

GoPro

Intellectual Capital Report 2005

Shareholders meeting February 2006

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About this report

This is the second intellectual capital report that the company has prepared as added information to our stakeholders. The first report was an important milestone in starting to explain the hidden values that reside within the company. These values are the cornerstone of the value creation possibilities of the company in the future.

The development in world business has changed the focus in management from looking only at tangible resources to looking at intangible assets and their relationship to future value creation. The problem for management has been that there appear to be gaps between what gets measured internally and what gets reported externally. This can be attributed to lack of reliability of measurement of intangible asset and a lack of understanding of how to present valid measures due to the characteristics of intangibles. The goal of disclosure is to provide relevant, reliable, and timely information to those who need to know it so that they can make decisions concerning their relations with the company. The argument for successful implementation of measures and reporting is that corporate reports are more likely to generate rewards in the capital markets if the reader can visualise a link between strategy and areas such as employees, the environment and corporate performance.

GoPro is one of a growing number of companies that have started to report their intangible assets or indicators for such in their annual reports. These companies may however be hesitant to disclose important figures for fear of giving away their competitive advantage but a lack of external disclosure standards and the lack of clarity in intellectual capital constructs for disclosure can also hinder measurement and reporting. There is also the question of the perceived importance of different intangible resources across companies or industries, which should call for more detailed studies of what is disclosed of intellectual capital and for what reasons. Such reasons are that IC disclosure is not limited to external reporting. IC disclosure also has practical implications internally as it can help organizations in the strategy formulation, strategy execution assessment, assist in diversification and expansion decision and finally as a tool in determining compensation.

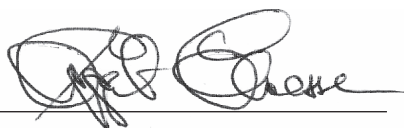
GoPro has addressed this practical aspect of IC disclosure as a member of the PIP project, initiated by the IT sector organizations in the 5 Nordic countries and the Nordic Innovation Centre. The objective of the project is to produce, implement and disseminate harmonized indicators for realising intangible values in the Nordic countries. It aims to provide new ways to put IC into practice as a tool for management to improve performance by providing an open source framework for assisting the knowledge transformation process. It is expected that the harmonization of indicators for intellectual capital will change the consulting practice when dealing with intangible resources within companies and how IT companies, in particular, identify and use their competitive advantage from a strategic perspective. This, in particular, has been an important driver for the company.

It is necessary to restate the contents of this IC report. This report combines numbers, narration, and visualization to explain the value drivers of the company. 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. It further has a number of indicators that are used as evidence, depending on the relevance to the knowledge narrative. 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. The 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.

The idea of using storytelling or narrative as way to get the corporate message across has been addressed by many businesses. The question is, if stories really have a role to play in the business world? Stating that most executives operate with a particular mind-set, it is analysis that drives business thinking by cutting through the fog of myth, gossip, and speculation to get to the hard facts, undistorted by the hopes or fears of the analyst. The strength lies in the objectivity, which is at the same time also a weakness. But at a time when corporate survival requires disruptive change, leadership involves inspiring people to act in unfamiliar and often unwelcome ways. This is when the most logical arguments might not work, but effective storytelling could translate dry and abstract numbers into compelling pictures of a firm's goals. Another way of addressing this is to say that a story can do what facts can't, just as knowledge can become wisdom, so do facts become a story. The story can influence the interpretation of the facts. The story also delivers the context in which the facts are evaluated. People are not rational which means that facts are not only the facts!

The two sets of questions addressed by traditional and IC accounting relate to the same management problems, but are not identical as the answers are based on different types of data. This makes it technically impossible to carry out a uniform financial analysis on both sets. The fact that detailed accounting standards have been established over time to specify the correct use and interpretation of figures and concepts, has created a common context for addressing financial issues that makes the intellectual capital statements seen as giving a less credible and less relevant company evaluation. However there is recent evidence that not all financial statement figures are as unambiguous and informative as could be expected. This is why the role of IC statements is becoming greater as it completes the view of an organization and its possibilities for value creation in the future.

This IC report is based on the Danish Guidelines which is the prevailing standard in the field. By preparing this report, GoPro has taken an important step towards developing its intangible potential and explaining itself to the outside world. The rewards are twofold. The company is able to relay information to its stakeholders and has a greater potential for the development of its competitive advantage for future benefit.

A handwritten signature in black ink, appearing to read 'Eggert Claessen', written over a horizontal line.

Eggert Claessen,
Chairman of the board GoPro.

What is 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.

Our people - 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 annually in co-operation with an independent company. The year 2004 was the first year for the survey to take place. A total of 90 questions were used as a basis for measuring the following 11 indicators.

