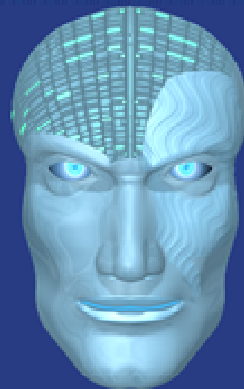


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| provoking innovative intelligence

GETTING IC REPORTING INTO FINANCIAL REPORTING

IT's T.I.M.E. conference vienna
Ludo PYIS
9 JUNE 2006



Developed for

Insert Client Logo Here

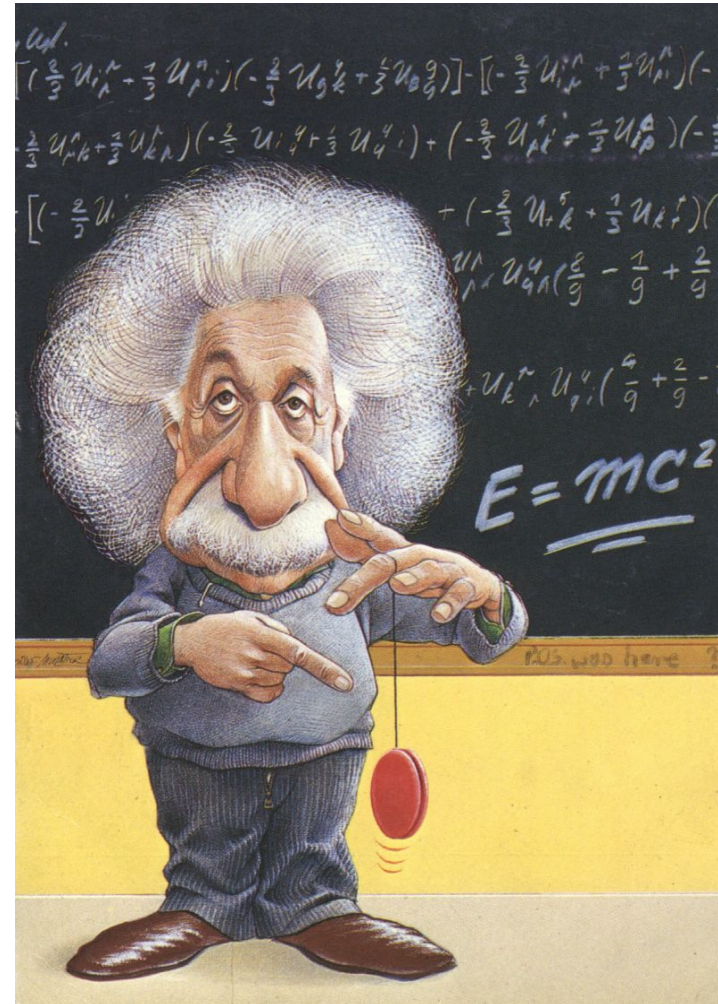
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What Is Intellectual Capital?

(some illustrations, not definitions)

- ... the sum of an organization's patents, processes, employees' skills, technologies, information about customers and suppliers, and old-fashioned experience ...
- ... an individual's accumulated knowledge and know-how [that] is the source of innovation and regeneration ...
- ... ability, skill, and expertise ... embedded in human brains ...
- ... knowledge that exists in an organization that can be used to create differential advantage ...
(Hugh MacDonald, ICL)
- ... intellectual capital that has been formalized, captured, and leveraged to produce a higher-valued asset ...
(Klein and Prusak)



Intellectual Capital: (Market Value – Book Value)?

- The value of any organization is the sum of (1) the physical tangible and financial capital which one finds on the balance sheet of a company and (2) the intangible assets of a company which are usually described as “goodwill” on the balance sheet.
- Sometimes IC is interpreted as the difference between the book value – i.e. the historic value of the assets of a company not yet amortized – and the market value which equals the perceived present value of the future cash flow of a company.

When Netscape went public in 1995, it was a \$17 million company with 50 employees. After only the first day of trading, the Stock Market valued Netscape at \$3 billion.

What were investors buying? The investors ‘bought’ the people who built Netscape – their knowledge, skills, ideas and talents; they invested in the company’s demonstrated ability to innovate, create, and bring to market a product that made the Internet accessible to the public at large.



