



Intellectual Capital Report 2004

An assessment of ANZA's intellectual capital

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CEO's Report

Preface

The term intellectual capital (IC) refers to value creation within companies. This includes all the intangible assets, as opposed to the tangible assets accounted for in a company's accounts and presented in its annual report.

The Intellectual Capital Report explains the operations of ANZA's parent company. All figures and summaries are based on the fiscal year, which is the 2004 almanac year.

The report discusses three types of intellectual capital, namely human capital, structural capital and relational capital, and evaluates ANZA on the basis of these. These are the main components in any description of a company's intellectual capital, and measure certain key data. The relationship between these components is very important as it shows how knowledge exchange takes place within the company.

The first part of the report discusses human capital. The main factors have been evaluated in order to arrive at an assessment of ANZA's human capital and to determine whether the company is succeeding in attaining its human capital objectives. This part also seeks to describe and evaluate the company's work environment through an analysis of data on employee attitudes, available in the company's workplace audit, which is conducted biannually by IMG Gallup.

The second part of the report discusses structural capital. This includes the company's inner structural, procedures and information systems, such as the mail system and intranet. Structural capital essentially refers to all the information stored in the company's systems, such as handbooks, instructions and other resources, which enable employees to increase their knowledge and abilities. As far as structural capital is concerned, the greatest value lies in the company's certification for information security, BS 7799, as most procedures used in the company are based on that standard.

The third and final part of the report discusses relational capital, which refers to the importance of the relationship between human capital and the structure of the company. This includes the main evidence that gives us an idea of the company's market position. Information on relational capital is primarily derived from the company's financial accounts and client data management system. It would be desirable to include information from a service evaluation in this category, but that information is currently unavailable. However, the intention is to include that information in the report for 2005. ANZA's client relationships have been evaluated on the basis of service contracts, as approximately 76% of the company's revenues is derived from fixed service contracts.

About ANZA

ANZA was founded on March 1st, 1997 and operates in the field of computer systems operation and network services. The company is a subsidiary of Iceland Telecom, which holds just over 80% of the company's shares. ANZA has its headquarters in the Reykjavik area and maintains facilities in Húsavík, offering its services throughout the country. The company operates sophisticated, interlinked data centres.

ANZA's Services

The company's main product is hosting, better known in English as "outsourcing". The basic idea behind the concept is that companies concentrate on their core business, that is, on what they do best and what brings them revenues, while transferring other business components to companies that specialise in other fields. ANZA hosts and operates large centralised databases on a nationwide basis and is a pioneer in the Icelandic market in offering comprehensive, all-inclusive operation of information management systems. ANZA is independent of all software and hardware brands. This unique position means that ANZA approaches the operation of information systems on no other premise than as an operator. ANZA endeavours to choose the best equipment available at any time from the manufacturer providing the best service and does business with most of the large companies selling software and hardware on the Icelandic market.



The Report's Contents

The main purpose of ANZA's IC report is to:

- Provide an accurate description of ANZA with respect to the company's current market position, various key financial figures and general operations.
- Describe intangible, rather than financial, assets.
- Use the results to strengthen ANZA's operations and support a successful knowledge management strategy.
- Enable year-to-year comparison of intangible assets with a view to further success in the future.

ANZA bases these results on data available in the company's operations.

In confirmation thereof, the undersigned accepts **ANZA's Intellectual Capital Report 2004**.

Date: _____

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ANZA's Business Strategy

Changes in Strategy

The business strategy reflected in ANZA's operations in 2004 is the result of new policies adopted at the end of 2003. The changes that marked the year's operations were primarily the following:

- 1) The implementation of a more focused and directed market drive. Sales opportunities were analysed by way of a market analysis and sales campaigns organised and vigorously implemented. Sales to new clients in the company's target group were carried out through a special campaign. Existing products were repackaged and presented in a livelier form.
- 2) Continuing sensitivity to cost was maintained and a reduction in housing expenses was achieved. The creation of ANZA's inner value, i.e. employees and assets such as equipment, was actively monitored. This was mainly achieved through greater employee utilisation and better use of equipment.
- 3) Services were improved by way of the definition of clear service procedures and the application of service procedures and staffing geared towards flexibility and effectiveness. In particular, greater effectiveness was emphasised to meet increased client demand for cost reduction. Products sold to clients were based on service procedures and the pricing and cost of the company's product line was actively monitored.
- 4) Attempts were made to improve and sustain job satisfaction through the nurturing of a corporate culture based on the company's personnel policy, with particular emphasis on:
 - a. Good information flow within the company
 - b. Possibilities of job development
 - c. Ensuring feedback to employees
 - d. Good work environment
 - e. Interesting and challenging activities
 - f. Reduction of the effects of diffuse operations on workplace morale
 - g. The company's visibility increased by way of advertising and press releases



Assessing ANZA's Intellectual Capital

Human Capital

ANZA's most important resource is its competent workforce, who have completed their education and training in a variety of different places and make the company's interests their own. From the outset, special care has been taken to actively nurture this resource. This is accomplished through a human and family-friendly personnel policy and an emphasis on respect for the individual.