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

	2006	2005	Change
1. Company vision and targets	3,7	3,9	↓
2. Management and trust	3,8	3,9	↓
3. Strength of the "team"	3,7	3,9	↓
4. Processes and communication	3,4	3,6	↓
5. Job execution and quality	3,7	4,0	↓
6. Job satisfaction and company moral	3,8	4,0	↓
7. Company Image	3,6	3,9	↓
8. Know-how and capability	3,5	3,8	↓
9. Working conditions and working hours	3,8	3,9	↓
10. Internal IT systems	3,9	4,0	↓
11. GoPro products	3,8	4,1	↓

Our average rating for these two years is 3.7 in 2005 compared to 3.9 in 2004. Looking at each of the indicators, there is a similar slide downwards at an average of 5%.

This difference is not statistically significant to represent a trend and is to be expected when scoring as high as the company did in 2004. The important issue is the consistency in the change in all indicators which points to a similar situation in both years of measure.

Our processes - 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)

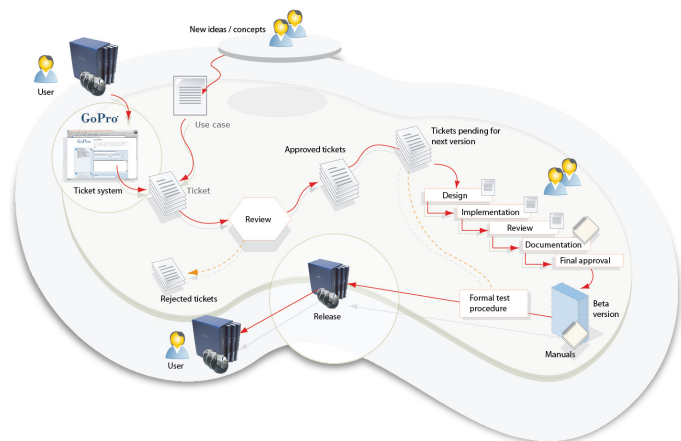
Registered tickets are reviewed within 2 weeks resulting in the ticket either being rejected with a given reason or accepted for further processing.

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
- **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.

implemented in the product



Test phase

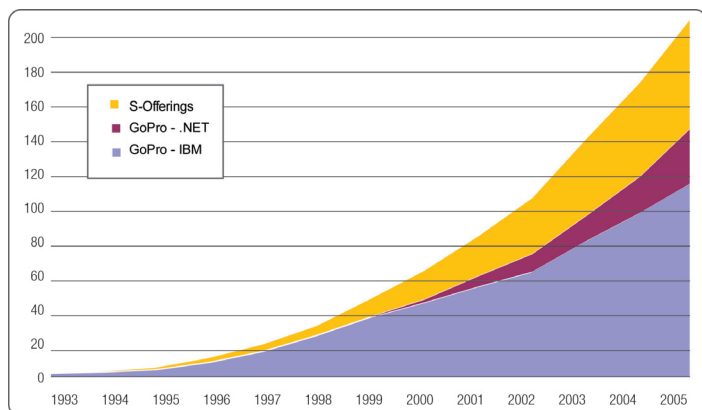
When all tickets pending for a version have been completed a new beta version is built for testing purposes and the formal (manual) testing process begins. A number of test cases are used for that purpose, covering all general functionality of the product. A ticket is created for each test that fails 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>Fixes: Timeline: Short term, high priority Purpose: Addressing reported issues, problems/ errors as well as changes in the underlying current platform etc.</p>
Maintenance	<p>Maintenance: 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>Vision: 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 represents the accumulated man-years behind the key products, GoPro Professional and GoPro.net (including the effort for project used later as a part of products of design).

Figure: GoPro product development (man-years)

As indicated in the figure, contribution to the development of products is estimated 26 man-years in 2005 and the accumulated a total of over 190 man-years have 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 acquisition 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, but has executed a trademark strategy. The GoPro trademark is registered in all countries of Europe and in the USA.

GoPro®

	2003	2004	2005
Number of registered Trademarks	1	1	1
Number of registered Patents	0	0	0

The company continues to build on the strength of the GoPro trademark, even though it involves considerable effort and financial resources. This is especially important as the GoPro trademark is one of the largest values within the company.

The importance of having and owning a strong trademark is clear as its visibility and image benefit the company. The GoPro trademark appears to “fit” well in different markets and creates visibility, stability and credibility for our products.

The company made further contributions to the effort on increasing the visibility of the trademark and will continue to do so

Language versions

The GoPro products are available in the following languages

	2005	2005
	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	P	P
Polish	p	p

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

Release 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.