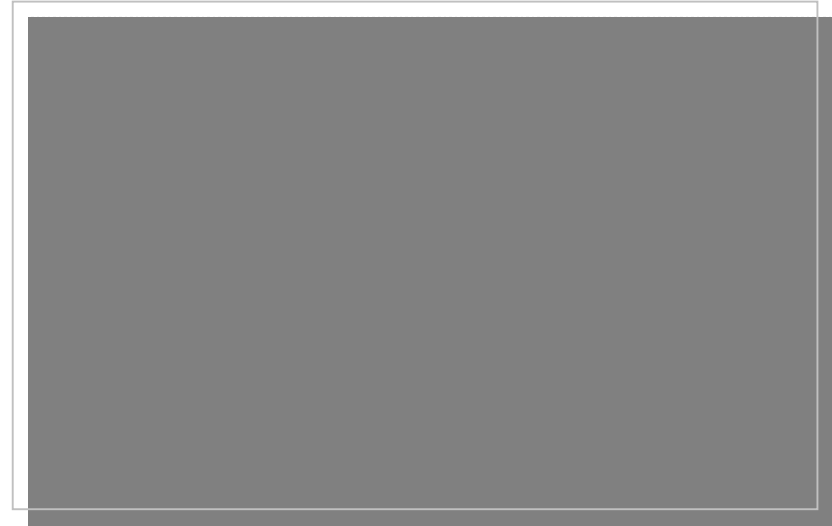
Intellectual Capital: Many Insights, Opinions And Different Views

- **Accountants:** how to measure IC and reflect it on a balance sheet
- **Information technologists:** how to codify IC and put it in data bases and applications
- **Sociologists:** how to balance power with IC
- **Psychologists:** how to develop minds because of IC
- **Human Resource managers:** how to calculate a ROI on IC
- **Training and Development Managers:** how to build IC

Intellectual Capital: Why Is It So Important?

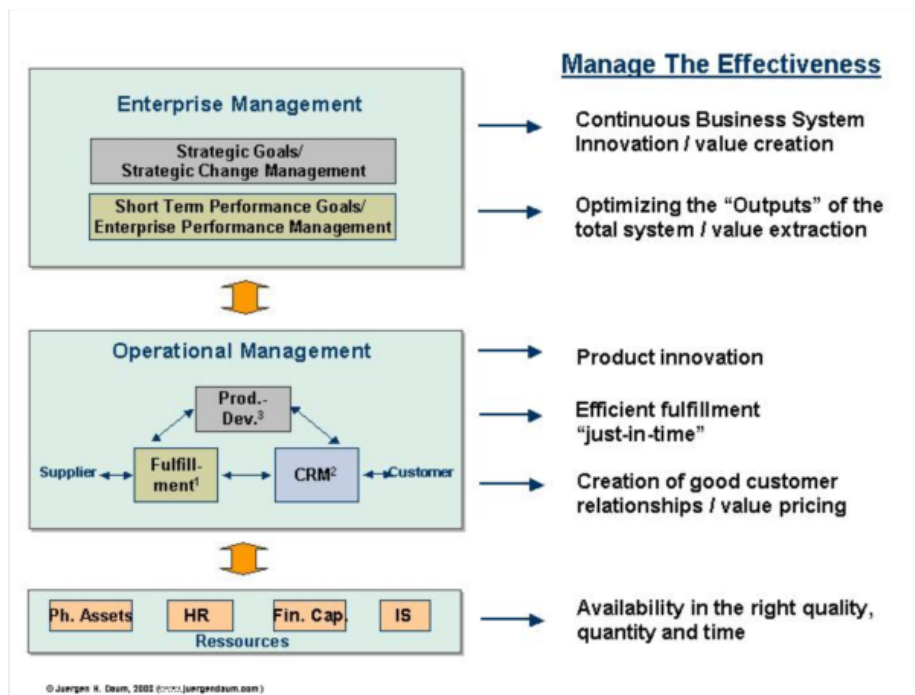
- The foundations of all the advanced economies have now shifted from an industrial base to a service and knowledge base.
- This shift is nearly complete and irreversible.
- Economic theories have begun to reflect this. There is still a lack of consensus around intellectual capital definitions, management practices and accounting
- Innovation accounts for more than half of the productivity growth worldwide and IC is the mother of innovation. As a key driver of economic value for every company, IC must be identified, managed, measured and protected.

(Source: Gartner Research)

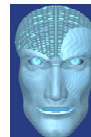


- EU: Lisbon Agreements w.r.t. Knowledge Economy (+3%): How to measure?

