

MOVIAL Corporation

Intellectual Capital Report

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Movial Corporation, Tietokuja 2, FI-00300 HELSINKI, FINLAND, TEL +358 9 8567 6400, www.movial.fi
Business ID 1710172-1

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2 INTRODUCTION

Movial takes advantage of market immaturity in several ways. The markets for Linux devices, Instant Messaging and VOIP for smart phones and PC are still being created, and it is therefore a key competitive advantage that Movial focuses on its capabilities to cope with uncertainties in market and technology in this phase.

This Intellectual Capital report helps us and our stakeholders understand what Movial does and what steps we have taken and are taking to develop our competency and improve our performance. In general, the intellectual capital can be divided into relational, human and structural capital.

Relational capital of Movial means that our success involves staying ahead of the competition through working with other companies. An example is that Movial already works with world leaders when it comes to Linux devices, smart phones and Internet based voice and messaging software. Through these partnerships we have insight and leadership in core technology areas that enable us to stay competitive. Relational capital also means that we at Movial have to offer our customers products and projects that they understand and can adapt into their life and business. We use e.g. white papers and opportunities to speak at different forums for reaching this goal.

Human capital is the means to produce value to our customers in terms of well functioning devices, applications and solutions. With the development of technology and market we need versatile personnel skills. We are particularly strong in the web solutions, Linux software engineering, UI design skills, instant messaging and presence applications for smart phones. We are achieving more skills in multimedia processing capabilities in customer projects.

Structural capital goals for Movial are that we need to have repeatable software engineering, project management, HR, Financial and sales processes. In addition, we need to achieve modular yet flexible software architectures. We must have capabilities to produce products and projects with high quality independent of people involved in the creation of them. Therefore we invest in our processes and tools.

Jari Ala-Ruona
CEO
Movial Corporation

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2.1 About this report

This is the second Intellectual Capital report from Movial Corporation (under name Creanor Oy in 2004). The corporation name changed from Creanor Oy to Movial Corporation in June 2004.

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

Since the first report Movial's management team has tried to improve the measurements and the internal processes to produce the accurate information. Also some of the indicators have been improved and specified during the "Putting IC into Practice" –project meetings.

2.2 Company Overview

2.2.1 Mission and Vision

Movial Corporation develops software and services for the mobile multimedia and presence-enabled applications market. We work with some of the leading device manufacturers and service providers worldwide to provide the best converged services in time, usability and quality.

By 2007 we want to be perceived as one-stop-software company for Internet and all-IP capable electronics. Movial has unique cross-platform products to enable seamless communication independent of device platform or technical protocol.

2.2.2 Historical Overview

Movial Corporation started its operations in September 2001 as Creanor Oy. Name was changed to Movial Corporation in June 2004 to reflect the majority of business. The Movial brand was first introduced for embedded Linux development services in April 2002, and after that the majority of the business has moved to that segment.

Movial Applications Inc. and Creanor Inc. were formed as affiliates of Movial Corporation in fall 2004 and are owned 100 percent by the parent company. Today, Movial encompasses several areas in the field of information technology, its core competencies being in Linux know-how, interaction design, multimedia and presence technologies and products.

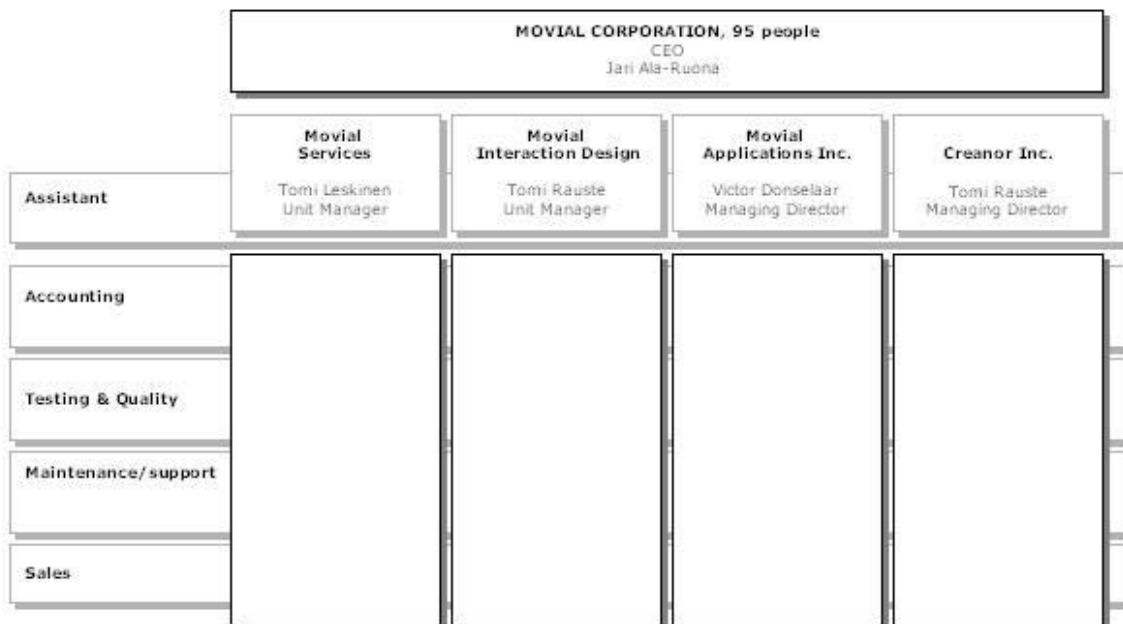
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Movial has been growing fast especially during the past year. Despite of the fast growth in both personnel and turnover, the profitability has remained positive and increased and the growth has been purely based on income financing. Movial Corporation remains 100 percent owned by its management and personnel.

