

Shareholders meeting February 2005

GoPro ehf

Intellectual Capital Report 2004

Table of Contents

Intellectual Capital Report 2004	1
Table of Contents	2
About this report	3
Our business.....	5
Human Capital	7
Structural Capital	8
Registration of trademark and patents	10
Internal and external communications.....	10
Project management and consulting	11
Profitability of projects	12
Bid board.....	12
Development process.....	12
Relational Capital.....	13
Partners	14
Customer Loyalty	14
Total number of Maintenance agreements	14
Intellectual Capital Indicators.....	15
Human Capital Indicators.....	15
Relational Indicators.....	15
Structural Indicators	16

About this report

This intellectual capital report is intended as added information to our stakeholders. As reports such as this one are not common, it is necessary to explain its content and use.

Intellectual capital has traditionally been looked at as the hidden value resting inside the company or the value of its intangible assets. The value of intellectual capital can be calculated using the equation, $IC = MV - BV$, where IC is intellectual capital, MV is market value and BV is book value. It is also necessary to define intellectual capital in other terms. This has been explained as the problem of using the calculation of the difference between market and book value as explaining intellectual capital. The metaphor is like measuring the volume of a big pear and deducting the volume of a small apple. Because there is a difference it has to be baptised, i.e. it becomes a plum. In order to make sense, these terms have to incorporate some insight or meaning to the business in question and allow for interpretation of the information given, but without assigning any monetary value to it.

It should rather give an indication of what activities are at the disposal of management to realise the true potential of the company. When reporting such activities it has to be clearly communicated to create an understanding of why the company has these intangible values. The intention of the IC report is to supplement the traditional financial accounts and provide a fuller understanding of the potentials of the company and/or industry in question i.e. give the information about the company that the traditional accounts did not. It is also worth noting that IC reporting is not only intended for external communication such as valuation for shareholders and raising capital, but also for internal development. If future strategy relies on intangible elements, it is of importance for management to discover, explain and realise its intangible potential. This affects internal elements such as strategy formulation, assessment and management, internal benchmarking and motivation and compensation.

The IC report can be a complex form of report that combines numbers, narration and visualisation. It not only uses numbers and indicators, it has a storyline, a knowledge narrative, which describes the function of the company and its intellectual capital, i.e. an illustration of the work of the intellectual capital. There is a difference between firms in this narrative, both in terms of visualisation of components and usage of numbers. This leads to the question of validity in terms of being a true and accurate description of intellectual capital. This also implies an impression of diversity when reading an IC report.

This IC report is based on the Danish Guidelines developed by the DMTSI in 2003. The experience from Danish companies, using the previously mentioned report format, suggests that there are a number of indicators available to companies. The number of indicators used is largely dependant on the relevance to the knowledge narrative and the evidence they are supposed to give. It is for example hard to find a measure or indicator for innovation so this can only be described in a narrative but the narrative could be supported by a number indicating the number of PhDs working for the company, number of patents or investment in training. It is also not the absolute number that gives the information but rather the change from one year to another.

This applies especially to indicators that are measuring subjective measures like satisfaction, time, quality or training.

Indicators used for IC reports are not all non-financial even though they are not a part of the financial accounts. An example is market share, turnover per employee, and training costs per employee etc. which all have relevance to financial information. In essence only a little part of it is discussing monetary value. This means that the reader has to form an opinion based on his understanding of the contents of the report. This is why harmonization of contents and indicators is so important. GoPro is a partner in a Nordic project on harmonising the reporting of intangibles in the IT industry and this report is a result of this participation.

To the reader, the main question is whether intellectual capital statements can be systematically read and analysed in a way that is comparable with the reading and analysis of financial statements. A guarded “yes” as an answer, i.e. the intellectual capital statement analysis method has much in common with the principles behind financial statement analysis but point out that the method is new and has only been tested by a few analysts. In order to explore the similarities between the financial statement and the intellectual capital statement, two parallel sets of questions have been prepared. For the financial statement the questions are: What are the company’s assets and liabilities? What has the company invested? What is the company’s return on investment? For the intellectual capital statement the questions are: How is the company’s knowledge resource comprised? What has the company done to strengthen its knowledge resources? What are the effects of the company’s knowledge work?

