

The 2008 EU Industrial R&D Investment Scoreboard

1. Methodology

The 2008 EU Industrial R&D Investment Scoreboard¹ (the *Scoreboard*) provides information on the 1000 EU companies² and 1000 non-EU companies investing the largest sums in R&D in the last reporting year (i.e. 2007/8). The *Scoreboard* includes data on R&D investments along with other economic and financial data from the last four financial years.

The data for the *Scoreboard* are taken from companies' publicly available audited accounts. In most cases, these accounts do not include information on the place where R&D is actually performed, consequently the approach taken in the *Scoreboard* is to attribute each company's total R&D investment to the country in which the company has its registered office³.

Compared with the last edition, the dataset of this year incorporates the following changes in number of companies (*last year figures in parentheses*):

EU sample

- 799 listed (826); 201 unlisted (174)
- 289 UK (321); 189 Germany (167); 113 France (114); etc.
- 153 newcomers and leavers

Non-EU sample

- 956 listed (956); 44 unlisted (44)
- 544 US (563); 244 Japan (237); 42 Switzerland (39); 41 Taiwan (44); etc.
- 88 newcomers and leavers

This report presents the key figures of the related to R&D of the world's top investors listed here. The overall levels of R&D investment, the performance of the EU companies, and the main changes that took place last year are examined in chapter 2. The performance of individual companies among the top R&D investors, in particular those undergoing significant R&D growth, is outlined in chapter 3. Chapters 4 and 5 give an overview of the company data aggregated by industrial sectors and world regions, with comparisons between the EU companies and their main competitors.

In order to ensure a uniform basis for comparisons, chapters 4 and 5 consider companies with similar levels of R&D investment. This year's *Scoreboard* includes 1402 companies with R&D investments of over €24.21 million. Taking this threshold yields a comparable group of the world's top R&D investors

¹ The EU Industrial R&D Investment Scoreboard is published annually by the European Commission (JRC-IPTS/DG RTD) as part of its Industrial Research Investment Monitoring and Analysis activity (IRMA). Company data were collected by Company Reporting Ltd.

² The term EU company concerns companies whose ultimate parent has its registered office in a Member State of the EU. Likewise, non-EU company apply when the ultimate parent company is located outside the EU (see also the glossary and definitions in Annex 1 as well as the handling of parent companies and subsidiaries).

³ The registered office is the company address notified to the official company registry. It is normally the place where a company's books are kept.

comprising the top 402 from the EU together with the top 1000 non-EU companies (see Box 1).

The Annex 1 provides background information and methodological details about how the *Scoreboard* is prepared.

The full methodological approach of the Scoreboard, its scope and the limitations are described in Annex 2.

Annex 3 lists the EU1000 and non-EU1000 companies ranked by their level of R&D investment. The complete data set is freely accessible online at: <http://iri.jrc.ec.europa.eu/>.

Box 1 : Methodological Caveats

When using the *Scoreboard* for comparative analyses, a number of factors potentially affecting the interpretation of the figures should be borne in mind. Please refer to Annex 2 for a full explanation of the methodological aspects. In particular, the following points should be noted:

- *Scoreboard* figures are nominal and expressed in Euros with all foreign currencies having been converted at the exchange rate prevailing on 31 December 2007. Financial indicators consolidated from companies' activities in different currency areas are influenced by fluctuations in exchange rates. This has an impact on firms' relative positions in the world rankings based on these indicators. Moreover, the ratios between indicators or the growth rate of an indicator may be under- or over-estimated. For example, the euro appreciated significantly against the USA dollar and the pound sterling over the period with which we are concerned, rising from \$1.32 to \$1.46 and from £0.67 to £0.73. This means that the *Scoreboard* underestimates the R&D growth rate of EU companies based in the euro area and operating in the US. Conversely the growth rate of US companies also operating in the euro area is overestimated.
- EU and non-EU groups include companies with different volumes of R&D investment. This year, the R&D investment threshold for the EU group is €4.27 million and that for the non-EU group €24.21 million. In order to compare EU and non-EU companies on a similar basis, it is preferable to consider only EU companies with R&D above the non-EU threshold. This comprises a group of 402 EU companies, representing approximately 95% of total R&D investment by the EU group. Using the non-EU threshold yields a sample of the world's top 1402 R&D investors that can be used for comparative purposes.
- Growth in R&D can be organic, due to acquisitions or a combination of the two, consequently, mergers and acquisitions may explain sudden changes in R&D growth rates and rankings of specific companies.
- Other important factors to take into account are the difference in the various countries' (or sectors') business cycles that may have a significant impact on companies' investment decisions as well as the first time / increasing adoption of the International Financial Reporting Standards (IFRS)⁴.

