

MOVIAL CORPORATION
INTELLECTUAL CAPITAL REPORT

31.5.2006

MOVIAL
IDEAS IN MOTION

www.movial.fi



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2 INTRODUCTION

2.1 About this report

This is the third Intellectual Capital report from Movial.

This report is done, and partly financed, under guidance of "Nordic harmonized Knowledge indicators: Putting IC into Practice" – project.

Most of the IC indicators used in this report are they same as in previous report. By doing so we have tried to emphasize the continuity of the measurements and provide yearly continuum in figures.

2.2 Company Overview

2.2.1 Mission and Vision

Movial's vision is to make new software technology intuitive and thereby assist its customers succeed. Our Mission is to make user centric IP Communication software for applications and Linux devices. Movial's business is to provide IP communication software to device manufacturers and operators. We work with some of the leading device manufacturers and service providers worldwide to provide the best converged services in time, usability and quality.

We are a growth company and expect to grow in all business areas. We anticipate high growth from deliveries of end-user IP communication software by operators. End-users use the software to communicate and share experiences in real time or in from of messages. Internet capable Linux electronics remains to be an important growth potential for us.

2.2.2 Historical Overview

Movial Corporation history began in September 2001 as Creanor Oy. Creanor Oy exists today as a daughter company of Movial Corporation and provides the web design and content management services for Finnish companies. Movial Corporation name reflecting the majority of business was presented to market in June 2004 though the brand Movial itself were introduced for the Linux development market in April 2002. Since then Movial has been

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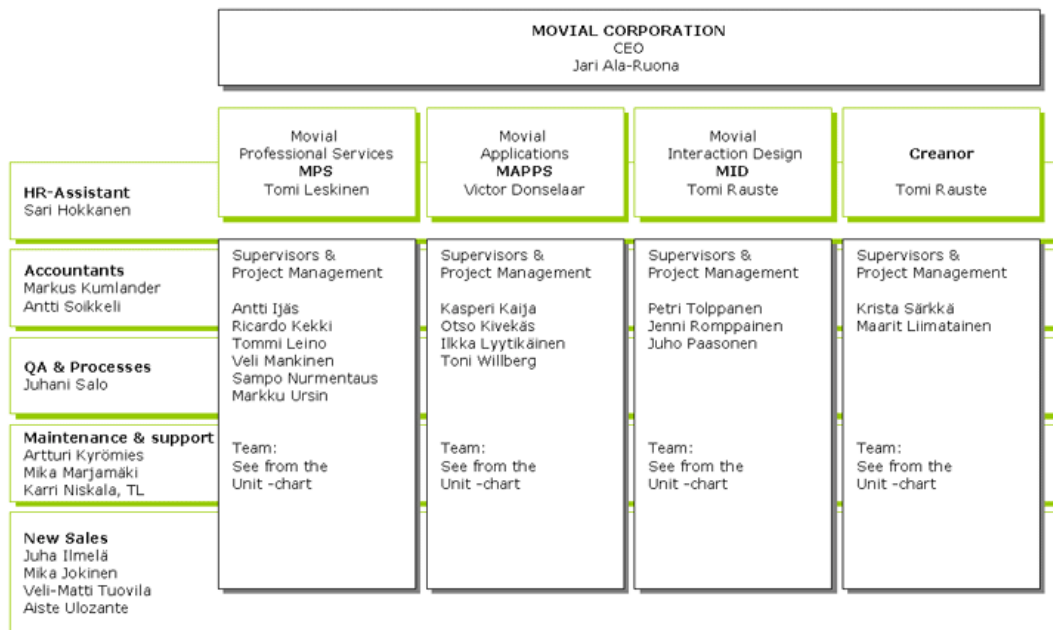
working towards Linux applications and convergence IP communication development.

Movial Applications Inc. as well as Creanor Inc. is 100 percent owned by the Movial Corporation and operates as a separate entity. Today Movial is formed of close to 100 employees with Linux know-how and experience with interaction design, multimedia and presence technologies and products at the highest level of the competence.

Movial's growth was stable and with the constant positive cash flow. Profitability and turnover despite the personnel number boost remained stable and no additional sources for financing except the income were required. Movial Corporation continues developing and gaining recognition in the Linux and IP communication market.