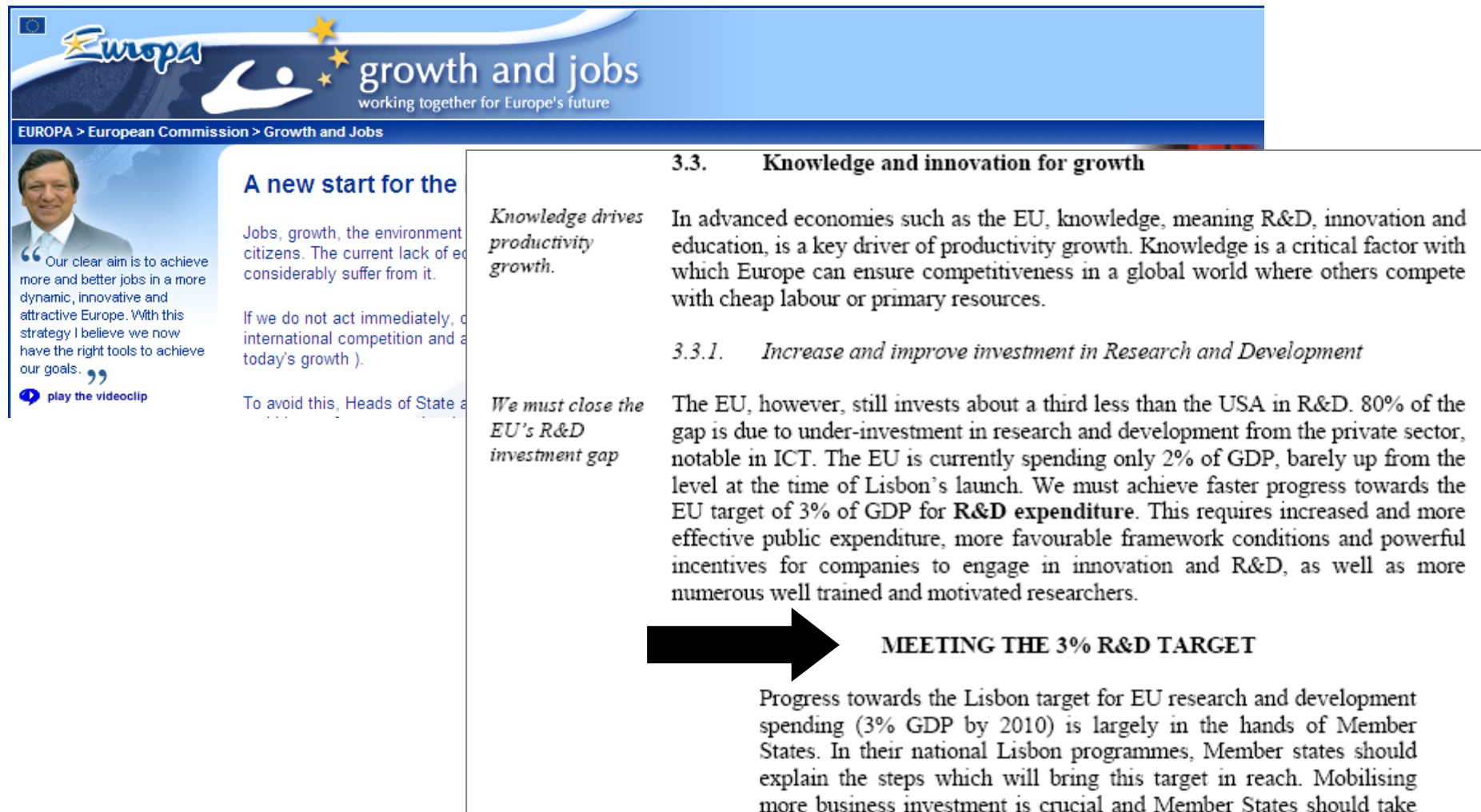
An Extension of the Performance Measurement and Control System is Required



- Democratisation of capital markets and growing influence of institutional investors as well as the growing influence of other corporate stakeholders (employees, customers, business partners, activist groups/NGOs ...) (These relationships in essence become assets)
- Performance management and control system has to focus on all relevant activities for value creation and for creating "an effect" and "a difference" in the market



European Commission Lisbon Agreement towards 2010



Europa growth and jobs
working together for Europe's future

EUROPA > European Commission > Growth and Jobs

A new start for the

Jobs, growth, the environment
citizens. The current lack of ec
considerably suffer from it.

If we do not act immediately, c
international competition and a
today's growth).

To avoid this, Heads of State a

“ Our clear aim is to achieve
more and better jobs in a more
dynamic, innovative and
attractive Europe. With this
strategy I believe we now
have the right tools to achieve
our goals. ”

play the videoclip

3.3. Knowledge and innovation for growth

Knowledge drives productivity growth.

In advanced economies such as the EU, knowledge, meaning R&D, innovation and education, is a key driver of productivity growth. Knowledge is a critical factor with which Europe can ensure competitiveness in a global world where others compete with cheap labour or primary resources.

3.3.1. Increase and improve investment in Research and Development

We must close the EU's R&D investment gap

The EU, however, still invests about a third less than the USA in R&D. 80% of the gap is due to under-investment in research and development from the private sector, notable in ICT. The EU is currently spending only 2% of GDP, barely up from the level at the time of Lisbon's launch. We must achieve faster progress towards the EU target of 3% of GDP for **R&D expenditure**. This requires increased and more effective public expenditure, more favourable framework conditions and powerful incentives for companies to engage in innovation and R&D, as well as more numerous well trained and motivated researchers.

