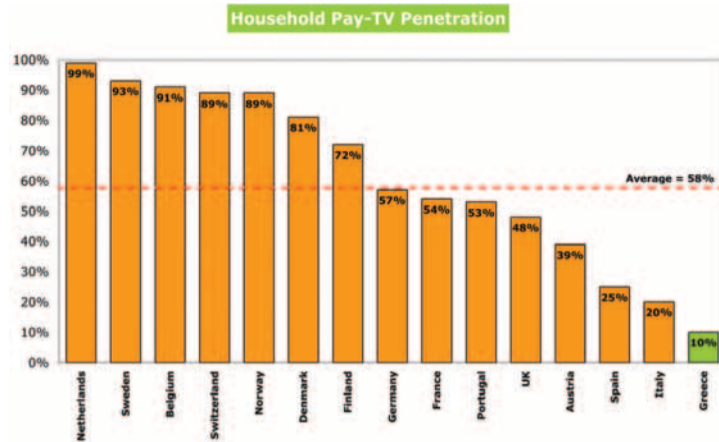


# Stock Market Review

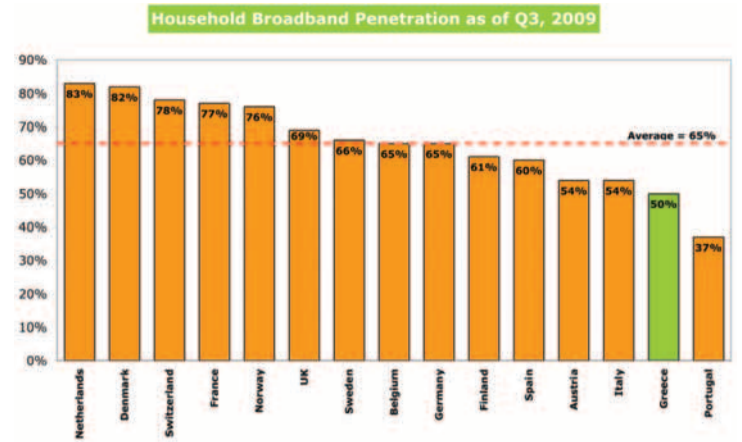


**Edward Rizzo**

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Greek Pay-TV Penetration Q3 2009 compared to other European countries.



Greek Household Penetration Q3 2009 compared to other European countries.

# Forthnet experiences best ever quarterly performance

Forthnet representatives made a presentation to the local financial community on January 29 providing information on the company's recent performance and the dynamics of the Greek telecoms industry. Given the substantial investment by Go in this Greek company, Forthnet's performance is fundamental to the future financial performance of Go plc.

In recent weeks Greece has been hitting the international headlines as the country's budget deficit has grown to 12.7 per cent of GDP with many economists and asset managers speculating on the increased credit risk of this euro nation and on how the government could achieve a reduction in the deficit towards the three per cent level in the coming years.

Given the adverse Greek economic conditions, Go's €110 million investment in Greece may be worrying some of Go's shareholders. However, surprisingly, Forthnet's CEO Pantelis Tzortzakis confirmed that the company experienced its best ever quarterly performance during the final three months of 2009 despite the adverse economic environment. The CEO did not give exact figures on the Q4 performance since these have yet to be officially announced via an appropriate announcement through the Athens Stock Exchange.

He did, however, provide an update on the official subscriber numbers of their "old" broadband business and the recently acquired pay-TV business. According to Mr Tzortzakis, Forthnet is performing exceptionally well in the broadband segment with subscriber growth exceeding expectations having increased to 320,000. On the other hand, the pay-TV business is not as yet showing any major signs of improvement although Forthnet's investor relations officer George Der-

mitzakis claimed that the TV service is provided to 350,000 households.

Forthnet is the largest player in the broadband and pay-TV market which, according to the CEO, are the two areas in the Greek telecoms market offering scope for growth as the fixed line and mobile business in Greece have reached saturation with particularly high penetration rates in mobile dominated by incumbent OTE as well as Vodafone.