2.3 Movial Competencies and Business segment

Movial's business segments and core competencies can be generally divided into two sections; those in the services, and those in the products and other applications. Movial Corporation covers Movial Services and Movial Interaction design units. Movial Applications Inc. and Creanor Inc. are subsidiarys 100% owned by Movial Corporation.



2.3.1 Movial Professional Services

Movial Professional Services provides 360 degrees solution for the device manufacturers to develop better (Linux) devices to the market faster and with fewer expenses. The expertise of open source usage on consumer devices, experience in open source software development, knowledge in all areas regarding embedded devices and excellent teamwork enables 40 people team deliver the highest quality services for their customers.

Movial Professional Services Unit team has excellent technical competencies in development languages such as C, C++, Perl and Java. Movial is especially concentrating in the Linux-based consumer electronics, seeking to remain the time- and cost-to-market leader at the same time offering the high-quality whole product design, software development and value adding applications that separates consumer electronic manufacturers from their competitors.

Most of the devices Movial has worked with are telecom devices such as digital appliances, set-top boxes, mobile phones, and IP WLAN and multimedia devices. After 4 years of a relationship, Nokia has launched the 770 Internet Tablet using the Maemo development platform on May 25, 2005.

In the beginning of the 2006 the newest version of a cross-compilation toolkit – Scratchbox was released. Movial Services provides integration and maintenance for Scratchbox, which is a rapid cross-platform development environment for multimedia applications. It is an open source tool and available on the www.scratchbox.org.

2.3.2 Movial Interaction Design

Movial Interaction Design covers all interaction design fields from outlining products and services to user interface design and usability validation with a solid knowledge in user and market expectations, conception, and standardized design methods in mobile, desktop, and embedded environments.

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We are also experienced in reducing quality assurance overhead and decreasing product time-to-market in GTK+ projects by creating ready-to-use UI layout files with tools such as Glade.

Our group of experts currently consists of 15 highly-skilled professionals with solid backgrounds in usability, technology, graphic design, and process development.

Movial Interaction Design works closely with our other units to provide human interaction viewpoint in all Movial projects.

2.3.3 Movial Applications Inc.

Movial Applications Inc, a fully-owner subsidiary of Movial Corporation, provides converged IP multimedia application products to device manufacturers, operators and telecom equipment/solution vendors. Movial Applications is one of a few vendors that can truly offer IMS and IP based tested applications for PC, Mobile, and Consumer Electronic devices.

Movial Connect is a suite of proven applications that enable device manufacturers and service providers to rapidly launch revenue generating converged services. With Movial Connect, these organizations can introduce a variety of seamless presence, instant messaging and multimedia services across mobile, PC, and other connected devices

Movial Applications work across Symbian, Linux, J2ME, and Windows platforms and enable the same applications to be adopted on SIP/IMS, XMPP and OMA IMPS Protocols.

2.3.4 Creanor Inc.

Creanor Inc is a full service agency in the field of digital services: consultancy, design, marketing and technical implementation. Creanor's customers include many important firms and foundations in Finland.

Creanor operations will not be discussed further in this report, as most of its operations are quite separate from the rest of Movial Corporation. However, the Creanor personnel is included in the total number of Movial corporation staff, as Creanor takes parts and borrows resources to some Movial projects.

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3 CUSTOMERS

3.1 Market position

Movial Professional Services, delivering embedded Linux subcontracting services and applications, as well as Movial Interaction Design, covering all areas of interaction design, forms Movial Corporation and provides services to the information technology sector.

Movial Applications concentrating on product development has its own separate customer base and works with operators and device manufacturers.

Movial works on three continents primarily concentrating on European and Asian markets.

3.2 Customer Satisfaction

The customer survey taken in the spring of 2004 has not been repeated in the spring of 2006. However we kept developing our relationships with the customers and continued to work on long-term partnership, flexibility and fast reaction to changes as our competitive advantages. Technical competence in the projects was recognized by our long term customers as well as new ones.