⁴ Since 2005, the European Union requires all listed companies in the EU to prepare their consolidated financial statements according to IFRS (see: EC Regulation No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32002R1606:EN:HTML>).

2. Background information

The *Scoreboard* is part of the European Commission's monitoring activities to improve the understanding of trends in R&D investment by the private sector and the factors affecting it. It was created in response to the Commission's Research Investment Action Plan⁵, which aims to help close the gap between the EU's R&D investment and that of other developed economies.

The annual publication of the *Scoreboard* is intended to raise awareness of the importance of R&D for businesses and to encourage firms to disclose information about their R&D investments and other intangible assets.

The data for the *Scoreboard* are taken from companies' publicly available audited accounts. As in more than 99% of cases these accounts do not include information on the place where R&D is actually performed, the company's whole R&D investment in the *Scoreboard* is attributed to the country in which it has its registered office⁶. This should be borne in mind when interpreting the *Scoreboard's* country classifications and analyses. The *Scoreboard's* approach is, therefore, fundamentally different⁷ from that of statistical offices or the OECD when preparing Business Enterprise Expenditure on R&D (BERD) data, which are specific to a given territory. The *Scoreboard* data are primarily of interest to those concerned with benchmarking company commitments and performance (e.g. companies, investors and policymakers), while BERD data are primarily used by economists, governments and international organisations interested in the R&D performance of territorial units defined by political boundaries. The two approaches are therefore complementary. The methodological approach of the *Scoreboard*, its scope and limitations are further detailed in Annex 2 below.

Scope and target audience

The *Scoreboard* is a benchmarking tool which provides reliable up-to-date information on R&D investment and other economic and financial data, with a unique EU-focus. The 2000 companies listed in this year's *Scoreboard* account for about 80%⁸ of worldwide business enterprise expenditure on R&D (BERD). The data in the *Scoreboard* are published as a four-year time-series to allow further trend analyses to be carried out, for instance, to examine links between R&D and business performance.

The *Scoreboard* is aimed at three main audiences.

⁵ "Investing in research: an action plan for Europe", COM(2003)266, http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0226en02.pdf.

⁶ The registered office is the company address notified to the official company registry. It is normally the place where a company's books are kept.

⁷ The *Scoreboard* refers to all R&D financed by a company from its own funds, regardless of where the R&D is performed. BERD refers to all R&D activities performed by businesses within a particular sector and territory, regardless of the location of the business's headquarters, and regardless of the sources of finance. The sources of data also differ: the *Scoreboard* collects data from audited financial accounts and reports whereas BERD typically takes a stratified sample, covering all large companies and a representative sample of smaller companies. Additional differences concern the definition of R&D intensity (BERD uses the percentage of R&D in value added, while the *Scoreboard* considers the R&D/Sales ratio) and the sectoral classification (BERD uses NACE (the European statistical classification of economic sectors), while the *Scoreboard* uses the ICB (the International Classification Benchmark).

⁸ According to latest Eurostat statistics. However BERD and *Scoreboard* figures are not directly comparable.

- **Companies** can use the *Scoreboard* to benchmark their R&D investments and so find where they stand in the EU and in the global industrial R&D landscape. This information could be of value in shaping business or R&D strategy.
- **Investors and financial analysts** can use the *Scoreboard* to assess investment opportunities and risks.
- **Policy-makers, government and business organisations** can use R&D investment information as an input to policy-formulation or other R&D-related actions.