MEETING THE 3% R&D TARGET

Progress towards the Lisbon target for EU research and development spending (3% GDP by 2010) is largely in the hands of Member States. In their national Lisbon programmes, Member states should explain the steps which will bring this target in reach. Mobilising more business investment is crucial and Member States should take



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Knowledge vs Intellectual Capital



Karl-Erik Sveiby's Model on the Methods for Measuring Intangibles

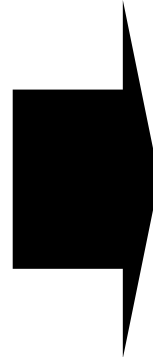


The Fundamental Dilemma

- The main problem with measurement systems is that **it is not possible to measure social phenomena with anything close to scientific accuracy**
- All measurement systems, *including traditional accounting*, have to rely on proxies, such as dollars, euros, and indicators that are far removed from the actual event or action that caused the phenomenon
- This creates a basic inconsistency between manager's expectations, the promises made by the method developers and what the system can actually achieve and makes the systems very fragile and open to manipulation

International Accounting Standards (IAS)

IAS 38 Intangible Assets



International Accounting Standards (IAS)
IAS 36 Impairment of Assets

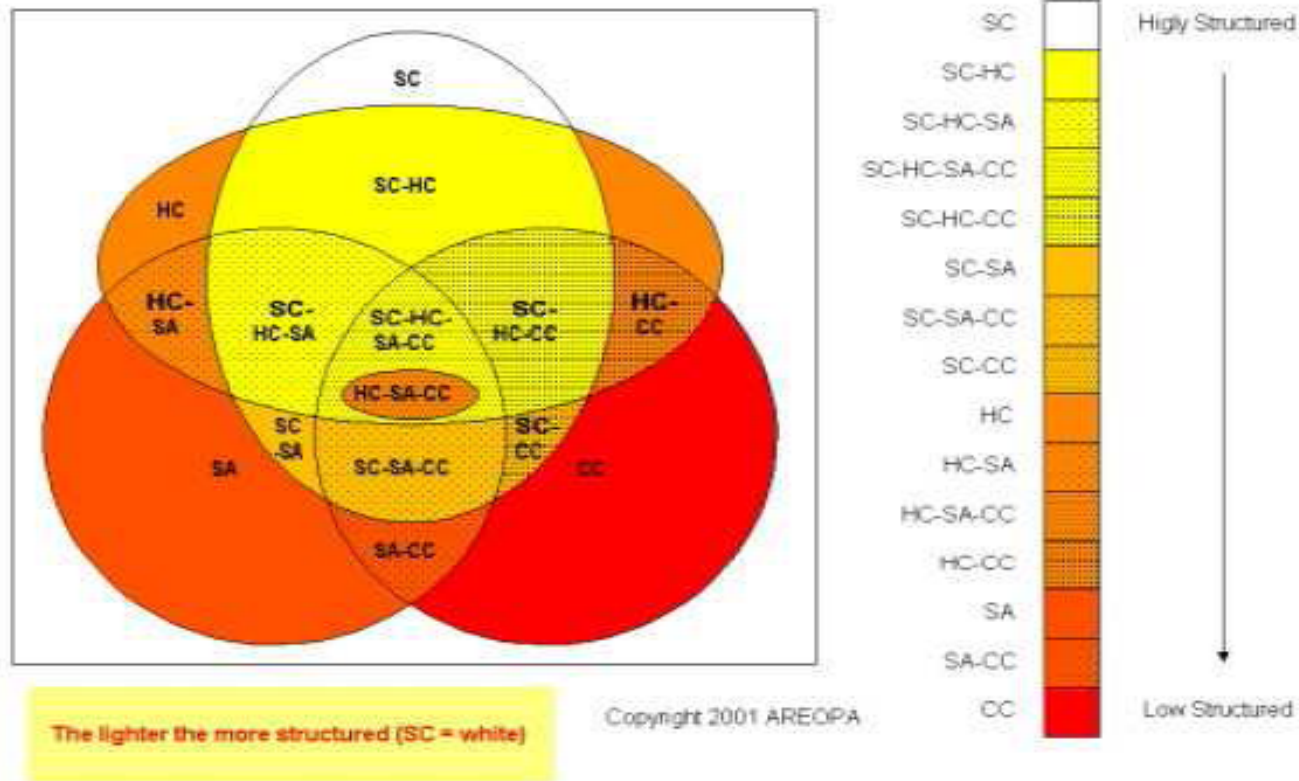


Current Status of Developments to Improve Corporate Reporting



Areopa's 4-Leaf Model[®]