Improving the weaknesses that revealed the survey in 2004 spring, Movial has actively participated in the trade shows, gave the lectures and delivered the presentations to raise the customer's awareness on Movial expertise areas.

3.3 Image in the Market

As the survey in year 2004 revealed Movial is hardly seen for the large audience, but is known for its main target groups. Movial choose seminars, fairs and trade shows, and direct contacts to market its products and services as the result of working in the business-to-business market structure within small niche. Traditional advertising forms are not used to keep the overall marketing costs down, and concentrate on development of products' prototypes and staff trainings.

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3.4 Visibility of Expertise

As mentioned previously in the report Movial takes advantage of the participation in different events to introduce company for the particular target groups. During the last year Movial staff took part in the Free and Open Source Software Developers' European Meeting - Fosdem (Brussels, Belgium), GUADEC Forum (Stuttgart, Germany) discussing the GNOME user environment, networked servers and portable Internet devices future development, and DebConf (Espoo, Finland) spreading the Movial name and sharing the knowledge with other developers. The 3GSM (Barcelona, Spain) and CTIA Wireless I.T. 2006 (Las Vegas, USA) and Nokia Application Summit (China) were business oriented events, where mostly management personnel worked introducing Movial achievements and future guidelines for prospects as well as gathering the valuable information of the current market status.

In the end of December 2005 Movial Corporation were invited to join CELF (Consumer Electronics Linux Forum) forum and to contribute to Mobile phone profile working group. During that occasion Movial gave the presentation on GTK+ technology based UI's for embedded devices. Following on the January 2006 Movial were welcomed to LiPS (Linux Phone Standards Forum) forum to share knowledge and experience with the partners in UI and Architecture working groups. These affiliations strengthened Movial's will and commitment to contribute and promote the open source standards. Movial Application were continuing its contribution to OMA and TEKES forums.

MobileMonday meetings in Helsinki and Open Tuesday events were attended by Movial people sharing the business ideas and underlying Movial's role in the Finnish and foreign markets. Professional Services Unit is actively working with Centre for Open Source Software (COSS), taking part in their events and being a part of COSS steering committee work group.

The cross-compilation toolkit – Scratchbox, and Movial Connect applications were the tools that made Movial be seen in the market and established its image. The Scratchbox solution for embedded Linux devices played the main role representing Movial Professional Services for the wider range of the developers community. Movial provides maintenance, support and trainings for the customers using Scratchbox toolkit.

Movial Connect Suite, containing Video, VoIP, Push-to-Talk, Push-to-Video, Instant Conferencing, Multimedia IM, Instant Messaging

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applications for PC, Mobile and Consumer Electronics, were expanded with Music Sharing application. New features such as a fully customizable UI, mobile-PC Push-to-Video functionality, PoC, and the ability to send and receive multimedia files were added.

During the previous year Movial activities, provided services and product updates were announced in the mobile community's internet portals – SIPcenter.org, InstantMessaging planet, Series60.com, open source websites – Linuxdevices.org, Infoworld.com and Movial partners' homepages. Our participation in EU funded COMET consortium was widely recognized.

3.5 Products

Movial products' portfolio offers the wide range of solutions to enable device manufacturers and operators provide the best solutions for Windows Desktop, High end Linux, OS smart phones. Movial Connect is a applications suite that enable device manufacturers and operators to launch revenue generating converged services.

Besides the technical experience with converged IP communication software, such as Instant Messaging, Multimedia messaging, Push-to-Video, Music Sharing, and Presence products, Movial also delivers solutions for generating new revenue streams and differentiates them from the competitors. The Movial Connect client product family for IMS and pre-IMS networks now provides the true converged IP products adding the best user experience across PC, Mobile, and Consumer Electronic devices.

Open development environment and easy-to-use interface enables handset makers, operators, enterprise application developers and end-users easily upgrade the devices and offer services.. Open source development conditions help to create a rich applications that can be deployed across multiple devices and network infrastructure without developing same applications from scratches. The technology used to develop Movial Products will rapid the launch of the services, increase the potential revenue, reduce operating cost and greatly enhance user experience.