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 affiliates 100% owned by Movial Corporation.

Movial Corporation organization



2.3.1 Movial Services

Movial Services Unit, which employed 40 persons in the end year 2004, has excellent technical competencies in development languages such as C, C++, Perl and Java. Movial is especially concentrated in the Linux-based consumer electronics, where the goal is to become and to remain the time- and cost-to-market leader.

In order to succeed in the market, consumer electronics must offer something that sets them apart from their competitors while at the same time keeping their price sufficiently low. Movial assists electronics manufacturers in this challenge by offering high-quality whole product design, effectively implemented software development and value-adding ready applications for a range of end uses. From idea concept through application delivery, Movial Services is an indispensable extension of the device manufacturers' team.

Movial Services are the mobile embedded Linux device experts, bringing an open and interoperable approach to design and development. Focus is strongly on the Open Source, as convergence necessitates interoperability between any connectable device and interoperability demands open approaches. Furthermore, embedded Linux facilitates hardware-independent application development, which in turn increases compatibility amongst divergent devices and systems.

Movial Services provides integration and maintenance services for Scratchbox, which is a rapid cross-platform development environment for multimedia applications. Scratchbox compiles packets for all systems in tandem and significantly accelerates device-specific application configuration. It is freely available open source tool.

2.3.2 Movial Interaction Design

Movial's expertise covers all Interaction Design areas from outlining the concept to the actual interaction design and usability testing of user interface and graphics. Careful planning and design at all phases ascertain that the actual service or product offers real value to its users and increases customer loyalty by being easy-to-use, credible and desirable.

Our designers have an excellent knowledge of the frames that affect to the UI design as they work in close cooperation with Movial Services. Having both UI design and technical implementation in-

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house enables us to dramatically decrease iteration time between design and production phases.

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.

2.3.3 Movial Applications Inc.

Movial Application provides presence and multimedia for converged devices. Movial Application's main product line is the Movial Connect, which is a suite of proven applications that enable device manufacturers and service providers to rapidly launch revenue generating converged services. With Movial Connect, these organisations can introduce a variety of seamless presence, instant messaging and multimedia services across mobile, PC, and other connected devices. Recognised for innovations such as Push-to-Video, Movial Connect is already the choice of leading device manufacturers, HP, Orange, and Jabber, Inc.

The Connect products combine rich functionality with a unique and intuitive user interface across devices. Connect products enable various communication methods such as VoIP, Push-to-Video and instant messaging between mobile, PC, and other connected devices based on Presence.

Movial Applications know-how is the best at Symbian, Linux and Windows based multimedia and messaging applications. The technologies used are e.g. SIP/IMS, XMPP and OMA IMPS.

2.3.4 Creanor Inc.

Creanor Inc, which is owned by Movial, is a full service agency in the field of digital communication: 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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2.4 Financial Overview

Year 2004 ended with better profit and growth rate than predicted for Movial Corporation. Turnover increased by over 110 percent to 4,32 million euro, with a profit of 586,389 thousand euros.

The share of R&D in the Applications unit is about 18.5 % of the turnover of Movial Corporation. This is mainly targeted to the development of Connect products for instant messaging and converged communication technology. The financing during the financial year of 2004 has been mainly income based. Movial is growing with real income, there are no risk investors involved. The company is entirely privately owned by its management and personnel. Movial personnel received a stock issue in the fall 2004, which increased the number of shareholders to 38.