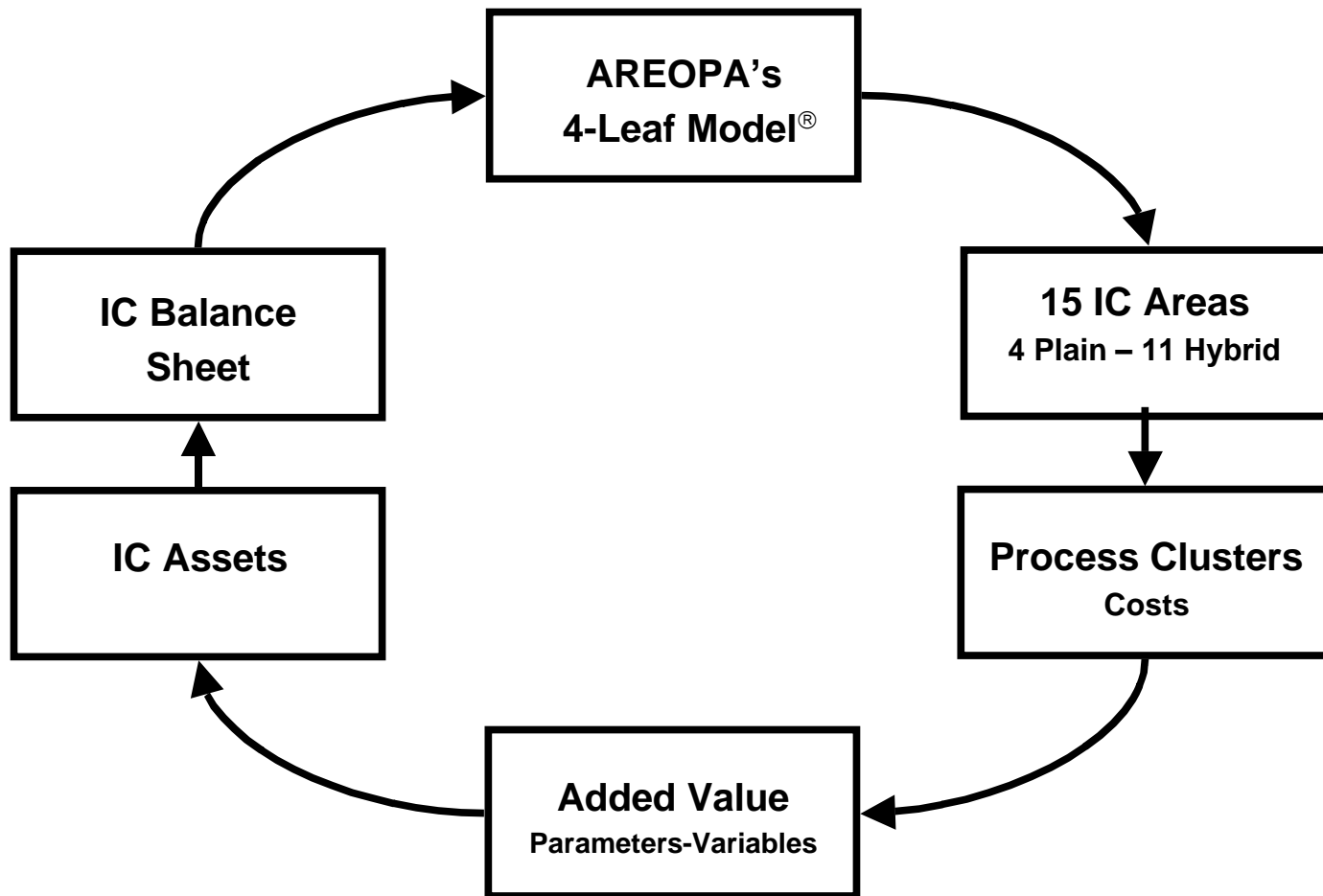
IC - 4 leaf model - 15 categories



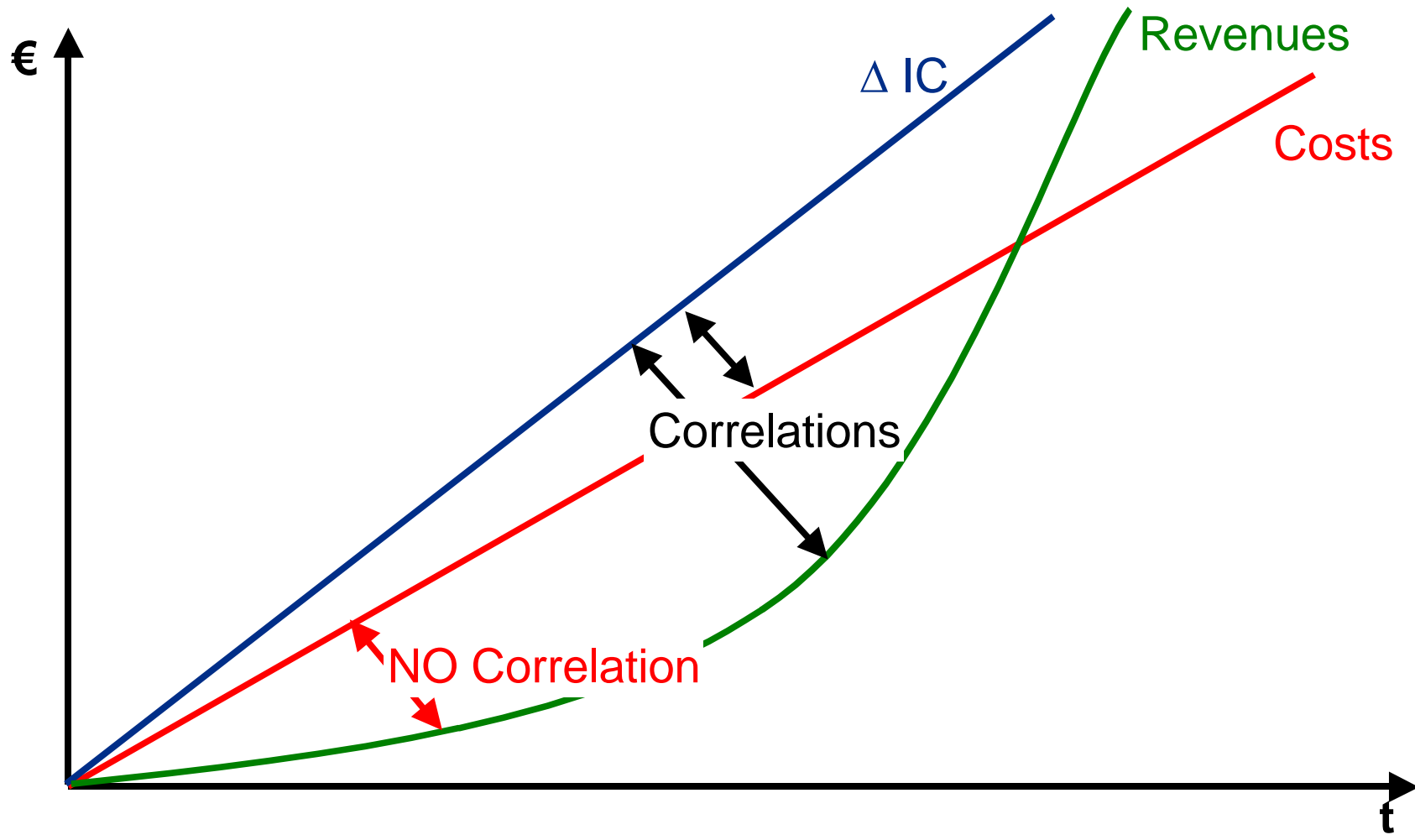
Source: AREOPA Web Presentation, <http://www.areopa.com/>



AREOPA's 'Wheel of Fortune'



