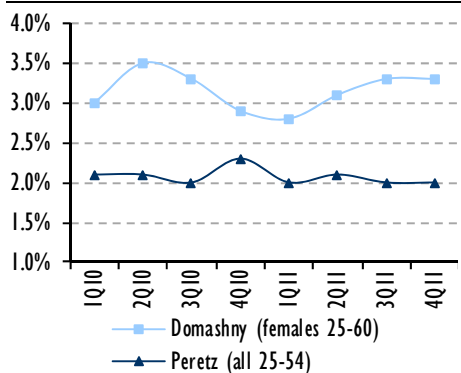
Source: TNS, Kommersant Daily, Gazprombank

Domashny and Peretz general audience share



Source: TNS

Domashny and Peretz target audience share



Source: company

January 16, in February and March. We also note that the potential threat to CTC from the recent launch of Disney channel on the former Semerka channel's free-to-air frequency should not be overestimated. Currently, Disney almost entirely broadcasts foreign children and teenager programming while CTC sees this demographic overall less attractive and aims to increase the share of 20+ years viewers among its audience, particularly families. In our view, 10.8-11.0% share in 6-54 demographic is a realistic 1Q12 target for CTC channel. According to the preliminary data by TNS, CTC's average target audience share increased to 10.5% in the first two weeks of January with the total rating of the top-5 weekly programs coming 38% above the same period last year.

Domashny: audience share climbs to year records. Domashny's target audience share remained at strong 3.3% in 4Q11 (up 0.4 pps YoY and stable QoQ). The last two months of 2011 were particularly successful for the channel. According to TNS data, the average general audience share grew to 2.5% in November and December, the highest level since the beginning of 2011. Importantly, Domashny's GRP dynamic turned positive in 4Q11. Our estimates of TNS data show, GRP inventory grew 7% YoY over the last quarter of 2011, as compared to 6-11% YoY decline in the previous quarters. Strong weekend programming with the focus on foreign hit melodramas of 1980s and 1990s (including *Scarlet*, *Jane Eyre*, *Return to Eden*) combined with appealing weekday prime-time grid including series, documentaries, original shows and movies continues to deliver solid audience numbers.

Domashny finished 2011 with a solid 3.1% average target audience share (stable YoY) and 2.3% general audience share, which was in line with our DCF-model forecast.

Peretz manages to maintain its audience: The target and the general audience shares of CTC Media's smallest Russian channel Peretz were flat QoQ (at 2.0% and 1.6% respectively), but showed a 0.3-0.4 pps decline from 4Q10. The channel's general audience share recovered to 1.7-1.8% over the last six weeks of the year after the drop to 1.4-1.5% was seen at the end of October – beginning of November (the first several weeks of Peretz broadcast). Although the general share of the newly launched channel remains some 0.1 pps below the average of the predecessor DTV, we see that viewers accepted the new niche format, which allows maintaining audience interest in very challenging "third-tier" competitive environment. Noticeably, the channel's top-10 weekly programs on average scored 7.0% rating during the last several weeks of 2011, which was very close to spring TV season numbers (7.2%). Overall, we believe that reformatting of DTV to Peretz created a good platform for winning new audiences in the future.

Peretz closed 2011 with the average 2.0% target audience share, a 0.1 pps decline from 2010, but 0.1 pps better than our forecast.

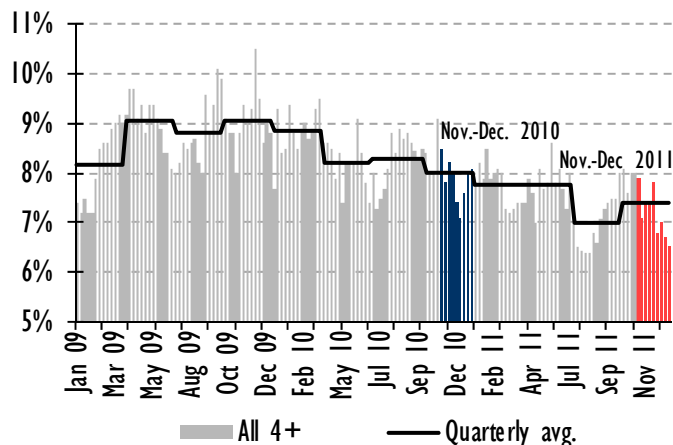
Modest 4Q11 top-line growth already in price, 1Q12 should bring positive news.

The weak audience share numbers of the flagship CTC channel as well as some TV advertiser demand deterioration, which was seen at the end of 2011, point for unimpressive top-line delivery by CTC Media in 4Q11. However, this is already of no surprise for the market, given that at the end of last year, the company's management warned investors that GRP inventory might not be fully sold out in 4Q11. That said, with CTC Media shares currently trading just 10% above their LTM bottom, we see no downside risk in the stock on 4Q11 results (to be reported at the end of February). Moreover, taking into account CTC channel's audience recovery potential along with a better overall TV market visibility (the largest media sellers currently project 10% basic TV inflation in rubles in 2012), we believe 1Q12 could deliver positive news to investors on CTC Media side.