Furthermore, the *Scoreboard* dataset has been made freely accessible so as to encourage further economic and financial analyses and research by any interested parties.

3. Methodological notes

The 2008 EU Industrial R&D Investment Scoreboard (*Scoreboard*) has been prepared on the basis of information gathered according to the standards set out below.

Scope of the EU Industrial R&D Investment Scoreboard

The *Scoreboard* has been prepared from companies' **annual reports and accounts** received by an independent data provider up to and including **29 July 2008**. To prepare the *Scoreboard*, a database of 5316 companies' accounts was screened.

In order to maximise completeness and avoid double counting, the **consolidated group accounts of the ultimate parent company** are used. Companies which are subsidiaries of any other company, such as Scottish Power (UK), Ford (UK) or IBM (Germany) are not listed separately. Where consolidated group accounts of the ultimate parent company are not available, subsidiaries are included, e.g. Cognis Deutschland (Germany).

For some companies whose accounts are expected close to the cut-off date, **preliminary announcements** are used. Examples are Microsoft (USA), Renishaw (UK), or Misys (UK).

In case of a **demerger**, the full history of the continuing entity is included. The history of the demerged company can only go back as far as the date of the demerger to avoid double counting of figures, e.g. Prysmian (Italy) or NXP (The Netherlands).

In case of an **acquisition or merger**, pro forma figures for the year of acquisition are used along with pro-forma comparative figures if available, e.g. Sanofi-Aventis during 2005.

The R&D investment included in the *Scoreboard* is the cash investment which is funded by the companies themselves. It excludes R&D undertaken under contract for customers such as governments or other companies. It also excludes the companies' share of any associated company or joint venture R&D investment when disclosed. Where part or all of R&D costs have been capitalised, the additions to the appropriate intangible assets are included to calculate the cash investment and any amortisation eliminated.

The **first time adoption of IFRS**⁹, for example by many listed European companies, gives rise to an information discontinuity because R&D is treated differently than before. R&D capitalisation criteria under IFRS are stricter and, where the criteria are met, the amounts must be capitalised. In some pre-IFRS jurisdictions either one or both of these conditions did not apply. The following was implemented to minimise the impact of transition to IFRS:

a) The previous year's figures disclosed in the new IFRS accounts have been used in place of the previous year's GAAP figures disclosed in the past annual report. The effect is that the discontinuity moves back by one year so that it impacts on the three year growth statistic but not the one year growth statistic.

b) In most cases, comparative figures are not disclosed, so the previous years' GAAP figures disclosed in the past annual report were examined to assess whether or not there appears to be a material component not disclosed. If the non disclosure appeared to be not material it was assumed to be zero and the R&D spend was calculated. If the non disclosure appeared to be material, the R&D spend was treated as unknown and the result is reported as "not available (n/a)". Companies with "n/a" results are excluded from the aggregate growth statistics.

Companies are allocated to the **country of their registered office**. In some cases this is different from the operational or R&D headquarters. This means that the results are independent of the actual location of the R&D activity. Examples are STMicroelectronics (the Netherlands) or AstraZeneca (UK).

The **data** used for the *Scoreboard* are different from data provided by statistical offices, e.g. BERD data. The *Scoreboard* refers to all R&D financed by a particular company from its own funds, regardless of where that R&D activity is performed. BERD refers to all R&D activities performed by businesses within a particular sector and territory, regardless of the location of the business's headquarters, and regardless of the sources of finance.

Further, the *Scoreboard* collects data from audited financial accounts and reports. BERD typically takes a stratified sample, covering all large companies and a representative sample of smaller companies. Additional differences concern the definition of R&D intensity (BERD uses the percentage of value added, while the *Scoreboard* measures it as the R&D/Sales ratio) and the sectoral classification they use (BERD follows NACE, the European statistical classification of economic sectors, while the *Scoreboard* classifies companies' economic activities according to the ICB classification).