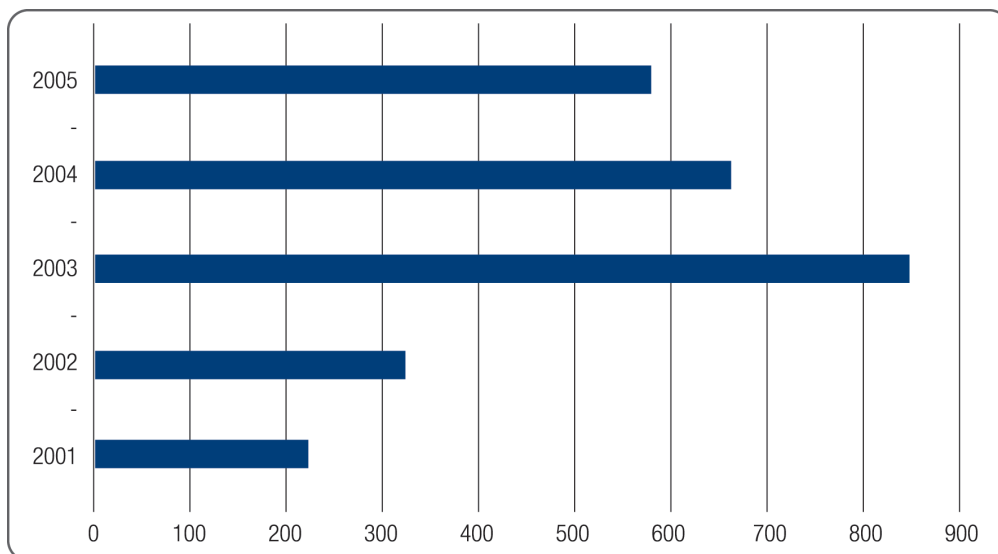
During the year 2005 a total of 23 major and 13 minor product updates and versions were released. All were on schedule, except one that was delayed for a week.

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 bulletin every week, with weekly news on sales development, operation and employee news. Until now this news bulletin 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.



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 projects into 3 major categories, called Band 0, Band 1 and Band 2 respectively. A short description is as follows:

Band 0:

- Small projects usually 1-2 days
- Not a dedicated project manager
- Does 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:

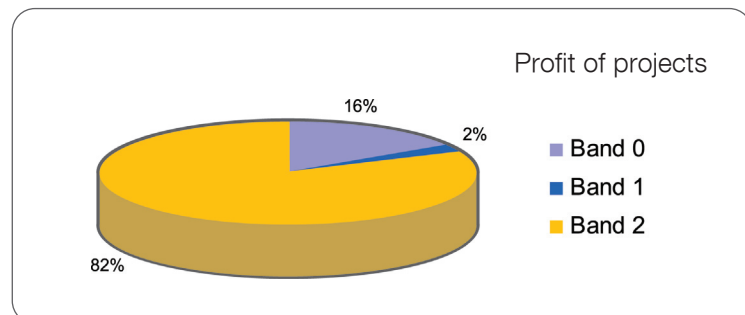
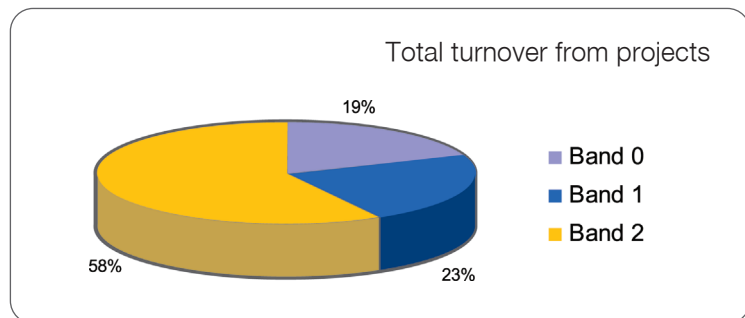
- Large projects usually months
- Assigned project manager
- A PID is required before a project is started
- Project usually within a part of a GoPro sales, integration or fulfilling special requirements set forth in RFP
- Project must be Risk evaluated as a part of the Bid process
- Project must go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

Profitability of projects

A big shift has been in the profitability of projects from 2001 to 2005. The main factors influencing this turnaround are better quality of the GoPro products and the announcement of Prince 2 in project management as well as the quality of proposals and contracts. While the total number of projects has been decreased from 700 to 253, the average profitability has changed from a loss of ISK 230.000 to a profit of ISK 178.000.

The following pie-charts indicate the total turnover of the projects and the total profit from the projects in 2005

As indicated the 58% of the total turnover from projects and 82% of the project related profit comes from the 20 projects defined as Band2.