At the end of 2004, employees numbered 70 and the average number of employees for the year was 65,75. The competence of employees and their willingness to serve gives the company a competitive edge. The management is guided by five basic principles: Job Satisfaction, Growth, Profitability, Service and Image. These are intended to create an environment that will ensure future success for the company and its employees.

Gender distribution in the company is somewhat unequal, as women account for only 21% of employees, most of whom work in the company's support departments. However, this reflects gender distribution in the wider sector fairly well, as few women tend to hold certified degrees, such as those bestowed by Microsoft, which employees in network services most commonly seek to obtain.

The education level within the company is quite high. Higher education is quite common in the support departments and in the department of Consulting and Integration. In the company's largest department, Facility Management, higher education is relatively uncommon owing to the fact that specialised training in the various computer systems is the type of education most useful for work in that department. Certified degrees from IT schools and manufacturers are the most common. The figures reveal that approximately 19% of employees have acquired education in their field.

Human Capital	2004
Average number of employees	65,75
Employee turnover	15%
Average age	35
Average number of years with the company	4,78
Gender distribution	
- Women	21%
- Men	79%
Number of employees in (external)services (sold)	70%
Number of employees in management and supervisory positions	30%
Gender distribution of managers	8
- Women	25%
- Men	75%
Education Level	
Higher Education (BA; BS; B.Ed, Master)	32%
Vocational training	28%
Certified Degrees (Microsoft, Oracle, IBM, CCA, CCSA etc.)	31%

32% of employees have completed higher education (a few employees hold more than one degree), and 25% of employees have degrees in engineering, science or technical disciplines. As regards certified degrees, degrees from Microsoft are the most common, with 31% of employees holding an MCSE.

Employee attitudes are measured in a workplace audit carried out biannually by IMG Gallup. Employees complete a questionnaire and return it to IMG Gallup, who then summarise the result and present them to the Human Resource Department and the CEO. The Human Resource Department then sees to that the results are presented to supervisors and assists them with follow-up. The report from IMG Gallup is used here to evaluate employee attitudes. As the analysis is performed only every other year, the figures used are from 2003.

Most of the items were arranged on a 5-point scale with the possible responses strongly agree, agree, neither agree nor disagree, disagree and strongly disagree. The average score for each component was calculated on the basis of this scale and has been arranged into three categories, which is based on the relationship between employee satisfaction and productivity.

The categories used were "strong", for scores between 4,20 and 5,00, "satisfactory", for scores between 3,70 and 4,19, and "action required", for the interval between 1,00 and 3,69, depending on how satisfied or dissatisfied employees are with the respective components. Total employee satisfaction was 3,95. The affirmation employees were asked to respond to was the following: "Overall I am satisfied in my job with ANZA".



The results of the workplace audit reveal both strengths and challenges in the company's working environment and should enable the company to take relevant action to further improve its position.

Employee attitudes and expectations	2003
Total employee satisfaction	3,95
Possibilities of job development	3,72
Balance between work and private life	3,63
Flexibility	3,42
Work environment	3,65
Workplace atmosphere/Teamwork	3,92
Employee initiative	3,68
Professionalism	3,47
Attitude towards management	4,05
Feedback	3,31
Image	3,5



Structural Capital

Structural capital is highly important for a knowledge company such as ANZA. In 2001, ANZA became the first company in Iceland to obtain the certification for information management BS 7799 and has since employed a security manager on a permanent basis whose role it is to attend to everything relating to the certification. For ANZA, information security is of paramount importance, as its business model is based on the operation of information systems and data processing, including data hosting for clients. The company's objective is to establish an information security management system that prevents unauthorised access, transfers, changes, damage (whether intentional or unintentional) and theft of information or equipment.

The company's security handbook is available to all employees on the company intranet and employees are encouraged to refer to it on a regular basis. Procedures are registered and specially defined for the information security certification and are reviewed twice a year with a view to improvement. A security inspection is carried out twice a year by KPMG. ANZA's objective is to maintain the security certification and much effort is therefore put into the procedures and making employees aware of the correct procedures to follow.

Once a year, all employees undergo an examination in information security, which each is expected to pass with at least a score of 60%. A web course in information security has been elaborated, which concludes with a test, the results of which are sent to the attention of the Security Manager. Due to the importance of the certification, a question relating to employee attitudes toward the security policy has been included in the workplace audit carried out by IMG. In the 2003 analysis, this component received a high score, which indicates that employees appreciate the importance of the information security plan for the company.