These two sets of questions relate to the same management problems. They are, however, not identical as their answers are based on different types of data. This makes it technically impossible to carry out uniform financial analyses on both sets of questions. This is why readers could see intellectual capital statements as giving a less credible and less relevant company evaluation. This is especially due to the fact that detailed accounting standards have been established over time to specify the correct use and interpretation of figures and concepts. However, this does not mean that all financial statement figures are as unambiguous and informative as could be expected. This is why a similar set of standards needs to be developed for intellectual capital statements. Given the experience with traditional accounting standards it will probably be some time before there is an established generally accepted ways of preparing and understanding intellectual capital statements.

By preparing this report, GoPro has taken an important step towards developing its intangible potential and explain itself to the outside world. The rewards are twofold in terms of informed stakeholders and the development of the company’s competitive advantage for future benefit.

Eggert Claessen, Chairman of the board GoPro.

Our business

How do we get the right information to the right people at the right time? Managing information is a critical issue in modern organizations. Precise control and a clear overview of information are required to fulfil the ever-escalating demands of customers. GoPro provides organizations with a powerful tool that helps them keep up with, and exceed customers' demands. Case management provides complete control and overview. A case stores all information about documents, contacts and correspondence related to a specified project or a task in one accessible place. GoPro provides a powerful case- and document management solution that ensures that all stakeholders have a complete overview and control of their cases and projects.

The practice of case management as a mean for effective public administration can be traced back to the Roman Empire but only in the last decade the grounds for considerable changes in procedures and affectivity has been prepared by establishing clear means of communication and collaborative platforms. It is only now that public administration can really improve and go to new lengths – with our products. Electronic case management is not a revolution forcing the public sector to completely reengineer their ways of working, but rather an evolution that effectively and efficiently supports the work procedures and best practices that have been tried and trusted for centuries. It provides a productivity tool which support public sector processes, meaning document based and hence traceable decision making while managing operational issues such a process status, allocated responsibilities, workload etc.

GoPro case management capabilities enables organizations to obtain a consolidated and hierarchic overview of business information and to categories these in relation to relevant metadata such as instances of specific workflows - a case, and customers, such as citizens, businesses or other authorities. Each case the holds exact information on who's the responsible case officer, what the current status of the case is, what the next step will be, who the relevant parties involved in the case are, as well as all documents associated with the case processing. In this way information, documents and records are categories in a logical way according to the activity being performed.

GoPro ties the benefits of case tracking and document management together by seamlessly integrating the two. GoPro.Net is an effective tool for reaping the benefits provided by meaningful document management such as efficient document creating, filling, sharing, structuring, control, and overview. A build-in repository of document templates and standard text allows optimal and consistent document creation and as all documents inherit relevant meta data from associated cases or customers the creation and filling of documents becomes a one step task.

GoPro has been designed in close collaboration with key public sector government customers to ensure support for best practices in customer contact management. As effective management of customer contacts is a very important element of providing effective and efficient services, CRM capabilities are an essential part of GoPro. Customer profiles allow the capturing of all relevant contact details. The hierarchal structure ensures that documents or cases with the associated documents are stored under the relevant customer. This means that a clear and complete contact history is provided in relation to a given customer. The case management element furthermore

provides insight in the status of current cases with the complete supporting documentation available.

This ensures that most customer enquiries can be resolved at the first contact. In order to provide efficient and easily accessible service to the customers GoPro.Net provide support for multiple service channels such as mail, email, phone and of course web. A mass mail function allows effective communication with customers groups. As On-line service provision is a key element in making services more accessible and cost effective, a self-service portal, also called eCommunity, is a build-in part of GoPro. Forms are made available to the public via the Internet and are upon submission routed directly into GoPro.Net where a case is automatically initiated and assigned to a case officer for processing.