The employee productivity has been higher than the aspiration level, but there is still need to recruit more persons. Movial is looking for possibilities for opening an office elsewhere to be able to recruit more competent personnel.

As the Movial Corporation has been under a rapid growth, the premises in Munkkiniemi Helsinki became too small. The Movial Services Unit moved to new premises in Ruoholahti Helsinki in the second quarter of 2005, and the rest will move there later. The new location is centrally located close to main customers with good public transportation connections for the personnel.



3 CUSTOMERS

3.1 Market position

Movial Corporation, that consists of Movial Services and Movial Interaction design, provides services in the information technology sector. Movial Applications is more concentrated in product development and it has a quite separate customer base.

3.2 Customer Satisfaction

A comprehensive customer survey that was taken in the spring of 2004 was not repeated in the spring of 2005. However, some action has been taken on the basis of the survey in 2004 and there has been improvement in certain areas. We are continuously seeking ways to more improvement.

The survey in 2004 showed that our customers were satisfied with our engagement to long-term business relationship. Customers felt comfortable working with us; the keypersons were easy to reach; we were seen flexible with changes and our adaptable operation model was appreciated. Also our technical competences in projects were largely recognised among our customers. These have remained as our advantages, as we still have most of the same customers than a year ago, which makes our commitment to long term customer relations even more obvious.

In spring 2004 the survey showed a clear demand in increasing the customer's awareness on all Movial expertise areas, as the survey indicated that our customers didn't have a clear idea what other services we provide outside their current projects. Moreover, our way of communicating as a company didn't reach our customers. We have been making improvement in this during the past year through the marketing efforts.

3.3 Image in the Market

Movial operates in a small niche in the business-to-business market, which is the main reason why it is not very seen for the large audience. A survey in year 2004 showed that the large audience did not know Movial but that we were much better known in our main

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target groups. We do not make any traditional advertising, which keeps the overall marketing costs down, as they are only 0,56 percent of the total operating costs. Main marketing channels have been seminars, fair and trade shows, and direct contacts to our target groups.

According to the rate of interested people applying for a job, Movial Corporation has a good image. Especially among students in the technological institutes, Movial is recognised as one of the leading innovation companies which provides challenging career opportunities. Job interviews in Estonia revealed that Movial is well known there among the specialists in the Movial Services field. The Open Source community also recognizes Movial's name and can sometimes connect the name with certain expertise areas and level.

3.4 Visibility of Expertise

Movial personnel has been present e.g. in the fair shows of 3GSM Cannes, Symbian expo, CTIA Wireless I.T. and Entertainment 2004 among others. The participation in the fairs has been more active than ever mainly because as the proportion of the product offering has increased and the fairs form an important part of the marketing network for them.

Movial Connect products have received publicity in the industry wide media such as in the series60.com website, and also in the other channels in the form of press releases about the major partnerships and innovations. The flag-ship about Movial Connect has been the Connect Push-to-Video, which enables easy video sharing across mobile phones.

Movial Applications has taken a more active role in the technology forums, such as in developing and adjusting to the SIP standards. We have taken a membership in many industry forums like the Open Mobile Alliance and SW business forum.

Movial Services Unit is active in the Open Source Communities. The personnel has attended and given presentations regularly in many Open Source conferences such as Debconf, FOSDEM and GUADEC. Our goal is to further promote the use of open standards and technologies. Movial's contributes to various Open Source projects as a company as well as through employees. Many Movial employees are also privately members of many other widely known Open Source projects such as Debian, Fedora and GNOME.

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The Scratchbox, which is a cross-compilation toolkit for embedded Linux devices, has had a major role in making Movial services more known also for others than our regular customers. Movial provides maintenance services for Scratchbox. Scratchbox has received attention in both Finnish and international press, as well as in the forums for Linux specialists. New white papers about the Scratchbox were published for the educational purposes and in order to make the Scratchbox more widely known and used.

Movial Corporation has participated actively in Tekes "The networks of the future NETS" Program during year 2004. Tekes is the main public funding organisation for research and development in Finland. Participation and active contribution in the program has enabled creating valuable new contacts, bringing advantages to all parties involved. Movial has taken part in the program's development and support functions, which seek to ensure that R&D findings are transformed into profitable business. Movial's activity was recognized and awarded by Tekes in January 2005.

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4 EMPLOYEES

4.1 Structure

The number of employees increased by 33 to 83 employees in the end of 2004, which means that Movial faced a growth rate in employees of more than 66% last year. The employee turnover rate was very low at 5%, as only 3 persons left the company. On average Movial Corporation employed 75 persons in year 2004. The proportion of men is considerably larger, as 78 of the employees were men and only 5 were women.