Service procedures are under review, as certain statistics are regularly collected from the help desk. Although these statistics are not yet in an organised form, the intention is to standardise the process. The idea is to measure certain aspects such as the time it takes to respond to a work request and the cost of tender offers compared to the income from sales. The intention is also to improve the effectiveness of service provided to clients, for example by facilitating access to information on the history of each client. Improved procedures are expected to be in place by the end of 2005.

According to the results of the IMG workplace audit, which includes a component on employee attitudes towards innovation, employees feel ANZA provides a good environment for innovation, with the company receiving the score of 3,76 on that component. The score is based on items asking employees to indicate whether employee ideas and suggestions matter and are valued by management.

The Human Resource Department prepares employee interviews and has, for this purpose, created special forms for both supervisors and employees. This is done to obtain standardised results. Actual job development plans are not made, but during interviews, employees set themselves goals on special forms.

When a new employee starts work, a certain orientation process is set in motion by the Human Resource Department, which receives the new employee and introduces him or her to certain basics relating to the company, such as security regulations, the intranet, time logging etc. Thereafter, the employee's hierarchical superior takes over. After a few weeks on the job, new employees are summoned for an interview with the CEO, during which he explains to them the company's policy and mission.

Structural Capital	2004
Mail System	Yes
Intranet	Yes
Quality System	
Security Certification	Yes
Quality Handbook	Yes
Registered defined procedures	Yes
Review of Procedures – how often	2 / year
Are measurable quality goals set?	No
Service certified for quality	Yes
Employee attitudes towards quality and security issues	
Attitudes toward the security policy	4,39
Proportion of employees having undergone an information security examination	82%
Average grade on the examination	9,1
Service procedures	
Help desk – Statistics from the help desk (Regular statistics from help desk: yes/no)	Yes
Innovation ability	3,76
Job development	
Proportion of employee interviews/number of employees who had an interview in 2003	85%
Job development plans prepared?	No
Coordinated orientation for new employees	Yes



Relational Capital

ANZA specialises in the development and operation of company computer systems. The company's guiding principle is to create value for its clients by helping them take advantage of information technology to achieve their business objectives. ANZA is independent of all brands and manufacturers, which is important for maintaining credibility in the field of consulting and operating services.

ANZA emphasises close and personal relations with its clients and seeks to develop and adapt its services in line with client expectations and requirements. The operation of computer systems on the behalf of clients is the most important part of ANZA's business. The company's clients, both large and small, number more than one hundred.

Service contracts between ANZA and its clients typically involve ANZA undertaking to operate the client's computer system for a period of 1-4 years in return for a fixed amount, settled through monthly installations. For the client, the cost of running the computer system becomes predictable, which increases the reliability of planning and renders the management of information technology issues more effective. ANZA takes responsibility for the operation of the computer system and bears the cost if anything goes wrong. The smooth operation of the computer system is therefore in the interest of both parties. User services form part of the service contract and consist of the provision by ANZA of a central help desk and on-site terminal services.

Relational Capital	2004
Proportion of fixed service contracts of total revenues	76%
Large contracts	85%
Smaller contracts	15%
Proportion of contract revenue from foreign companies	2%
Turnover by client category based on fixed contracts	
Public-sector companies	3%
Manufacturing companies	14%
Service companies	59%
Financial services companies	1%
Market position	
Client turnover	3%
Marketing costs	1,5%
Cooperation on product development and innovation (number of projects)	4

Around 76% of the company's revenues are fixed, contract-based revenues, whereof 85% are from large service contracts. As such a large proportion of the company's revenues is derived from fixed service contracts, seasonal fluctuations have a more limited impact on ANZA than would otherwise be the case.

ANZA stresses its commitment to serve large and demanding clients. The great majority of the company's clients is private companies, representing 97% of total revenues while companies in the public sector only account for 3% of total revenues. Among the company's clients, service companies constitute the biggest single sector, accounting for 59% of total revenues from service contracts.

Total client turnover for 2004 was 3% and new client turnover was 22%. Seven new clients joined ANZA's expanding client group during the year while only one client left.

Around 1,5% of turnover was allocated to marketing expenses. The reason why the company's marketing expenses are so low is that the company operates in a business-to-business environment and only engages in direct sales by way of introductory letters, phone calls and/or sales meetings, as well as tender offers. Advertising of the company's product line is therefore minimal although an advertising campaign was launched in 2004 to promote the company's image and make it more visible. The company also participates in select trade fairs.

During 2004, ANZA cooperated with four parties on product development and innovation projects. The projects consisted in the development of central hosting of various specialised systems and product development in the field of the interconnection between communications and operating services.