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Movial Corporation, Porkkalankatu 13 J, FI-00180 HELSINKI, FINLAND, TEL +358 9 8567 6400,
www.movial.fi

4 EMPLOYEES

4.1 Structure

The number of employees increased by 7 to 90 employees in the end of 2005, which means that Movial faced a growth rate in employees of 8 % last year. The sick leave percentage were quite small, i.e. 2,1% of all the done hours.

The employee turnover rate was 18 %, as 16 persons left the company. On average Movial Corporation employed 87 persons in year 2005. The proportion of men is considerably larger, as 82 of the employees were men and only 8 were women.

The average length in service was 1.8 years at the end of year 2005. However, as the low turnover rate indicates, the average length in service is growing when the proportional share of the new employees is declining.

Movial is putting more effort in employee training. The training cost per employee averaged at 540 euros year 2005, which was ten euros more than during the year before. We will be placing even more emphasis on the employee training in the future. On the March 2006 Movial started the Professional Linux Developers Program, through which it is seeking to train and recruit the additional professional developers' team.

The employee satisfaction survey shows that employees are very eager to develop their skills and would like to have more training in order to do that.

Movial also placed emphasis in creating introductory material to new employees in forms of new employee package and Gobjects (GTK technology) documentation. Also a skeleton of a training program has been created.

The cost of social activities was about 185 euros per employee. This included two company wide refreshment days and several other occasions on team or unit basis. Movial also supports exercising, so that its personnel receive a discount and support to a well equipped gym. Also possibility for team sports such as floor ball and football is arranged.

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4.2 Recruiting

The recruiting in IT industry sets a challenge that Movial has been able to meet satisfactorily as the growth in the number of employees shows. Movial is recruiting more skilled employees continuously, and we want to attract and retain the best employees in the market. Furthermore, we want to keep their commitment and satisfaction high. For this reason, an employee satisfaction is under continuous watch.

One of Movial's best recruitment channels is the word of mouth, so that current employees recommend Movial to their friends and acquaintances. We also place job ads on our website and other recruiting channels. Especially among students Movial is recognised as one of the leading innovation companies which provides challenging career opportunities, and we recruit directly from the university recruitment channels. The traditional channels such as newspapers have proved to be less effective for Movial, as it operates in a small niche and for that reason also the recruiting channels have to be more targeted.

Movial Professional Services carried out recruitment for a Professional Linux Developer program in spring 2006. 16 recruits were selected for the program to transform or add new embedded Linux and Open Source skills.

4.3 Staff satisfaction

The third complete employee satisfaction survey was made in March 2006. The survey results indicate that the level of satisfaction has remained about the same as one year before.

The ability to influence working hours was seen excellent also this year. Other things that received very good ratings were the motivation to develop personal skills, relationships to fellow employees and supervisors/management and colleagues' support in your work.

The survey indicated that more effort has to be placed on the introduction training in the beginning of the employment and provision of information about bigger changes, strategies and financial issues.

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4.4 Competence

Main competencies in the company are product design, user interface design, software design, and production (programming). Movial's know-how and experience in the programming of embedded Linux systems is truly world class. The operating system can be adapted to any given device or end use application. The Movial team has even created its own Linux distributions.

Movial's interaction designers have a long experience in developing Concepts and User Interfaces for several Mobile devices and PC applications. Among others, we have a high expertise in Symbian, Nokia Series 60 and 80, Java UIs, GTK and QT, as well with optimizing UI's for different browsers with XHTML and XHTML-MP

We contribute to the open source community at least for the Matchbox, GTK, Gstreamer, Gnome, Iksemel and Osip. We proactively promote the use of open source software, and our main corporate IT infrastructure is based on Linux and open source components.

About 22 % of the employees have Master's degree, 26 % Bachelor degree, 4 % trade school degree, 1 % Ph.D. degree, 29 % are students in a university or polytechnic and 16 % have no other formal education but high-school and 2 % comprehensive school. Certifications have not yet been followed.

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5 PROCESSES AND INFRASTRUCTURE

5.1 Process development

Movial continued emphasizing continuous quality improvement. We have used Software capability maturity model as a yardstick and taken huge steps forward.

The first version of the Movial Software engineering process is documented and reviewed also by external auditors with good marks. Process improvement group has collected experiences of the process and will organise the feedback as the next steps during the year 2006.