Sources

The database from which the *Scoreboard* is drawn consists of information extracted from the audited annual reports and accounts of companies, using rigorous financial reporting practice verification processes.

The companies are those which are identified as having an R&D activity and which either have their accounts publicly available for free (e.g. on the internet or upon request) or at low cost (e.g. at the company registry).

The market capitalisation data have been extracted from Reuters. These reflect the market capitalisation of each company at the close of trading on 8 August 2008.

The source documents, annual reports & accounts, are public domain documents and so the *Scoreboard* is capable of independent replication.

⁹ Since 2005, the European Union requires all listed companies in the EU to prepare their consolidated financial statements according to IFRS (International Financial Reporting Standards, see: <http://www.iasb.org/>).

The database is supplemented by a feed service from Standard & Poor's Compustat Global Vantage database to identify potential new entrants to the ranking. The Orbis and the Experian databases have been used and recognised stock exchanges are monitored also.

The database contains many times more companies than are listed in the *Scoreboard* to ensure that the top companies by R&D investment can be identified in each case.

The industry sectors are based on the ICB Industry Classification System.

The *Scoreboard* data have been compiled by Company Reporting Ltd and the following subcontracting collaborating partners: Inno Group (Germany), SPI Sociedade Portuguesa de Inovacao (Portugal), Austrian Institute for SME Research (Austria), West Hungarian Research Institute (Hungary), Slovakian National Agency for SME Development (Slovakia), Thomaz Puh (Slovenia), Entrepreneurship and Economic Development Research Institute EEDRI (Poland), Etlatiето (Research Institute of Finnish Economy, Finland), Stifterverband Wissenschaftsstatistik (Germany).

In 2008, Company Reporting has continued a partnership with European organisations to expand the monitoring process in all EU economies. These external sources are used only to identify potential new entrants.

Limitations

The approach used in preparing the *Scoreboard* has the following limitations:

1. Disclosure

The *Scoreboard* relies on **disclosure of R&D investment** in published annual reports and accounts. Therefore, companies which do not disclose figures for R&D investment or which disclose only figures which are not material enough are not included in the *Scoreboard*. There are few companies which disclose a significant R&D investment only as a percentage figure (often to only one significant figure), e.g. Vallourec, France. These companies are not included in the *Scoreboard*.

Due to different national accounting standards and **disclosure practice**, companies of some countries are less likely than others to disclose R&D investment consistently.

Further, the facilities and possibility to acquire accounts differ considerably from country to country because the organisation of document registration varies between local and central registries as well as the information that can be obtained and the cost to acquire this data.

In some countries, R&D costs are very often integrated with other operational costs and can therefore not be identified separately. For example, companies from many Southern European countries or the new Member States are under-represented in the *Scoreboard*. On the other side, UK companies are over-represented in the *Scoreboard*. For listed companies, country representation will improve with IFRS adoption.

For many **highly diversified companies**, the R&D investment disclosed in their accounts relates only part of their activities, whereas sales, profit before tax and market capitalisation are in respect of all their activities. Unless such groups disclose their R&D investment additional to the other information in segmental analyses, it is not possible to relate the R&D more closely to the results of the individual activities which give rise to it. The impact of this is that some statistics for these groups, e.g. R&D as a percentage of sales, are possibly underestimated and so comparisons with

non-diversified groups are be limited.

The R&D investment disclosed in some companies' accounts follows the US practice of including **engineering costs** relating to product improvement, e.g. Ingersoll-Rand, Bermuda. Where these engineering costs have been disclosed separately, they have been excluded from the *Scoreboard*. However, the incidence of non-disclosure is uncertain and the impact of this practice is a possible overstatement of some overseas R&D investment figures in comparison with the EU.

Where R&D income can be clearly identified as a result of **customer contracts** it is deducted from the R&D expense stated in the annual report, so that the R&D investment included in the *Scoreboard* excludes R&D undertaken under contract for customers such as governments or other companies. However, the disclosure practise differs and R&D income from customer contracts cannot always be clearly identified. This means a possible overstatement of some R&D investment figures in the *Scoreboard* for companies with directly R&D related income where this is not disclosed in the annual report.