GoPro has been one of the leading providers of e-government software and services with a proven track record of working with local and central governments in N-Europe, and more than 60.000 users. GoPro's core product, GoPro Case has been developed in close corporation with governments and organizations since 1993. GoPro Case and add-on solutions provide case and workflow management, as well as call centre capabilities for increased productivity in document and case management.

Human Capital

GoPro takes great pride in the people who make up the company because GoPro has a highly capable and experienced staff in their profession. The employees, in general, have a University degree. They have also added to the education with professional degrees in the area in the key operational and technical expertise needed. A majority of the developers and project managers have certification from IBM, Microsoft, Prince2 and others in their respective areas of expertise.

GoPro conducts an employee survey and intends to do so yearly in co-operation with an independent company. The year 2004 is the first year for this survey to take place, so results further back is not available. The survey was conducted early February 2005 and had 95% employee participation. A total of 90 questions were used as a basis for measuring the following 11 indicators. Figures for 2002 have been added for comparison as a similar survey was conducted late 2002 even though it was not as comprehensive.

Each category is given a grade between 0-5, (higher number the better)

		2005	2002
1. Company vision and targets	-	3,92	3,80
2. Management and trust	-	3,88	
3. Strength of the "team"	-	3,91	3,51
4. Processes and communication	-	3,60	
5. Job execution and quality	-	4,02	3,70
6. Job satisfaction and company moral	-	4,02	4,00
7. Company Image	-	3,86	3,51
8. Know-how and capability	-	3,84	3,85
9. Working conditions and working hours	-	3,91	3,81
10. Internal IT systems	-	4,02	
11. GoPro products	-	4,09	3,98
Average rating	-	3,91	3,77

Structural Capital

A key element in GoPro's success is its products and processes. GoPro is developing and selling two major products

- GoPro Professional – for IBM platform
- GoPro.net – for Microsoft platform

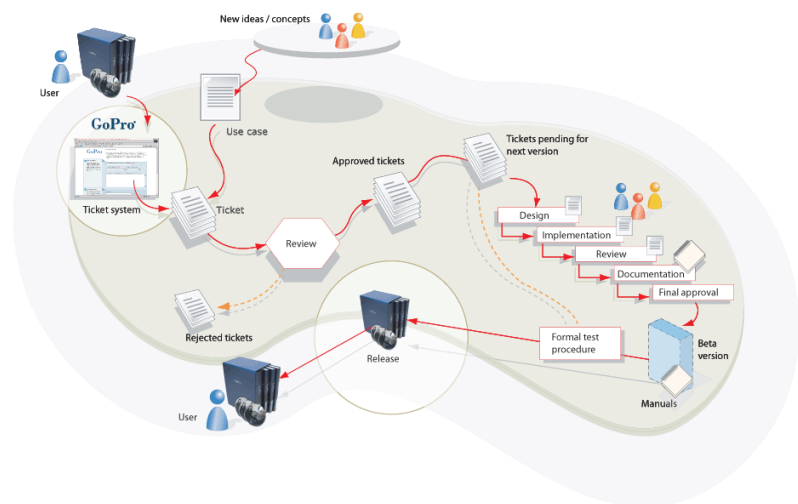
The gateway for registering new ideas/bugs/improvements for the GoPro products is through the ticket system on GoPro's service web (also accessible directly through all GoPro products). This development process can be described by the image below.

Registration

Tickets are registered electronically either by customers, partners or GoPro employees.

Evaluation (review)

Registered tickets are reviewed within 2 weeks resulting in the ticket either being rejected with a given reason or accepted for further processing.



Development phase

When preparing for a new version a deadline date is set and then all tickets for that product are evaluated and those of highest priority set to the given deadline resulting in a pile of pending tickets for the new version. Each ticket then goes through the following process

- **Design** – how this idea will be implemented in the product
- **Implementation** – the design being implemented
- **Review** – implementation reviewed by another employee, making sure that the implementation is working properly and matches the design
- **Documentation** – description of how this impacts the product (will become a part of the Release notes when the version is released)
- **Final approval** – Formal approval of the ticket, validation of that the ticket has indeed been processed according to the GoPro quality standards.