5.2 Project Management

During the year 2005 emphasis in Project Management process was in customer relationships. Movial had a training program to all the project managers, which consisted 6 all day, or multiple day workshops. The target was to take the customer wishes better in to account during the project, communication towards the customer and winning new projects from the existing customers. Project Management process was sharpen during these sessions and already tested in the new projects.

Project Managers have also had important role in the new employee training. There is still lot of to do in the orientation process, but we have improved a lot compared to the past. This process will have important role in the future, when the company is still growing and most probably the staff turnover rate will grow.

5.3 Quality Management

Movial seeks to continuously improve the quality and testing of the projects, having two persons solely assigned to developing our quality process. Most of the quality control and testing is performed throughout the project by the personnel involved in it.

The general quality of the Movial's products has been good and consistent, which has been achieved with strong engineering process and close cooperation and communication with customers. The whole organization is involved in quality assurance and

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participates in the improvement of processes and work methods. If deviations occur, they are analysed thoroughly, and teamwork and reviews are used to ensure that quality deviations are not left unnoticed.

Document management is done through Concurrent Versions System (CVS) where all the project documentation is stored.

5.4 Competence Development & Innovativeness

The share of R&D is about 14 % of the turnover of Movial Corporation, the R&D is mainly concentrated in the Movial Applications Inc.

Our policy is to have Target and Performance Reviews twice a year with all our employees. With this official conversation and record, we want to follow the competencies development and to offer our employees the possibility to express to which direction they want to develop their competencies. This is also used for ensuring that we have the required competencies and resources for carrying through both the present and future projects.

Movial personnel are encouraged to come out with ideas on how to improve the working methods or quality. Although there is not yet any official process for rewarding about innovativeness, case-specific rewards are used. So far persons have been mainly rewarded about bringing in new external customers, but we are looking for new ways to compensate about internal development ideas too.

5.5 Infrastructure

The total operational costs per employee were 10.437,27 € in year 2005, which is approx 25% more than in the previous year. This is because Movial's office costs have been notable small previously and due the new office these costs rose.

Movial moved to new premises in spring 2005. The new office is just renovated and our specific needs were taken in to account during the renovation. According to employee satisfaction survey the premises fit nicely to our needs.

IT infrastructure costs including support staff costs were 6% of the turnover. IT systems support core processes well. Major

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development during the year 2005 together with new Intranet was a new hour tracking system. This system was created in house, because this way we could ensure that it meets our specific process needs. With new hour tracking system the work time used for different tasks and processes are more visible and helps us to estimate new projects. Project managers use the web-based hourly reporting tool, called Tasker, for planning projects, timing and estimating personnel resources.

In-house IT-support staff assists personnel with day-to-day problems, software installations and configurations when needed. The IT-support staff is also responsible for the maintenance of all company and unit servers and services, office networks and inter-office VPN systems.

5.5.1 Security

Although the Windows and Linux networks differ in many ways, a central user account directory is used in all internal systems allowing more efficient user account management and improving the overall security of internal IT-systems. Systems needed for teleworking and accessed from outside Movial's office networks are accessed over encrypted links and authenticate from a different user account directory.

To further increase security of authentication systems all passwords for external connections have expiration dates. Network file-systems also share the same account directories and access is restricted with user groups on company, unit, team and project levels.

5.5.2 Intranet

New Intranet was opened in the first half of the year 2005. It is customized for different target groups (i.e. business units). The new Intranet makes Movial processes more efficient and automated. The most central processes are transferred on the Intranet by adding the required tools, instructions, documents etc. there, so that the processes become less person bound. This also has significant effects on improving project management, and the resource control and work time reporting involved in it.

Intranet acts as the most important communication channel within Movial. It is designed to make communication more efficient, declining the amount of irrelevant information and duplication,

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making the communication responsibilities more clear. Twiki was largely used as online project rooms.

5.5.3 Groupware

Movial has an own Instant Messaging server, which can also be reached outside LAN and via mobile phones by company's own products. Instant Messaging is widely used among management and sales. Developers use mainly company's internal IRC channel to communicate and to share knowledge.