Managing Growth – Costs lead to Increase of IC, Increase of IC leads to Revenue



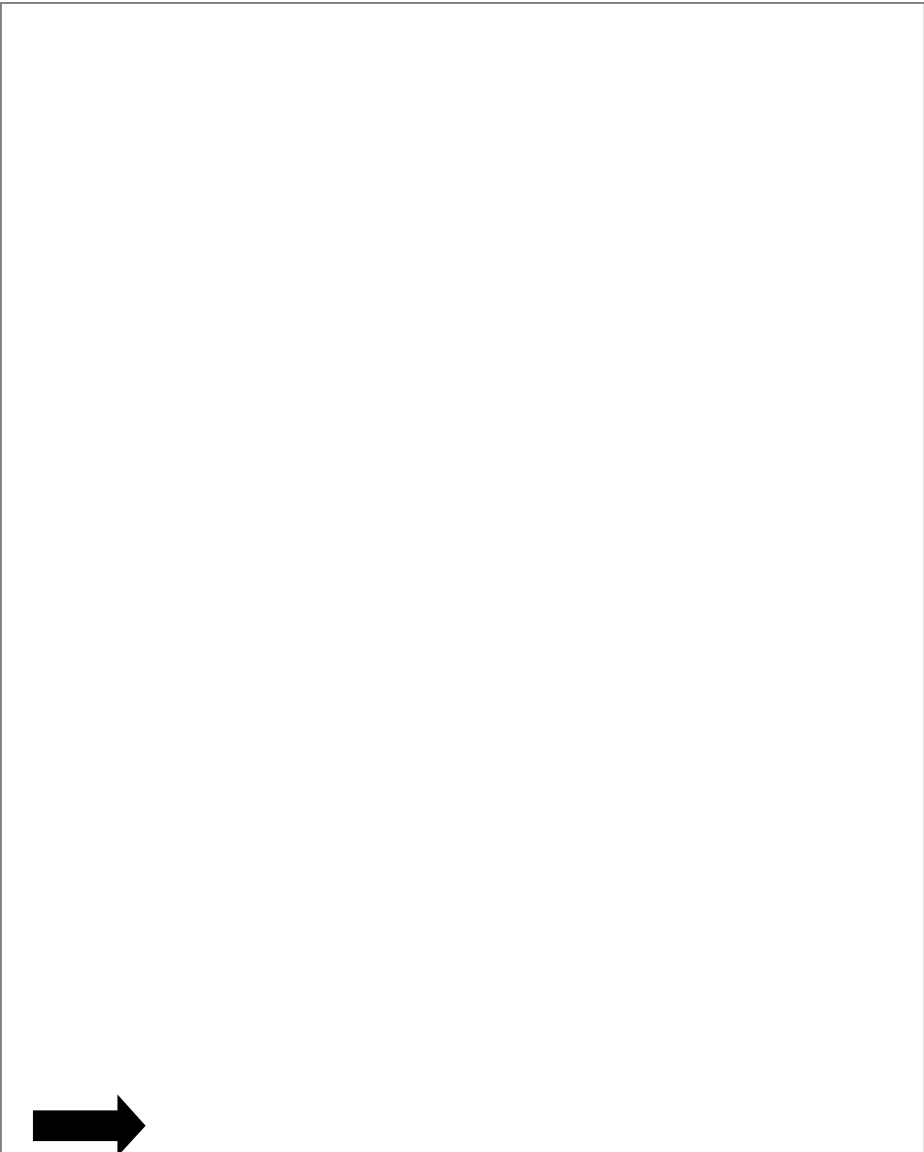
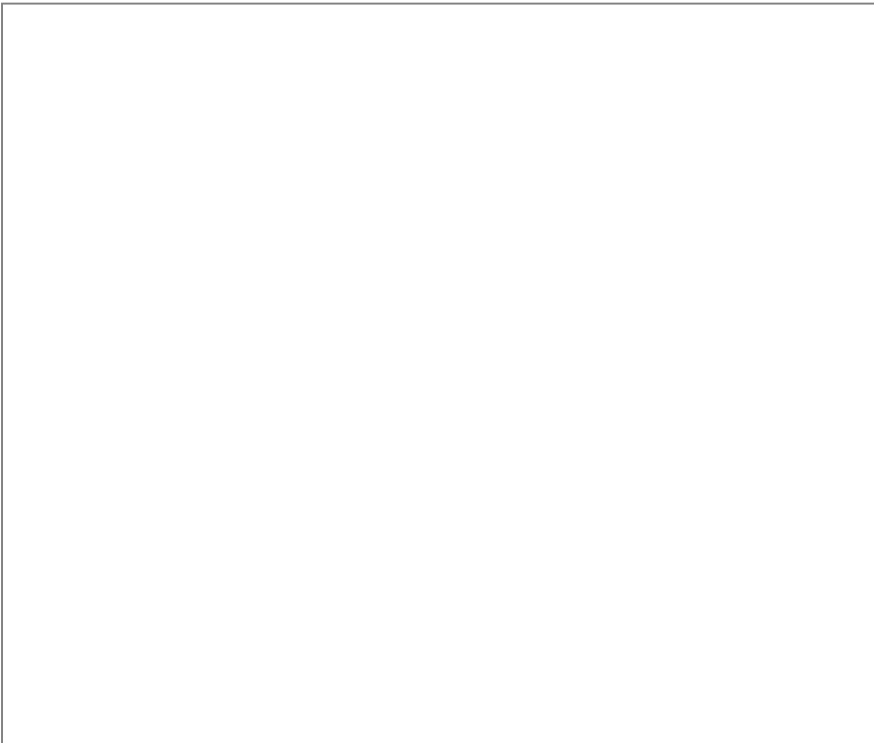
Areopa's Intellectual Capital Calculation

Example – Non Structuralized Human Capital

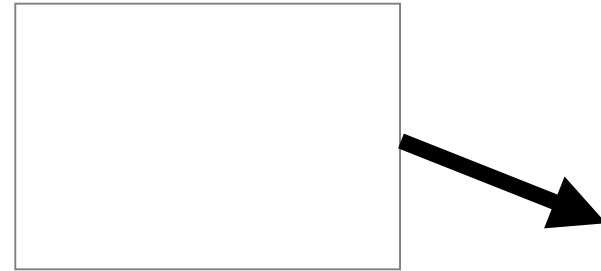


Areopa's Intellectual Capital Calculation

Example – Non Structuralized Human Capital



Areopa's Positioning on Karl-Erik Sveiby's Overview



Austria – ARC Intellectual Capital Report



Locations

- Existing
- Shared site
- In preparation



The publication of this third Intellectual Capital Report in regular succession represents a further milestone in the development of this new reporting system.

Not least of the reasons why we can be proud of the publication we have initiated is that in this short space of time it has been accepted as a model by other knowledge-based companies. Starting in Austria, where universities recently became obliged to draw up Intellectual Capital Reports, and leading Austrian business enterprises are also carrying out initial pilot projects, the so-called ARC Intellectual Capital Report model has also become established internationally as a reference standard. Simultaneously with the publication of our Intellectual Capital Report for 2001, one of Germany's largest research organizations, German Aerospace Center DLR, presented its second Intellectual Capital Report based on the ARC model. We came to an agreement with DLR that we would make extensive comparisons of this year's issue at the draft stage, and that from 2002 onwards we would compare – or "benchmark" – our respective indicator data. Other major German research organizations and a Swiss university have already announced that they will follow this example.



