

Measuring R&D Expenditure in KIS

Sharing Best Practices on Reporting R&D Statistics

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Novabase Consulting • 94/CEP203

Agenda

- ❑ Novabase and the IT industry in Portugal
- ❑ Portfolio of projects
- ❑ Reporting tools
- ❑ Accounting concerns



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Novabase and the IT industry in Portugal

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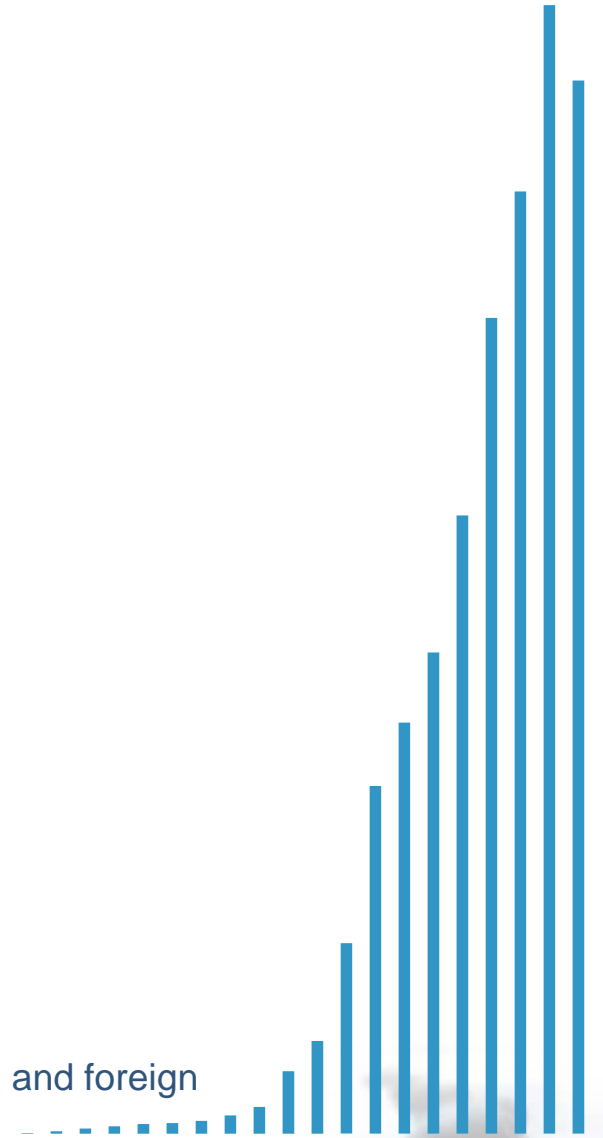


20 years growing and defining leadership in the industry

- ❑ 1989: foundation next to the Technical University in Lisbon
 - Two shareholders with 10k euros
 - First year turnover: 100k euros

- ❑ 2008: bigger portuguese IT player in Portugal
 - Public company in Lisbon Euronext Stock Exchange
 - Market Cap of 150M & 6,500+ shareholders
 - Turnover of 300 M & 1,703 employees
 - International presence – ¼ of turnover from abroad
 - Growing 20% per year
 - Adding 200 highly skilled employees every year in the last four

- ❑ Just Talent in this route...
 - No institutional support
 - Outside of any significant major & financial group of companies
 - Competing in a fierce environment against powerful entities both local and foreign multinationals



Novabase experience crosses many aspects of portuguese citizens...

- ❑ More than half of all public transportation tickets used in Portugal are issued by systems developed by Novabase – more than 1,5M trx per day
- ❑ Leads with its own technology or services the two larger Digital TV solutions in Portugal
- ❑ Designed and manages the IT applications of the state public pension fund
- ❑ Developed mainstream projects like:
 - “Empresa na hora”; “Certidão Permanente”; NetEmprego; “Casa Pronta”; “Automovel On-Line”; “Marca On-Line” among others
 - IT for the Defence Ministry
 - Deploying public accounting applications for the portuguese ministeries – RIGORE Project
 - Several main applications to the portuguese social security systems
 - Anti-fraud applications for the Tax Authorities
 - Applications for Prison management
 - eLearning Solutions for banks, government & Universities
 - Electoral Solutions (on-line voting experiments) and updating portuguese electoral books
- ❑ Present in all portuguese financial groups and SIBS (the main interbank settler) with on-line, back-office and archiving systems
- ❑ Solutions in the main Telecommunications Operators with BI, CRM, Contact-Centre, Sales Force Automation, Order Management & Product Catalogue.

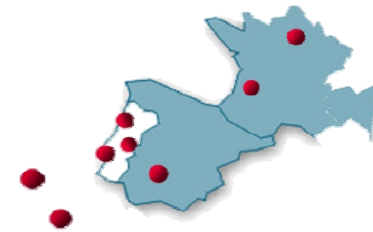
Novabase engineers are going abroad also ...