We reiterate our current \$24.9 12M target price and the NEUTRAL view on CTC Media stock

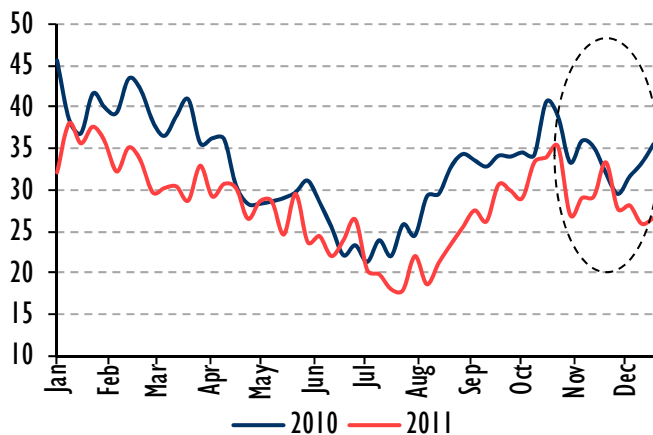
Weekly audience share and rating data for CTC Media's Russian channels

CTC weekly general audience share



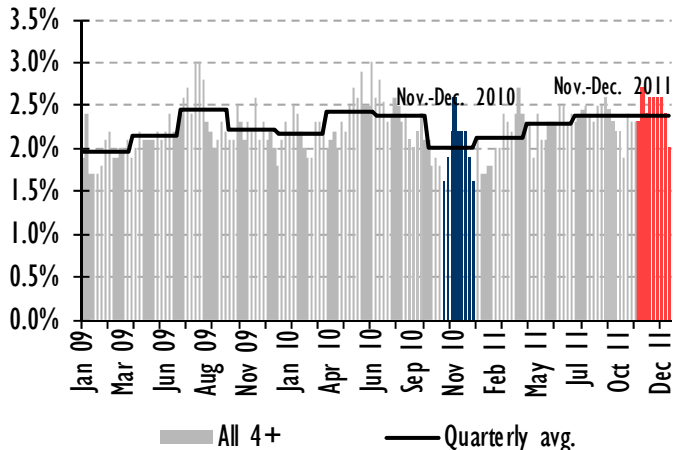
Source: TNS Russia, Gazprombank

Cumulative rating of CTC top-10 weekly programs



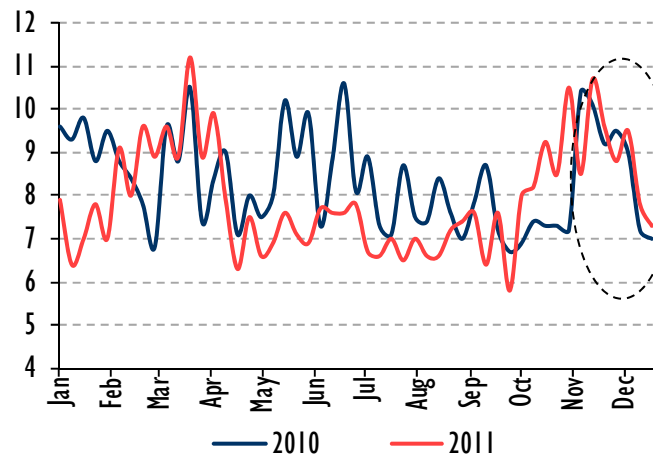
Source: TNS Russia, Gazprombank

Domashny weekly general audience share



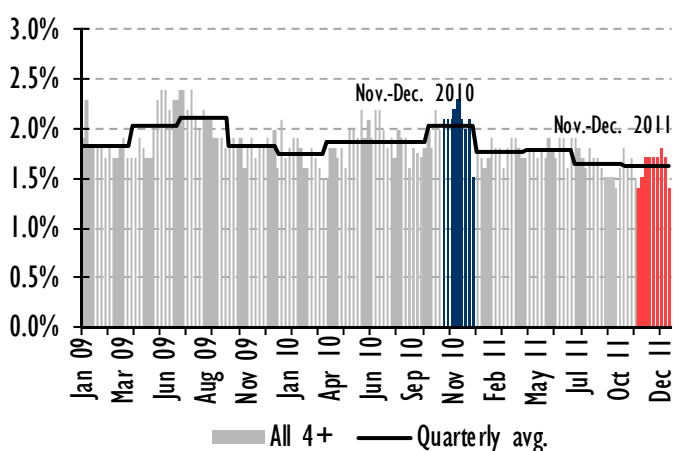
Source: TNS Russia, Gazprombank

Cumulative rating of Domashny top-10 weekly programs



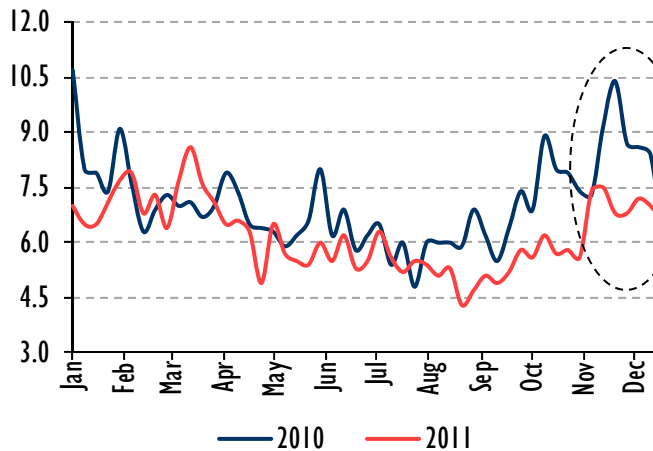
Source: TNS Russia, Gazprombank

DTV/Peretz weekly general audience share



Source: TNS Russia, Gazprombank

Cumulative rating of DTV/Peretz top-10 weekly programs



Source: TNS Russia, Gazprombank

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