On the other hand, as shown in Graph 1, Greek broadband penetration is still at 50 per cent compared to an EU average of 65 per cent and penetration levels above 80 per cent in Netherlands and Denmark. Significant inroads were achieved by Greece in recent years following the commitment by the Greek government to boost broadband penetration by subsidising the investment in broadband infrastructure and promotional activities to increase usage.

In December 2006, Forthnet was awarded the broadband development programme in two regions covering northern Greece and the islands of East Aegean and this was followed by another government subsidy in March 2007 relating to the company's investment plan in Athens and Thessaloniki. In view of the lower penetration compared to other countries and the government's commitment to increase broadband penetration, Forthnet is in a strong position to benefit from future growth in the broadband industry.

The pay-TV market looks even more compelling with pay-TV penetration at only 10 per cent compared to an EU average of 58 per cent, as shown in Graph 2. Forthnet's CEO explained that in order to maintain a market leading position Forthnet once again successfully acquired the sports rights for the major football events for the next three years. Coupled with increased efforts to combat piracy, the CEO believes that the TV business will also experience growth

in 2010. The CEO also spoke about the work currently taking place to integrate the operations of the two separate businesses of Forthnet - broadband and the Nova pay-TV business. Mr Tzortzakis explained that this restructuring ought to help Forthnet reduce its operational expenditure by achieving economies of scale and at the same time the company will also be in a better position to serve its customers by operating a centralised customer care unit and other important functions of the company.

This would enable Forthnet to pursue further cross-selling initiatives by providing more bundled offerings of broadband and pay-TV products with different pricing structures to meet a variety of customers' requests. Some of the new joint offerings have already proved to be very successful and enjoyed significant uptake by new customers. A similar experience was also seen by Go in Malta when it started offering the Home Pack bundle incorporating the Group's 4 telecoms services to customers for an attractive monthly fee.

Go's shareholders should be pleased to hear about the business growth being registered by Forthnet. However, more importantly for shareholders would be the overall bottom line profitability of the Greek company and the commencement of dividend declarations by Forthnet as these would filter through as income into Go's profit and loss account. While this may take a few more years to materialise, the greater benefit of this recent investment by Go would be at the time of an eventual disposal of their shareholding.

This is not likely to take place in the near future as Forthnet needs to grow into a more mature operation and begin registering healthy profitability levels on a yearly basis. When this objective materialises, Forthnet's valuation should reflect that of a developed telecoms company enabling Go

to benefit from a significant uplift on their acquisition cost. This works out at €3.83 per share on their present indirect shareholding amounting to 18.55 per cent and does not compare favourably with the current share price of Forthnet which is trading in the region of €1.06 in Athens.

The joint shareholding of Go and EIT in Forthnet through their holding company Forgendo Ltd currently stands at 37.1 per cent. This increased by three per cent during the summer months as further shares were purchased on the secondary market in Athens. In line with Greek stock market rules, after purchasing an additional three per cent, Forgendo is prohibited from carrying out further purchases for a six-month period. This only recently expired.

Given the reassuring financial performance of Forthnet, one should not be surprised to read announcements coming out of Athens over the coming weeks and months ahead about further acquisitions of Forthnet shares by Forgendo. An additional three per cent acquisition would entail the purchase of 4.66 million shares thus pushing the shareholding of Go and EIT through Forgendo to over 40 per cent. Forgendo could continue acquiring further shares until it reaches the 50 per cent level at which time it would then be required to make a mandatory offer to all other shareholders.

The impact on Forthnet's performance from a number of possible austerity measures to be introduced in Greece in order to reduce the deficit could have a lagged effect and this requires close monitoring of Forthnet's performance in future reporting periods. The uncertainty regarding the Greek economic situation necessitates that Go repeats this commendable initiative of meeting up with market professionals on a more frequent basis in order to provide timely and updated information on Forthnet's performance.

**“Forthnet is in a strong position to benefit from future growth in the broadband industry.”**

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