Digital TV Solutions



Europa
América Latina

Ticketing Solutions



- . Bordeaux
- . Chartres
- . Lisboa
- . Coimbra
- . Porto
- . Madeira
- . Tenerife
- . Sevilha

Development Solutions for Telco



- . Portugal
- . Espanha
- . Bélgica
- . Roménia
- . Arábia Saudita
- . Egipto
- . Dubai
- . Quénia

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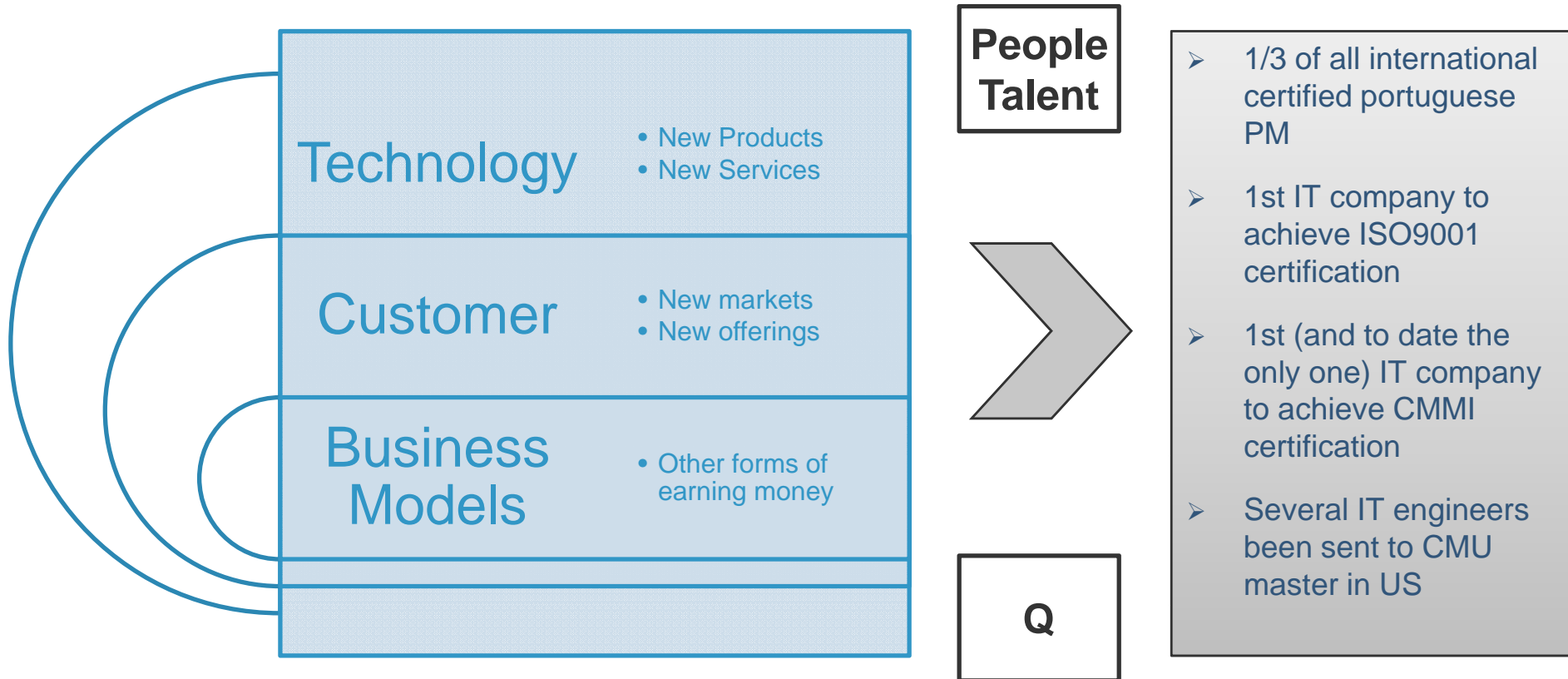
Portfolio of projects

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How innovation is addressed

innovate or fall behind...



What about R&D vs Innovation?