Test phase

When all tickets pending for a version have been completed a new beta version is built for testing purposes and the formal (manual) testing process begins. A number of testcases are used for that purpose, covering all general functionality of the product. A ticket is created for each test that fails and those tickets go through the development phase in the same way as other tickets. When all those tickets have been completed a new build is created and the tests that failed are retested on that build.

Each release can be represented graphically by using a single column broken into 3 practical units, allowing these core units to be measured independently.

Fixes	<p><u>Fixes:</u> Timeline: Short term, high priority Purpose: Addressing reported issues, problems/ errors as well as changes in the underlying current platform etc.</p>
Maintenance	<p><u>Maintenance:</u> Timeline: Short term Purpose: Enhancing current functionality of the product by focusing on feedback from users, partners etc. (increased usability being the core motivator).</p>
Vision	<p><u>Vision:</u> Timeline: Long term Purpose: New high-level product features addressed by the official Release Plans. Each version should bring us one step closer to our goals.</p>

Statistics of this kind is currently not available but necessary changes will be made to the ticket system in 1q 2005 so that data can start to accumulate as soon as possible.

These changes, as well as many more, will result in the possibility to evaluate the rise and fall of these 3 core units for each version along with the development time spent on each of them. This will serve as an indicator to quality, response time, development power etc.

The development of GoPro's key products has been a major focus in the company's operation and the intellectual value of the company.

The following figure indicates the man-years used for development of key products (including the effort for project used later as a part of products of design).

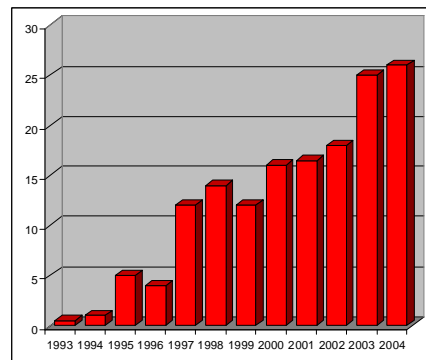
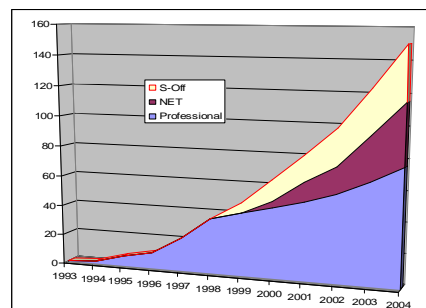


Figure: GoPro product development

The latter figure represents the accumulated man-years behind the key products, GoPro Professional and GoPro.net

As indicated in the figure, contribution to the development of products is estimated 25 man-years in 2004 and the accumulated a total of over 140 man-years has been spent on the development of key products and service offerings currently offered under the GoPro brand.



As indicated the development of GoPro.net started in 1999 with the accusation of two companies and development of GoPro/x, that now is in the process of being replaced by GoPro.net

Registration of trademark and patents

GoPro has not executed a patent strategy until this time, but has executed a trademark strategy. The GoPro trademark is registered in all countries of Europe and in USA.

	2003	2004
Number of registered Trademarks	1	1
Number of registered Patents	0	0

Language versions

The GoPro products are available in the following languages

	2004	2004	P: Full product language support and translation p: Partly language support of translation D: All manuals translated d: The user manuals translated, but other documents in English
	GoPro.net	GoPro Prof.	
English	P/D	P/D	
Icelandic	P/D	P/D	
Danish	P	P/d	
German		p	
Swedish	P	P/d	
Rumanian	P		
Estonian		P/d	
Latvian	p		
Arabic	p		
Spanish			

Delivery dates

During the last 2 years a focus has been set on releasing the products on the planned dates. The focus has been on setting reliable dates and rather limiting the functionality of the product than not living up to the release plans.

