

27 May 2004

DAMOVO GROUP SA
Custom Report for Opportunity Partners, LLC

EXECUTIVE SUMMARY

Damovo is a troubled, Glasgow-based, \$ billion, telecom services company. This analysis starts by assuming there will be:

- senior debt investment in this “maximum risk” company with a poor credit rating
- a plan to close or sell operations, globally cut costs, effectively eliminate jobs and hire a management team in sync with investor EBITDA goals.
- a clarification on whether the ultimate strategy is to sell the company, do an IPO or hold as a private growth company.

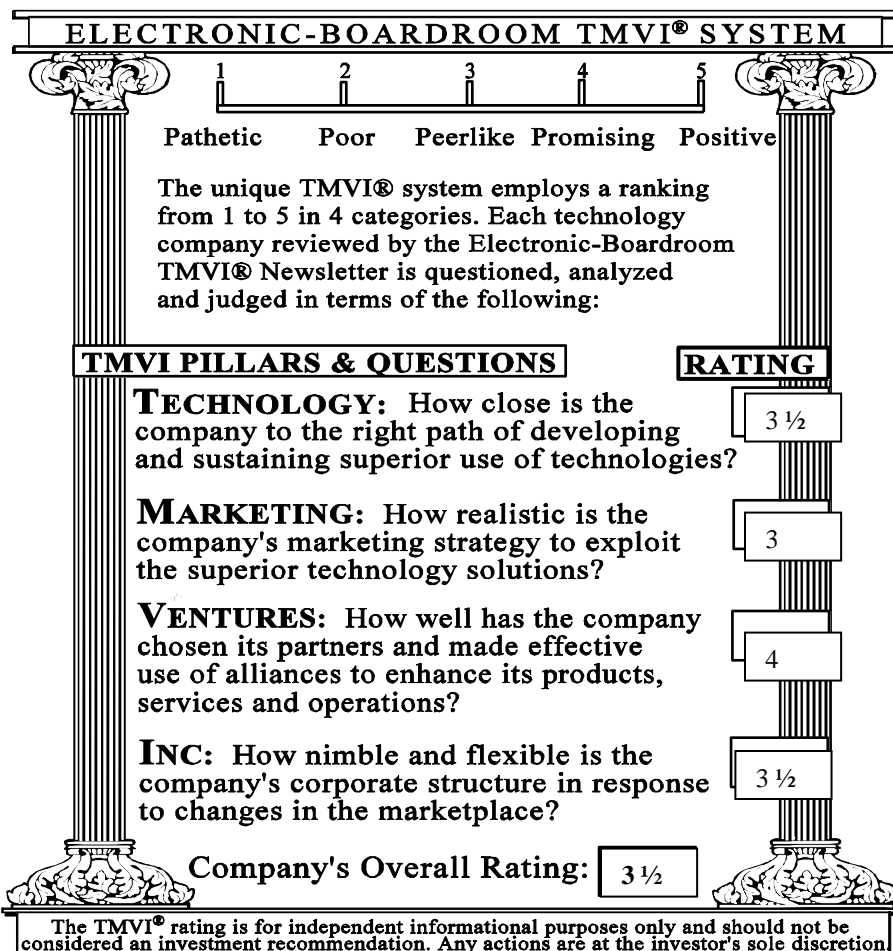
A Technology & Marketing Ventures Inc. (TMVI) analysis looks beyond typical financial and industry measurements.

The purpose of the following pages is to focus on identifying factors that can ultimately affect JME achieving its objective of a return to investors of 15-20% net annually.

TMVI has given Damovo a 3 ½ rating out of a possible 5 for the following reasons:

- Appropriate use of multi-vendor technologies
- Too much dependence on public sector market
- Besides Ericsson, can leverage Apax relationships
- France and Italy are cash problems

Most of Damovo’s competitors face the same problems and are dealing with them similarly. Damovo’s approach has potential but a 3 ½ rating suggests some risk beyond the financial distress.



DAMOVO ASSESSMENT FACTORS



TECHNOLOGY

Damovo's business focus is vendor independent, network integration and managed services operating in the medium to high-end of the enterprise market.

- **Voice Over Internet Protocol (VoIP).**

Having both data and voice networking expertise is essential for any service provider to get multimillion-dollar contracts and there is cashflow in the customer training. However, a 2003 UK study showed that 50% of UK executives were concerned about IP telephony and convergence technology delivering real return on investment. There are indirect forms of ROI such as improving customer service, improving internal process efficiencies, and introducing new business applications by integrating disparate networks and utilizing IP telephony. Nevertheless, executives are more interested in traditional ROI calculations such as cost savings.

Combining a data network and a voice network is worth considering because of the simplicities of management and extra functionality. However, despite some obvious benefits of convergence, technologies such as VoIP are still in their infancy when it comes to the UK market. The broadband VoIP market can be used to make calls, but internet access is the key. Therefore immediate cashflow is mostly from lower margin data support and training as opposed to voice and converged support services. Companies that want to make money now on converged network solutions are focusing on Japan which is ahead of the UK in the transmission from circuit-switched networks to IP voice traffic.

- **Nortel.**

This is a voice product alternative vendor for Cisco. Nortel's product portfolio provides Damovo with a good complement to its Cisco data networking relationship, and rounds out the Damovo packet telephony systems approach alongside products from Ericsson and Mitel. It always helps resellers to broaden their portfolios.

- **Ericsson.**

Ericsson is Damovo's principal equipment supplier accounting for 90% of equipment purchases. The dependency is worthwhile since Ericsson is a good choice as a strategic partner.