some constraints when reporting

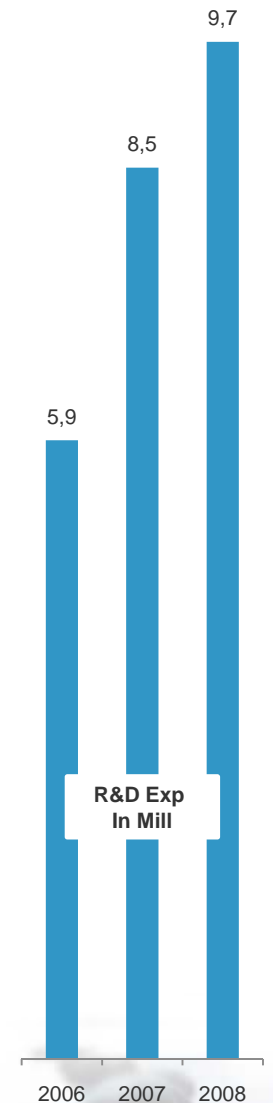
Under FRASCATI (Software Industry ~ IT)	
INNOVATION	R&D
<ul style="list-style-type: none">✓ New theorems, algorithms✓ New OS, programming languages, DB, communications or tools for developing software✓ Develop internet technology✓ Research on design, development, deployment, maintenance methods for software✓ Development of software producing advances on how we collect, transmit, store, recover, manage or present information✓ Development of tools or technologies in specific areas like image processing, geographical data, voice & char recognition, AI✓ ...	<ul style="list-style-type: none">x If routine applicationsx No advances in tech & scientific knowledgex Maintaining systems or appsx Deployment of existing apps or softwarex Testingx Preparation and documentation (from above)x ...

...no easy task identifying the frontiers when reporting!

our current portfolio

constantly improving our products and services to increasingly satisfy our customers' needs

- ❑ OpenSource Add-Ins
- ❑ Competence Centre for Nearshore activities
- ❑ SOA Architecture
- ❑ Software Development Life Cycle Improvement
- ❑ Code generation tool
- ❑ Anti-Fraud Algorithms
- ❑ Development PerformancePoint Web Enabler
- ❑ Product Packaging OM+ Automation Solution
- ❑ One Contact – IP Multimedia Contact Center Solution
- ❑ DVB-H / Portivity board (set-up & several add-ons)
- ❑ ...



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Reporting tools



Reporting ...

...37 legal entities... some opportunity for improvement

- ❑ I&D national reporting requirement (IPCTN)
 - ❑ Bi-annual until 2007
 - ❑ Annual from 2008 onwards
 - ❑ Too much detail, long and burdensome (“cover it all” questions)
 - ❑ No friendly interfaces allowed (excel or other upload facility)

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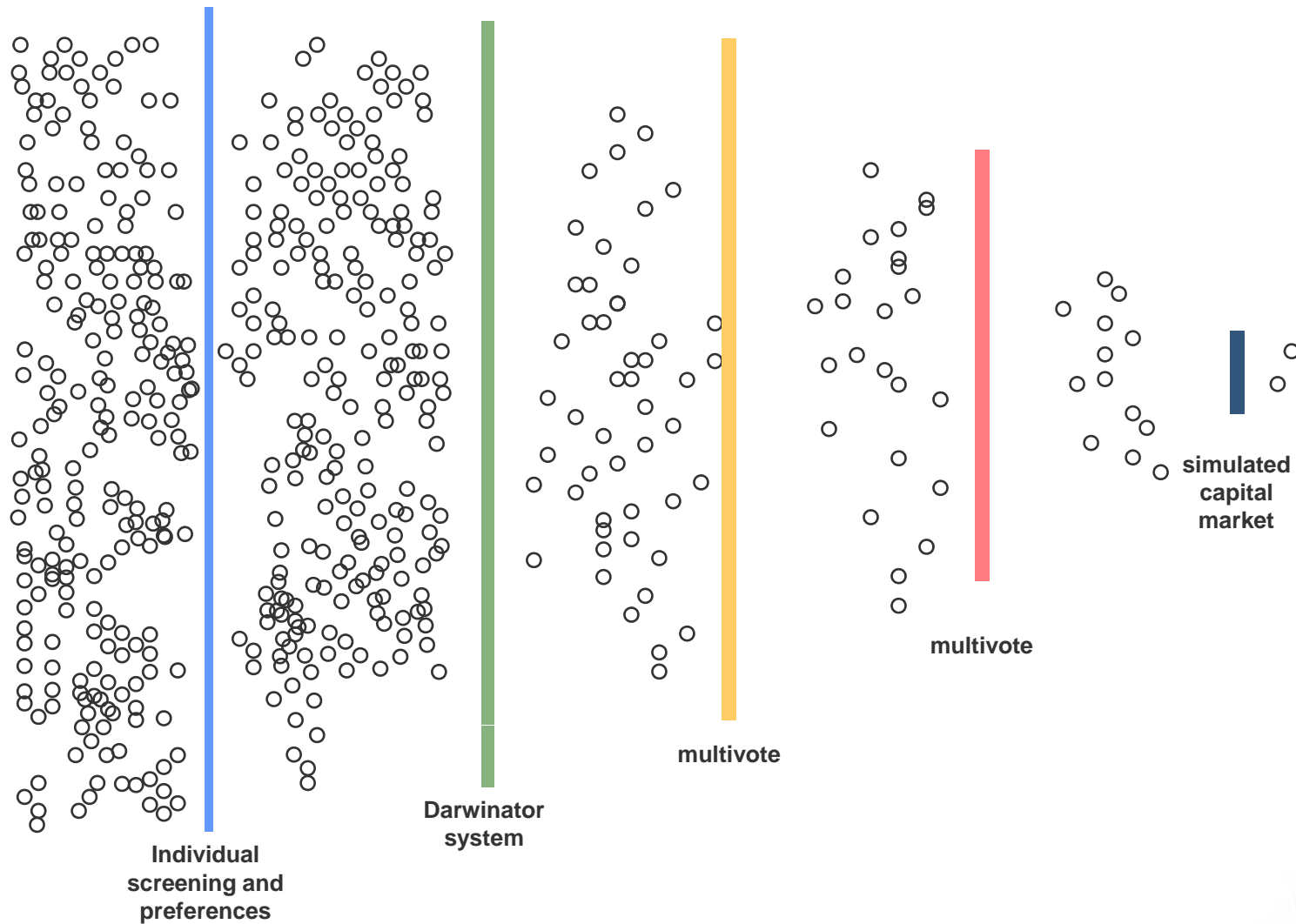
Accounting concerns