During the year 2004 a total of 15 major and minor products were sent out and 14 of those on schedule and one was delayed for a week.

Internal and external communications

GoPro is actively using internal communication to ensure employee awareness and participation. The key behind this policy is a full access for all employees to all information in the internal GoPro case and document management system (excluding board and employee personal records). Further a focus has been set on sending out

news bullets every week, with weekly news on sales development, operation and employee news. Until now this news bullet has only been in Icelandic, but plans are to change that in near future to English.

GoPro is a big user of its own products and is using the GoPro Case systems as a base for its, case management, both Sales and Marketing cases as well as for project related cases and internal work.

Following is a statistics from the use of the internal GoPro Case system.

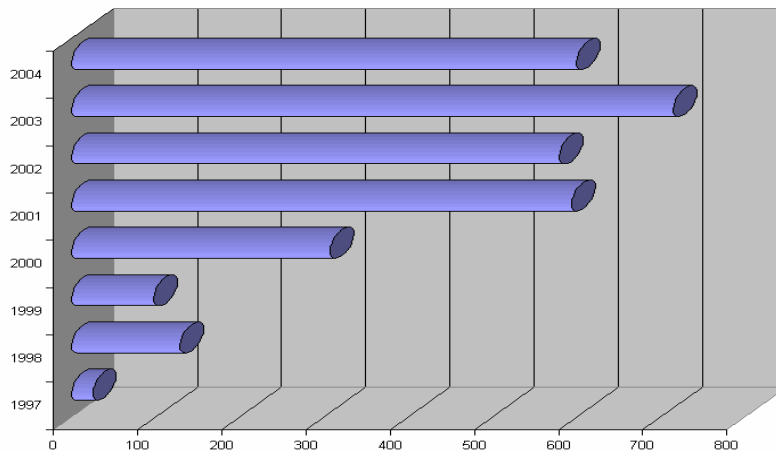


Figure: Number of cases registered year by year

Project management and consulting

In 2002, company wide implementation of Prince 2 project management, was started and the since that increasing focus has been on further strengthening the use of Prince 2, within the organization. GoPro has implemented all Prince 2 processes in its internal GoPro Case system.

The company has categorized the project into 3 major categories:

Band 0:

- Small projects usually 1-2 days
- Not a dedicated project manager
- Douse not require a PID (Project Initiation Document)
- Project consider to be a low risk
- Project not a part of a acceptance process

Band 1:

- Medium projects usually weeks
- Assigned project manager or the project management is a part of the execution team in the project
- A PID is required before a project is started
- Project consider to be a low to medium risk
- Project usually within the “comfort zone of the company”
- The proposal is usually based on predefined and pre-priced tasks
- Project not a part of a bid process unless the risk is considered high.

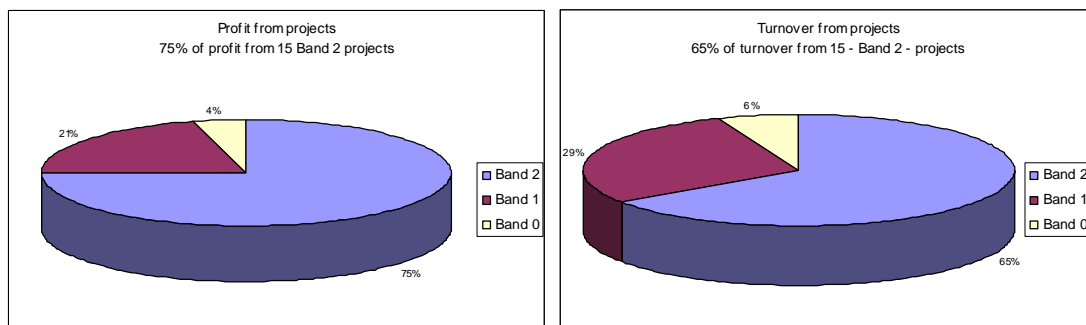
Band 2:

- Large projects usually months
- Assigned project manager
- A PID is required before a project is started
- Project usually within a part of a GoPro sales, integration or fulfilling special requirements set forth in RFP
- Project must be Risk evaluated as a part of the Bid process
- Project must go through a bid-bard acceptance process

Profitability of projects

A big shift has been in the profitability of the projects from 2001 to 2004. The main factors influencing this turnaround are better quality of the GoPro products and the announcement of Prince 2 in project management situation as well as quality of proposals and contracts. While the total number of projects has been decreased from 700 to 150, the average profitability has changed from a loss of 230.000 to a profit of 178.000.