TECHNOLOGY RATING: 31/2 Peerlike to Promising



MARKETING

What's the differentiator? What matters about technology is how Damovo's customers use it, why clients are tied to the Damovo business relationship and what differentiates Damovo from its competitors. No compelling or memorable points stood out in the business plan. Differentiation is necessary for a foundation for profit accountability. TMVI could interview the customers and sales teams and execute a pilot deal demonstrating Damovo's unique selling proposition. Usually executing marketing strategies gets short shrift at the expense of financial only thinking. Strong marketing execution will make the difference in your overall return to investors.

- **Public sector customers.**

This sector accounts for 63% of sales for 2004 - 2006. Since Damovo relies so much on the public sector, how would sales be affected if the governments in Europe change? For example, Spain has changed from a conservative to a socialist government. If that happened in Italy what would be the impact on Damovo?

- **Create Damovo Europe Group.**

The good news is that Damovo doesn't have products designed for the US market that they are trying to translate into foreign markets. With the internet, it is okay to be a small company in any one country, but extremely expensive to try and replicate it. I agree with Damovo's premise that negligible benefits would result if a "global group" were created.

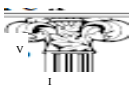
- **Italy.** Damovo has been dependent on Italy for cash as evidenced by an Italian contract which was 64% of sales in 2003 and 35% of sales in 2004. We should research IBM Italia's and Siemen's marketing strategies. These are Damovo's competitors in complex integration of application projects and services in Information Technology and Telephone Line Carriers. In 2000, Italian telecommunications market grew faster than Europe and the world. We need further assessment on the opportunities.
- **UK includes Ireland.** Damovo UK appears to be proficient in executing replicable, large, managed services contracts for the public sector and government installations, such as the BBC and Metropolitan Police. TMVI could explore developing major opportunities building upon Damovo's biometrics applications installed in the BBC and Metropolitan Police. Whereas access control to premises is easy to expand upon, Electronic Healthcare applications – e.g. access to confirmation for prescription medicines, is a promising profit center.
- **Belgium may include Holland.**
- **Germany includes Poland, Switzerland.**

- **Other Restructuring.**

- **Sell: Argentina, Australia, Brazil, Columbia, Mexico, and Venezuela.**
- **Close or Sell: Hungary, Hong Kong, Portugal, France.**
- **Review for Future: Czech Republic, Slovakia.**

Esther Dyson has various Apex relationships including seed money in Poland, Czech Republic and Slovakia. Now that Esther has sold her content company, some of her new strategies might mesh with Damovo. TMVI could research the Damovo solution aspects.

MARKETING RATING: 3 Peerlike



Beyond Ericsson, has Damovo created barriers to entry based on alliance partners?

- **Apax Partners.**
 - In Europe, venture capital firms that start with the letter “A” like **APAX**, Atlas, Amadeus and so on are considered a good partner choice. The quality of the people and the restructuring plan is good. What may be promising is capitalizing on some of Apax’s other relationships, particularly London’s Tideway Systems. Apax Partners led the series “A” round of investment that closed on 26th April 2004.
 - The Tideway Foundation product automates creation of blueprints of complex IT environments, from hardware through business processes, and enables true business governance of IT change. There is synergistic potential that would enable Damovo to be differentiated and to profitably grow. If this synergy was managed as a focused entity, there could be positive cash flow from Basil II alone and sale potential to IBM.
- **Arup, Oxford Internet Institute and other complementary teaming arrangements.**
If you want, TMVI can explore Arup as a public sector partner for Damovo contracts and OII for e-democracy and other applications.

VENTURES RATING: 4 Promising



Is corporate structure flexible enough to respond to changes & cover Italian business financing needs?

- **Damovo France Sale or Closure.**
You might want to do more due diligence related to pages 31-33. It looks like a grossly understated liability that will eat up a lot of cash. The sale cost is likely to be well beyond 2-3million Euros. It seems unlikely that you could dispose of it the first half of 2004 since you can’t shut it down without liabilities like employee pay and payback incentives. The French government makes it very difficult to sell assets and it would be tough to find a buyer who wants the liabilities. It is also unlikely that the French oil and gas contract is replicable.
- **Chart showing the legal entity structure together with the shareholder ownership was not in the business plan.**
I would like to see this chart not only to better understand the business model, but to assess aspects related to shareholders like Ericsson, who is also a supplier to the business. This chart would also assist me in understanding the transfer pricing between the related entities and potential impacts from inflated profits or loss advantages.

INC RATING: 3 1/2 Peerlike to Promising

TMVI OVERALL BROAD BRUSH RATING: 3 1/2 Peer-like to Promising

ABOUT THE RESEARCH ANALYST: JUNE R. KLEIN, CEO Technology & Marketing Ventures, Inc.

June Klein has 34 years of global information technology and financial services experience. Her judgment was acquired in positions of increasing responsibility at the Federal Reserve Bank, Merrill Lynch, IBM, Citicorp, JPMorganChase, Wang and the business she founded and manages, Technology & Marketing Ventures, Inc. Her expertise is grounded in an MBA in finance and an advanced technology degree. In 1992, she created the registered trademark, Electronic-BoardroomTMVI® Solutions and launched her approach to effectively managing change, complexity and risk at Oxford University’s Values Centre for business and education. She is an active transatlantic council member of the British American Business Network. She provides strategic research, Sarbanes-Oxley processes and interim CEO management to CEOs, financiers & institutional investors. www.juneklein.com