Günter R. Koch
Managing Director

Austria – ARC Intellectual Capital Report

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Austria – ARC Intellectual Capital Report



Germany

Wissensbilanz (Knowledge Balance Sheet) - ACTech

Beziehungskapital	Wert	Bewertung	Ziel
Anzahl Neukunden (NK)	55	☹	↔
Stammkundenanteil (SK)	58%	☹	↗
Verhältnis Umsatz NK zu SK	20,4	☹	↔
Kundenzufriedenheit	4,2 v. 5Pkt	☹	↗
Wissensprozesse	Wert	Bewertung	Ziel
Anzahl patentfähiger Innovationen	16	☹	↗
Anzahl Patente	12	☹	↗
Anzahl realisierte Optimierungsvorschläge	75	☹	↗
Zugriffe auf T-Dok pro Monat (Durchschnitt)	300	☹	↗
Anzahl Dokumente in der T-Dok	490	☹	↗
Anzahl Mentorenmodelle	16	☹	↔



Germany Wissensbilanz (Knowledge Balance Sheet)



VR Bank Südpfalz



Wissensbilanz 2004/2005

Landesministerium für Wirtschaft und Arbeit
Frankfurter wsbz
Produktionsanlagen und
Einkaufsbüro



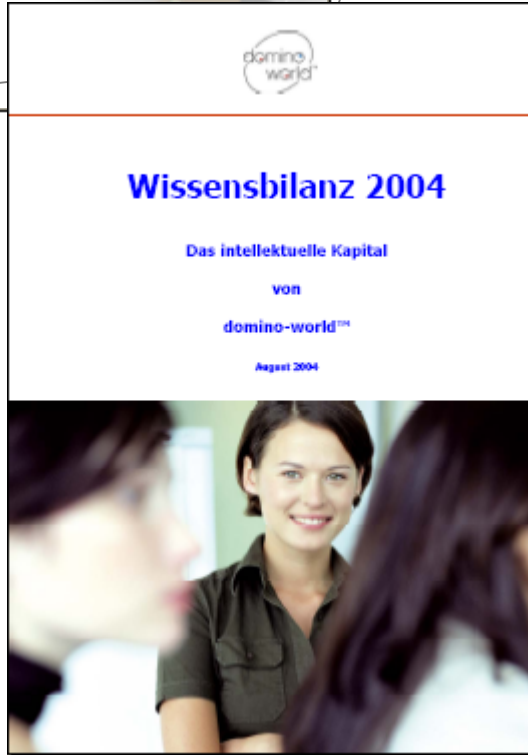
Wissensbilanz

für kleine und mittelständische Unternehmen (KMU)

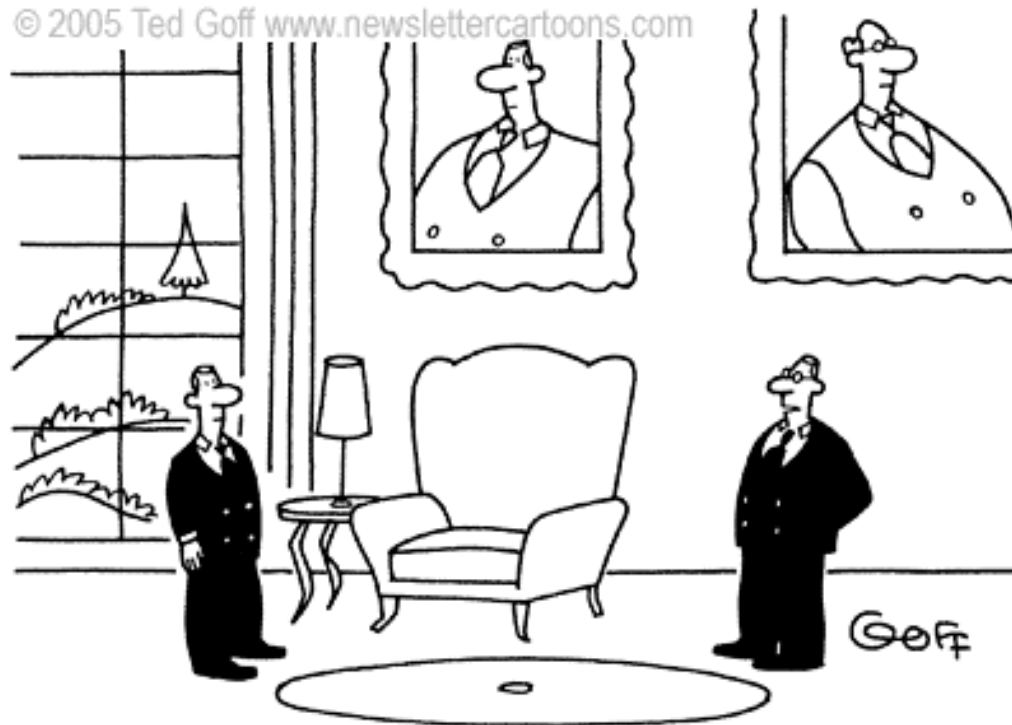
Das Projekt des Arbeitskreises Wissensbilanz (AK-WB) in Zusammenarbeit mit der reinisch AG, Karlsruhe

reinisch

Abrechnungsbilanz



Challenge!



“Your job will be to look at things
in a new way and translate them
to the old way for me.”



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