The following pie-charts indicates the total turnover of the projects and the total profit from the projects in 2004.



As indicated the 65% of the total turnover from projects and 75% of the project related profit is coming from the 15 projects defined as Band2.

Bid board

GoPro has implemented a process for risk assessment of proposals, named Bid Board. All project that are outside the scope of general proposal guidelines, either if GoPro is offering a project work at fixed rate outside the scope of 2 man weeks, or if prices are outside of the scope of the pricelists.

Development process

Development process is a structural process, focusing on 4 major areas

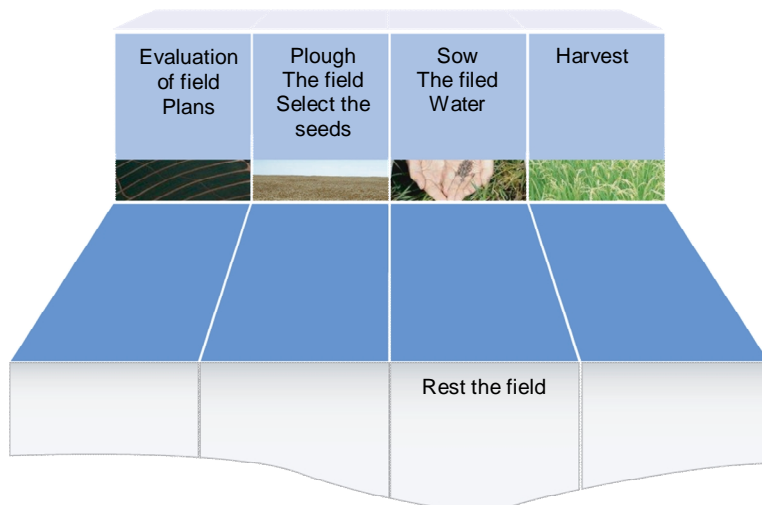
- Quality of the process – bug tickets and the time to resolve
- Plans – the delivery of products within the predefined time – meeting the deadlines
- Planning of new versions and functions – number of improvement tickets and statistic

Relational Capital

GoPro's business model is not to do business directly with the end-user but to sell through a business partner network. An exception to this is the operations on our domestic market, which is used as a development- and test market. Therefore the majority of the communication and customer relations are from GoPro to partners and from the partners to the customer (except for domestic market). As a result the co-operation, education, training and support of the partner network are crucial, to customer's satisfaction, as well as the quality of the products and the support provided by GoPro.

GoPro is currently using two methodologies in its sales and marketing activities. For the over all strategy in regard to markets, territories and activities (including investments and resources, and for the sales cycle GoPro is implementing its version of staged sales approach (not unlike the "Solution selling").

GoPro uses its own 4-step approach, understanding the nature, maturity and commitment in each of the categories.



	Description	Investment
Evaluation	For initial stages, getting the first contacts, evaluate the territory/country and the need for GoPro's products. Seek out partner ('s) and understand the competition.	Investment in travel cost and time/research
Plough the field	If a decision is taken to enter into a market the activities involved in increasing the visibility. Signing up partners, translating the products and marketing material for demonstration purpose. Understand the technical requirements that might be special to this market. Discussions with IBM and Microsoft.	Assign a S&M resource to the territory. Investment in assisting with translation. Travel for support and S&M assistance. Contractual and legal.
Sow	After a decision to enter the territory into the list of the focus territory. Translations and localizations, partnership with IBM or Microsoft as well as with key partners in the field	A dedicated resource (or a part time depending on the size of the market). Travel and support. Additions to support systems. Bid support and special bids to

win the first customers if needed.

