Stock Market Review

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# Forthnet receives non-binding proposals from private equity firms

## Share price of Greek company rallies and volumes surge

Go shareholders who have been following developments at the Greek telecoms company Forthnet (in which Go has an indirect 17 per cent shareholding) must have realised the strong share price upswing on record volumes of trading activity. After sliding during 2008, Forthnet's share price had stabilised at around the €0.70 level for some time between the end of November 2008 and early April 2009. However within the space of a few weeks, the shares climbed to a high of €1.92 on May 11 at a time when share trading activity reached record levels surpassing the 3 million mark per day on a few occasions. Between 24 April 2009 and the end of May, a total of 38.8 million shares were traded. This equates to just under 25 per cent of Forthnet's total issued share capital of 155.4 million shares.

In all probability, this heavy trading activity has more to do with the initial speculation that hit the press in respect of bidding interest from private equity firms and the subsequent confirmations by the company rather than as a result of Forthnet's improving financial results as indicated by the numbers for the first quarter of 2009 (EBITDA increasing to €18.4 million).

On April 24 a Greek journalist wrote and published an article mentioning that Emirates International Telecommunications, which jointly owns a 34.5 per cent shareholding in Forthnet with Go, was planning to sell off its stake in the Greek company. The article had also indicated that the Dubai-based state investment firm had already initiated talks with Advent Ventures Partners, a European investment fund.

Forthnet immediately denied the content of this article through an official announcement published on the same day in which it claimed that the alleged divestment in Forthnet by EIT is "untrue and inaccurate". Moreover, through the announcement, EIT is reported to have reiterated its appreciation of the progress that had been achieved by Forthnet and its recently acquired company Nova. EIT also confirmed its satisfaction at the successful conclusion of the agreement for the Greek Super League's football TV rights for a three-year period until 2012 which was also followed by the rights for the European Champions League.

As speculation remained rife in the Greek financial market as evidenced by the increased upswing of trading volumes in the company's shares during this period, Forthnet issued a further announcement on 8 May again confirming EIT's intention to retain its participation in the company. However, Forthnet also announced that it received 'expressions of interest' by international private equity funds and commenced preliminary discussions with each of these potential investors in order to explore the possibility of additional institutional investors joining the company and the likely benefits for Forthnet and its shareholders.

At this point it may be pertinent to ask whether Forthnet needs additional capital and if so what for? Why has the company entered into such discussions? Does it have further acquisitions in mind?

With such developments taking place, Go chairman Sonny Portelli argued during Go's annual general meeting on 15 May that any questions related to Forthnet are not fit to be replied to during the Go AGM. Was this right? The size of Go's investment in Forthnet when compared to the Maltese company's asset base, in my opinion, renders the investment as a material one and very important for the company and all Go shareholders. As such, significant developments in the Greek company should be revealed to Go shareholders and the market at large. This is yet again another case of the lack of newsflow coming from Go and its senior management to the market.

The recent acquisition of a 60 per cent shareholding in three different companies forming part of the Bell Net Group in Malta seems to have also gone by relatively unnoticed. Again this investment should be considered meaningful (at €9.5 million for a 60 per cent stake) and definitely worth of some form of justification. However Go again failed to provide the stock exchange and all shareholders of an indication of the financial state of this group of companies and the valuation metrics used to achieve this value. Hardly a very transparent process! Go needs to be more forthcoming with public announcements if it wishes to regain investor confidence which has taken a severe knock these last months.