As a result of these disclosure limitations, the *Scoreboard* **cannot set out to capture systematically all companies with R&D activity**. There is evidence to suggest that the distribution of R&D activity is highly skewed towards larger companies, with a "long tail" of smaller companies.

2. Measurement

In implementing the definition of R&D, companies exhibit **variability** arising from three principal sources:

- a) Natural variability arises from differing interpretations of the definition. Some companies view a process as an R&D process while other companies may view the same process as an engineering or other process.
- b) Data capture variability arises from differing information systems. Some companies have in place better systems than others for measuring the costs associated with R&D processes. This problem of data capture systems appears challenging for companies in the EU Member States.
- c) Fiscal variability arises from fiscal incentives based on the treatment of costs.

Measurement variability therefore has an impact on the extent of R&D investment disclosure.

3. Timing

The accounts of the companies included in the current year set are their **latest published accounts** and are intended to be their fiscal year 2007 accounts. Companies from most countries have discretion in the choice of accounting period end. As a result, the current year set of the 2008 *Scoreboard* can include accounts ending on a range of dates from late 2006 to early 2008. Furthermore, the accounts of some companies are publicly available more promptly than others. Therefore, the current year set represents a heterogeneous set of timed data.

4. Availability

The accounts of companies which are **not listed** on any recognised stock exchange are

significantly more difficult to capture. There is considerable variability between countries in relation to the existence of and, where they exist, the administrative procedures and costs associated with capturing accounts. This results in (i) the smaller private companies from the “long tail” being under represented and (ii) a smaller number of significant private enterprises, such as Servier (France) not being represented.

Interpretation

There are some fundamental aspects of the *Scoreboard* which affect their interpretation.

1. Funding vs. activity

The focus of the *Scoreboard* on R&D investment as reported in group accounts means that the results can be independent of the location of the R&D activity. The *Scoreboard* indicates the level of R&D funded by companies, not all of which is carried out in the country in which the company is registered. This enables inputs such as R&D and Capex investment to be related to outputs such as Sales, Profit, productivity ratios and market capitalisation.

The information in the *Scoreboard* differs therefore from other information such as the Business Enterprise R&D (BERD) data generated by the OECD, Eurostat and by National Statistics Offices.

The BERD data focus on R&D activity within the countries, independent of the source of funding and, at the national level, exclude R&D carried out by companies in other countries. In brief, the distinction can be seen as “funding vs. activity”.

2. Growth

At the aggregate level, the growth statistics reflect the growth of the set of companies in the current year set. Companies which may have existed in the base year but which are not represented in the current year set are not part of the *Scoreboard* (a company may continue to be represented in the current year set if it has been acquired by or merged with another).

These are therefore “successful efforts” aggregates rather than economic estimates of market aggregates.

3. Currency effects

All foreign currency amounts have been translated at the Euro exchange rates ruling at 31 December 2007 as shown in the following table:

Country	Euro exchange rate as of 31 Dec 2007
Australia	\$ 1.67
Canada	\$ 1.44
China	10.68 Renminbi
Czech Republic	26.59 Koruna
Denmark	7.46 Danish Kronor
Hungary	252.80 Forint
India	57.63 Indian Rupee
Israel	5.63 Shekel
Japan	163.33 Yen
Norway	7.94 Norwegian Kronor
Russia	35.88 Rouble
South Korea	1368.56 Won
Sweden	9.45 Swedish Kronor
Switzerland	1.66 Swiss Franc
UK	£ 0.73
USA	\$ 1.46
Taiwan	\$ 47.42

The exchange rate conversion also applies to the historical data. The result is that over time the *Scoreboard* reflects the domestic currency results of the companies rather than economic estimates of current purchasing parity results.

The original domestic currency data can be derived simply by reversing the translations at the rates above. Users can then apply their own preferred current purchasing parity transformation models.