Harvest Sales and marketing activity is scaled up. Sales in the field started. Customers installing. Focus on maintaining and strengthening the relationship with partners and customers and growing the business.

Sales cycle

GoPro is implementing its own system starting from 1q 2005, replacing an older system more focused on end-user sales. The new system resides within GoPro, capturing all sales cycles from start to closure – giving the management better overview over current and more importantly project the future pipeline. The pipeline / cycles are identified by partner, territory, responsible persons and product. Statistics related to the sales cycle and sales time will be added based on figures from this system.

Partners

An important part of the relational capital is our relations with our partners. GoPro has partners in the following territories: UK, Sweden, Denmark, Rumania, Estonia, Latvia, Lithuania, Norway and Germany.

	2003	2004
Total number of partners	10	18
Total number of partners selling over 0,5m ISK	5	10
Total number of countries with installed GoPro	17	17

In addition to this, activity has been started in the following territories/countries, and according to the territory model: Canada, Germany, Poland, Bulgaria, Russia, Yemen, Norway, Hungary, Holland, South-Africa, Finland and S-America.

Customer Loyalty

GoPro evaluates the customer loyalty on the number of maintenance contracts and number of sales into current accounts.

	2003	2004
Average time in Maintenance (years)		
Iceland	4,5	5,1
Other countries	3,7	3,7
Number of sales into current accounts	N/A	N/A
Total number of Maintenance agreements	168	179

Intellectual Capital Indicators

Human Capital Indicators

	2002	2003	2004
University education	64%	80%	88%
BSc, Msc or similar			
Staff turnover		19%	10%
Average years with the company (years)		5	6
No of positions		54	48
Staff in subsidiary		5	0
0-1 years		7%	8%
1-4 years		48%	15%
5-9 years		41%	67%
>10		4%	10%
(The figures are based on 31.12 each year)			
Employee categorization			
Developers		48%	50%
Service		15%	10%
Sales and Marketing		16%	22%
Management / office / phone service		12%	12%
Consultants / project managers		9%	8%
(The figures are based on 31.12 each year)			

Relational Indicators

Internal/external communications	2002	2003	2004
Shareholders meetings			1
Board			
- Meetings			14
- Weekly internal news			42
Employees			
- Weekly internal news			42
- Companywide internal meetings			5
Partners			
- Partner forum			0
- Direct mail GoPro			2
- Shows			3
- Web Cast			2
Customers			
- News letter			N/A
- Direct mail			N/A

Structural Indicators

	2002	2003	2004
Percentages of sales pr. product line			
- GoPro Prof.		71%	81%
- GoPro.Net		1%	9%
- Service offerings		28%	10%
Maintained versions of the products			
GoPro Prof.		4	2
GoPro.Net		1	2
Sales indicators			
Turnover/ # employees	64%	79%	97%
Maintenance turnover/ # employees	17%	40%	77%
GoPro sales and maintenance/ #employees	25%	35%	68%
Index based on the targets for 2006			
Maintenance indicators			
% of total turnover		18%	21%
Average time in Maintenance (years)			
Iceland		4,5	5,1
Other countries		3,7	3,7
Percentage of work in R&D		19%	21%
Deviation in plans%			
Total income		+1%	+7%
Cost		+3%	0%
Projects			
Number of projects	300	250	151
Profitability of projects	-11%	3%	12%
Number of projects through bid board		3	14
Win/loss ratio of bid-board projects		33%	50%
Dept collection			
Average age of accounts receivable		37 d	37d
Credit invoices (percentage of all invoices)		4%	2,6%
Sales /territory:			
Total turnover / (country/Territory)			
Iceland		68%	54%
Nordic		14%	11%
UK		18%	35%
Product sales			
Iceland		44%	30%
Nordic		39%	23%
UK		16%	47%
Maintenance contracts			
Iceland		71%	58%
Nordic		24%	24%
UK		5%	18%