As the company has been growing fast, the average length in service was 1.3 years at the end of year 2004. 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 530 euros year 2004, which was over 5 times more than during the year before. We will be placing even more emphasis on the employee training in the future. 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.

The cost of social activities was about 250 euros per employee. This included two company wide refreshment days and several other occasion on team or unit basis. Movial also supports exercising, so that its personnel receives a discount and support to a well equipped gym. Also possibility for team sports such as floorball and football is arranged.

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.

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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.

4.3 Staff satisfaction

First complete employee satisfaction survey was made in year 2004 and repeated in early 2005. The survey results indicate that the level of satisfaction has remained about the same as one year before, when it was slightly better than average in the sector. Overall, the satisfaction level was satisfactory. The ability to influence working hours was seen excellent. Other things that received very good ratings were the motivation to develop personal skills, relationships to fellow employees and colleagues' support in your work.

We realize that there are also several things that need to be improved; the survey indicated, that more effort has to be placed on the comfortability and ergonomics of working premises, and communication of working benefits and wage structure. As Movial Services has already moved to the new, larger premises, there has already been improvement in some of the points that needed some improvement according to the survey results.

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,

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Nokia Series 60 and 80, Java UIs, GTK and QT, as well with optimizing UI's for different browsers with XHMTL 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 50% of the employees are senior level experts / consultants with over 5 years experience in the branch. 20% of the employees have university degree, 24% bachelor degree, 45% are students in a university or polytechnic and 17% have no other formal education but high-school. Certifications have not yet been followed.

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5 PROCESSES AND INFRASTRUCTURE

5.1 Process development

Movial has a process improvement group, to which the senior management group actively participates. The focus of the process improvement has been in the unification of project management processes, training and quality assurance throughout the company. The improved processes have been taken into use in pilot projects for evaluation before introduction to the whole company. Software capability maturity model is used as a yardstick in process development. Movial has long term plans for continuous quality improvement, and is planning to achieve certifications, such as CMM level 2, in process quality and control in the near future.

5.2 Project Management

Movial is developing new guidelines to improve project management and like that to ascertain the quality of the projects. We are making the processes more structured, so that both customers and our personnel know which stage of the project is taking in and what sort of actions this requires. By establishing project and process management policies, we want to accomplish good communication with our customers so that required modifications can be done at the early stages of projects.

We are also putting more emphasis on the project manager's role in new employee training. We have established new guidelines for new employee introduction. We want to make it easy for the new employees to get involved in the projects, and we have a coach assigned for each new employee whose responsibility is to introduce the new employee to the project and verify that he has the tools and required knowledge from the beginning.

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.

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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 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 18.5 % of the turnover of Movial Corporation, the R&D is mainly concentrated in the Movial Applications Inc. Movial is developing its Connect products for instant messaging and converged communication technology.

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.

We are planning on implementing a reward model based on new ideas, white papers and prototypes. The model should reward also if the idea leads to a new product or project with a customer. New ideas, white papers and prototypes will be followed by a "pipeline-model", i.e. there should always be a certain amount of ideas etc. in the pipeline. Also, the income from a new product in comparison to development costs will be followed.

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5.5 Infrastructure

The total operational costs per employee were 7853,47 € in year 2004, which is 1,7% more than in the previous year. IT support staff costs were 2,5% of the turnover.

IT systems support core processes well, although basic technical knowledge is needed with some services as all services are built upon Linux solutions and the end-user friendliness of some open source solutions is not on the same level as more traditional commercial systems.

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 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

Movial Corporation new Intranet will be opened during the second quarter of 2005. Intranet is customized for different target groups (i.e. business units). The present Intranet is in everyday use, but actual usage rates cannot be tracked down because of different kind of end user platforms.

The new Intranet is aimed to make Movial processes more efficient and automated. The most central processes will be transferred on the Intranet by adding the required tools, instructions, documents etc. there, so that the processes become less person bound. This

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also has significant effects on improving project management, and the resource control and work time reporting involved in it. Project managers will use the web-based hourly reporting tool, called Tasker, for planning projects, timing and estimating personnel resources. In the future, the Intranet tools will be used for obtaining more statistical information to support employees, project managers, team leaders and board's work.

Intranet is planned to act as the most important communication channel within Movial. It is designed to make communication more efficient, declining the amount of irrelevant information and duplication, making the communication responsibilities become more clearly defined. This is part of the overall process improvement, which aims at improving the quality and efficacy of Movial operations.

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.