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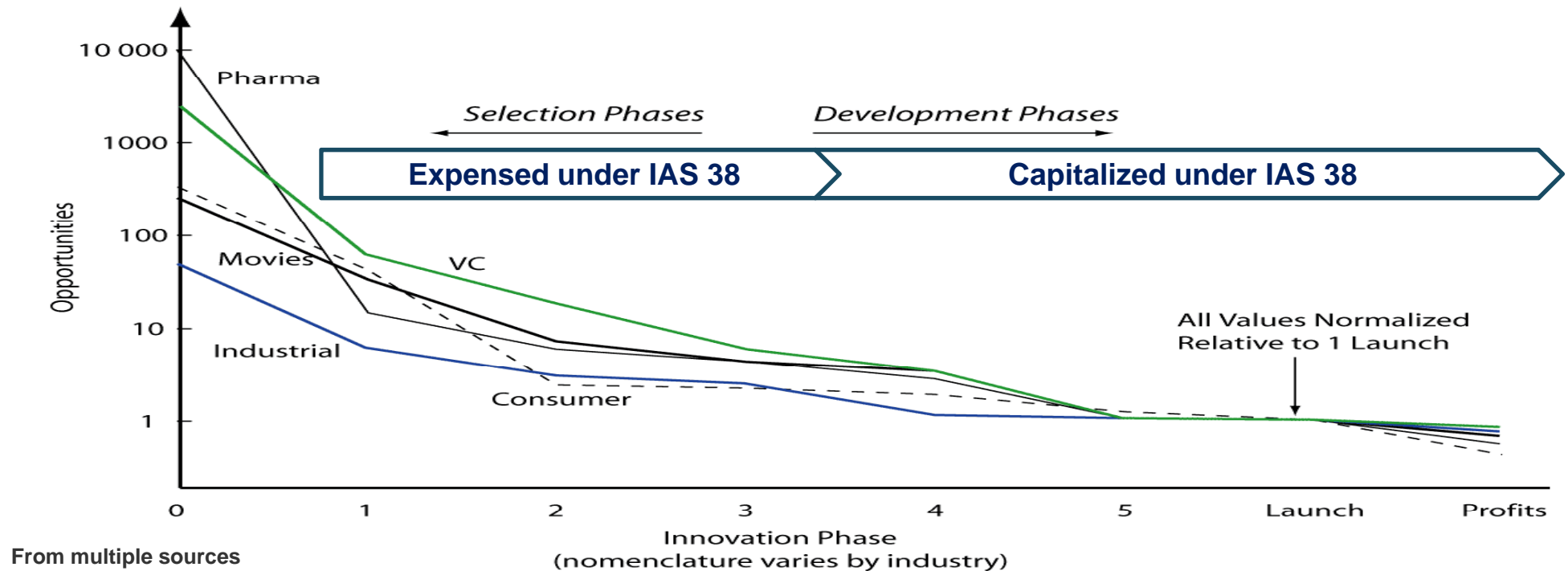
The innovation process

it takes huge human and financial resources out of the innovator



when dealing with IAS 38

compliance may mean under reporting significant amounts of investment



- ❑ Once feasibility is reached on a product or process IAS 38 allows future expenditure to be capitalized
- ❑ However, does not allow past expenditure (on the same project) to be re-capitalized so R&D gets “under accounted” and allocation is improper with consequences:
 - Pricing; R&D measurement; business decisions; investment

Main take-aways

- ❑ Novabase R&D to revenues ratio ranges from 2.5% to 3.5%
- ❑ Defining R&D activities in this industry is quite subjective
- ❑ Reporting is somewhat burdensome
- ❑ Accounting changes are welcome



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Thank you!

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CFO



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