Glossary of definitions

1. **Research and Development (R&D) investment** in the *Scoreboard* is the cash investment funded by the companies themselves. It excludes R&D undertaken under contract for customers such as governments or other companies. It also excludes the companies' share of any associated company or joint venture R&D investment. Being that disclosed in the annual report and accounts, it is subject to the accounting definitions of R&D. For example, a definition is set out in International Accounting Standard (IAS) 38 "Intangible assets" and is based on the OECD "Frascati" manual. **Research** is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditure on research is recognised as an expense when it is incurred. **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Development costs are capitalised when they meet certain criteria and when it can be demonstrated that the asset will generate probable future economic benefits. Where part or all of R&D costs have been capitalised, the additions to the appropriate intangible assets are included to

calculate the cash investment and any amortisation eliminated.

2. **Sales** follow the usual accounting definition of sales, excluding sales taxes and shares of sales of joint ventures & associates. For banks, sales are defined as the “Total (operating) income” plus any insurance income. For insurance companies, sales are defined as “Gross premiums written” plus any banking income.

3. **R&D intensity** is the ratio between R&D investment and net sales of a given company or group of companies. At the aggregate level, R&D intensity is calculated only by those companies for which data exist for both R&D and net sales in the specified year. The calculation of R&D intensity in the *Scoreboard* is different from that in official statistics, e.g. BERD, where R&D intensity is based on value added instead of net sales.

4. **Operating profit** is calculated as profit (or loss) before taxation, plus net interest cost (or minus net interest income) minus government grants, less gains (or plus losses) arising from the sale/disposal of businesses or fixed assets.

5. **One-year growth** is simple growth over the previous year, expressed as a percentage: 1 yr growth = $100 * ((C/B) - 1)$; where C = current year amount, and B = previous year amount. 1yr growth is calculated only if data exist for both the current and previous year. At the aggregate level, 1yr growth is calculated only by aggregating those companies for which data exist for both the current and previous year.

6. **Three-year growth** is the compound annual growth over the previous three years, expressed as a percentage: 3 yr growth = $100 * (((C/B)^{(1/t)} - 1))$; where C = current year amount, B = base year amount (where base year = current year - 3), and t = number of time periods (= 3). 3yr growth is calculated only if data exist for the current and base years. At the aggregate level, 3yr growth is calculated only by aggregating those companies for which data exist for the current and base years.

7. **Capital expenditure (Capex)** is expenditure used by a company to acquire or upgrade physical assets such as equipment, property, industrial buildings. In accounts capital expenditure is added to an asset account (i.e. capitalised), thus increasing the asset's base. It is disclosed in accounts as additions to tangible fixed assets

8. Number of **employees** is the total consolidated average employees or year end employees if average not stated.

9. **R&D per employee** is the simple ratio of R&D investment over employees. At the aggregate level, R&D per employee and the other non-growth statistics are calculated only by aggregating those companies for which data exist for both the numerator and the denominator.

10. **R&D employees** is the number of employees engaged in R&D activities as stated in the annual report.

11. **Market capitalisation** is the share price multiplied by the number of shares issued at a given date. Market capitalisation data have been extracted from both the Financial Times London Share Service and Reuters. These reflect the market capitalisation of each company at the close of trading on 8 August 2008. The gross market capitalisation amount is used to take account of those companies for which not all the equity is available on the market. Companies not listed on a recognised stock exchange have been distinguished separately by the use of italics. If a listed company is suspended from trade, the market capitalisation will be shown as “n/a”, e.g. *Amtel-Vredestein*, The Netherlands.

12. **Market Spread** details sales by destination, distinguishing between Europe, North America (USA and Canada) and the Rest of the World. The definition of Europe is subject to the definitions adopted by the individual companies. In cases in which companies have defined a market spread area as EMEA (Europe, Middle East, Africa), this has been allocated to Europe. When a company has not clearly disclosed the turnover region North America but Americas, this has been allocated to North America.

13. **Industry sectors** in are based on the ICB Industry Classification System. The level of disaggregation is generally the three-digit level unless indicated otherwise.