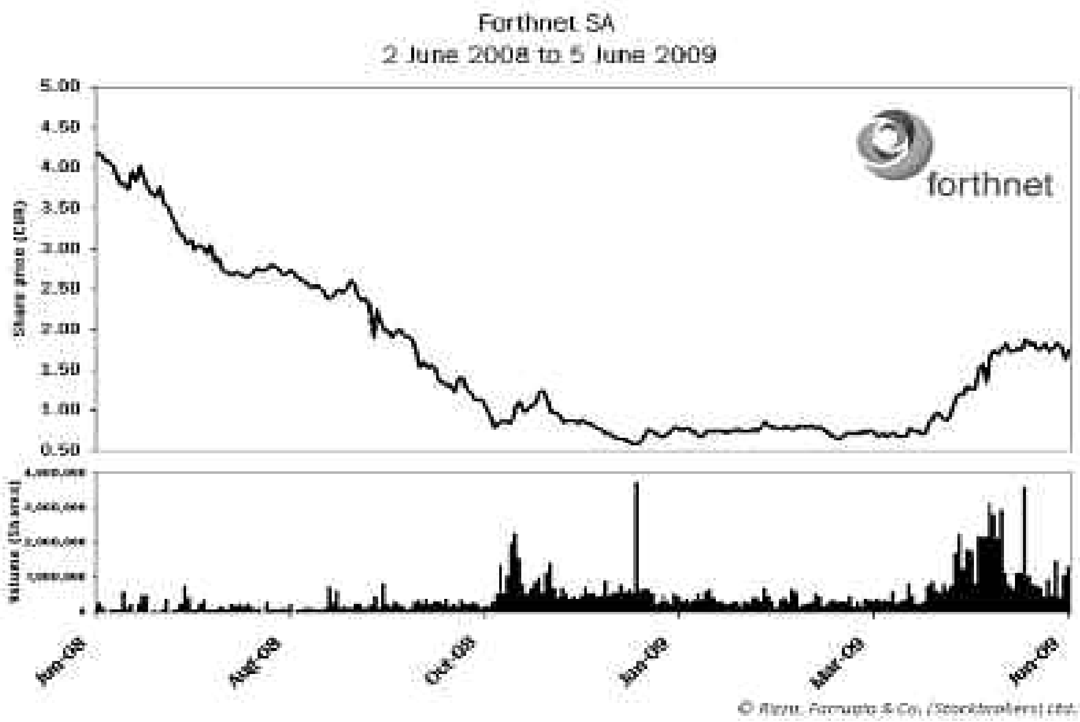
Back to the Forthnet development, on May 21 a record 3.5 million Forthnet shares changed hands on the Athens Stock Exchange, representing 2.25 per cent of the total share capital of the company. The price had by then surged to a close of €1.88 but in subsequent trading sessions daily volumes retreated to a few hundred thousand shares with the equity edging back down towards the €1.64 level by June 4.

After dropping to €1.63 mid-way during the trading session of last Friday June 5, the share price rallied once again to a close of €1.75 in reaction to a further announcement issued by Forthnet and volumes surging again above the two million mark. The Greek company informed the market that it had received non-binding proposals from international private equity funds. The proposals detailed the commercial reasons for the increased capital injection as well as an outline of their strategy for Forthnet.

The non-binding proposals also gave indicative valuations for Forthnet ranging from a price below the closing market price of €1.64 of June 4 to a high of €2.44, which is five per cent below the recent rights issue price. This is equivalent to a premium of 39.4 per cent compared to the €1.75 closing price of June 5 and is in line with a recently upgraded target price of €2.10 published by a Greek stockbroking company.

As with all non-binding proposals, Forthnet explained that the indicative prices are based on specific financial assumptions and are subject to certain conditions, including successful conclusion of a business, financial and legal due diligence, the finalisation of the scheme and structure for the implementation of the suggested investment, as well as the granting of regulatory and other approvals. The Greek company also announced that its Board of Directors (which include three members on the Board of Go plc in Malta) is evaluating these proposals and warned that this does not imply that binding proposals will be submitted and that any of the negotiations will be successful.

Whatever the outcome, these developments confirm widespread institutional investor interest in the company presumably as a result of the progress being achieved by Forthnet.




"Lack of communication between Go and the market has unfortunately been too evident in recent years following the privatisation of the company."