Bid board

GoPro has implemented a process for risk assessment of proposals. This process is named Bid Board. All projects 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, are evaluated by this board. The board consists of the various stakeholders within the company.

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

This is key to improving the key products of the company. In the past year, a considerable effort was put into streamlining productlines and simplifying the product offering. The objective is to offer GoPro in a single solution that addresses case and documents management with access through eCommunity. This solution will be made available for both the IBM and Microsoft platform.

The company enjoys a very valuable relationship and support in the development of GoPro from both IBM and Microsoft, that provide assistance in the form of participation of specialists in design, programming and testing.

TENZING

In September 2005, the company introduced a new vision for the GoPro products. This vision, code name Tenzing, is a clear indication as to the technical and ideological direction for GoPro in the future. It clarifies priorities and combines new technology with existing experience to create a competitive advantage for the product in the future. This also applies to how the product will be marketed and sold.



New development centre

In 2005, the company established a new development centre in Bulgaria. This centre is a wholly owned subsidiary of GoPro and is based in the World Trade Center in Sofia, where a number of other major IT companies are based as well.

The objectives by establishing the centre are threefold:

- Increase R&D by creating a strong development team and increasing the possibility of achieving the scale and scope that the company is aiming for
- Reduce reliance on ISK in the cost structure of the company
- Establish a strong presence for GoPro in SE-Europe

Our customers - 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 it's 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 2006, 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	2005
Total number of partners	10	18	21
Total number of partners selling over 0,5m ISK	5	10	8
Total number of countries with installed GoPro	17	17	18

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	2005(*)
Average time in Maintenance (years)			
Iceland	4,5	5,1	6,0
Other countries	3,7	3,7	4,0
Number of sales into current accounts	N/A	N/A	N/A
Total number of Maintenance agreements	168	179	169

(*) Turnover and maintenance from Internet solutions included in the figures for 2003-2004, not included in the figures for 2005 as the activity was sold 1.1 2005.

Intellectual Capital Indicators

Human Capital Indicators				
	2002	2003	2004	2005
University education	64%	80%	88%	89%
BSc, Msc or similar				
Staff turnover		19%	10%	14%
Average years with the company (years)		5	6	7
No of positions		54	48	44
Staff in subsidiary		5	0	1
0-1 years		7%	8%	7%
1-4 years		48%	15%	9%
5-9 years		41%	67%	73%
>10		4%	10%	11%
(The figures are based on 31.12 each year)				
Employee categorization				
Developers		48%	50%	45%
Service		15%	10%	8%
Sales and Marketing		16%	22%	28%
Management / office / phone service		12%	12%	11%
Consultants / project managers		9%	8%	8%
(The figures are based on 31.12 each year)				

Relational Indicators

Internal/external communications				
	2002	2003	2004	2005
Shareholders meetings			1	1
Board				
- Meetings			14	16
- Weekly internal news			42	42
Employees				
- Weekly internal news			42	42
- Companywide internal meetings			5	6
Partners				
- Partner forum			0	0
- Direct mail GoPro			2	2
- Shows			3	3
- Web Cast			2	6
Customers				
- News letter			N/A	N/A
- Direct mail			N/A	N/A

Structural Indicators

	2002	2003	2004	2005
Percentages of sales pr. product line				
- GoPro Prof.		71%	81%	76%
- GoPro.Net		1%	9%	9%
- Service offerings		28%	10%	15%
Maintained versions of the products				
GoPro Prof.		4	2	1
GoPro.Net		1	2	1
Sales indicators				
Turnover/ # employees	55%	68%	78%	74%
Maintenance turnover/ # employees	9%	40%	69%	78%
GoPro sales and maintenance/ #employees	6%	28%	49%	54%
Index based on the targets for 2007				
Maintenance indicators				
% of total turnover		18%	21%	33%
Average time in Maintenance (years)				
Iceland		4,5	5,1	6,0
Other countries		3,7	3,7	4,0
Percentage of work in R&D		19%	21%	23%
Deviation in plans%				
Total income		+1%	+7%	-8%
Cost		+3%	0%	-10%
Projects				
Number of projects	300	250	151	253
Profitability of projects	-11%	3%	12%	20%
Number of projects through bid board		3	14	17
Win/loss ratio of bid-board projects		33%	50%	44%
Dept collection				
Average age of accounts receivable		37 d	37d	38d
Credit invoices (percentage of all invoices)		4%	2,6%	2,2%
Sales /territory:				
Total turnover / (country/Territory)				
Iceland		68%	54%	55%
Nordic		14%	11%	10%
UK		18%	35%	31%
Other		N/A	N/A	4%
Product sales				