



Intellectual Capital Report 2005

An assessment of ANZA's intellectual capital



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Guðríður Sigurðardóttir
Margrét Grétarsdóttir



Table of Contents

CEO'S REPORT	2
PREFACE	2
ABOUT ANZA	2
ANZA'S SERVICES	3
THE REPORT'S CONTENTS	3
ANZA'S BUSINESS STRATEGY	4
HIGHLIGHTS OF 2005	4
ASSESSING ANZA'S INTELLECTUAL CAPITAL	5
HUMAN CAPITAL	5
STRUCTURAL CAPITAL	7
RELATIONAL CAPITAL	9



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 2005 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 capture certain key data. The relationship between these different types of intellectual capital 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 are 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. Aspects such as employee turnover, gender distribution and educational level are examined, as well as the company turnover with respect to the number of employees. This part also describes and evaluates the company's work environment and atmosphere through the presentation of data on employee attitudes derived from a workplace audit

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

carried out every other year for ANZA by IMG Gallup. It is interesting to note the significant change for the better in employee satisfaction from 2004 to 2005.

The second part of the report discusses structural capital. This includes the company's inner structure, procedures and information systems, such as the mail system, intranet and document management procedures. Structural capital essentially refers to all the information stored in the company's systems, such as handbooks, instructions and other resources that 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 within the company are based on that standard.

Relational capital refers to the importance of the link between human resources and organisation. This includes the main evidence that gives us an idea the company's market position. Information on relational capital is primarily derived from the company's financial accounts and client data management system. The company's client relationships are evaluated on the basis of service contracts, as approximately 89% of company revenue is derived from fixed service contracts, up from 76% in 2004. Revenue from large contracts furthermore increased from 85% to 95% with respect to the previous year.

Reykjavik area and maintains facilities in Húsavík, offering its services throughout the country and abroad. 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 revenue, while transferring other business activities to companies that specialise in those activities. 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 major 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.



ANZA's Business Strategy

Highlights of 2005

ANZA's main emphasis in 2005 was the consolidation of the company structure to prepare the company for further growth. More people were taken on and more capital was invested in employee training than in the previous year. A new division, responsible for product development and innovation, was set up. In late 2005, all employees attended a course organised by Reykjavík University, which focussed on how ANZA could be improved both as a workplace and as a company. Many good ideas emerged as a result of this that will be processed in the course of 2006. ANZA expanded its operations with the acquisition of engineering firm "Verkfræðistofa Hafliða Loftssonar". This

expansion means that ANZA now offers specialised services relating the control of machines and equipment, and can thus offer manufacturing companies an integrated solution in the realm of information technology from the control and surveillance of manufacturing equipment to information systems for management. The company also acquired the firm Netafrit, which specialises in backup solutions for smaller companies and institutions. The company's operations went well last year, growth and profitability targets were met and employee satisfaction increased, according to new survey results.



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 2005, employees numbered 74 and the average number of employees for the year was 70,5. 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 conducive to the future success of the company and its employees.

Gender distribution within the company is somewhat unbalanced. At the end of 2005, women accounted for only 21% of employees, most of whom work in the company's support departments. However, gender distribution in management has changed substantially so that 40% of the company's managers are now women.

The education level within the company is quite high. Higher education is most 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.

Employee attitudes are measured in a workplace audit carried out every other year by IMG Gallup. Employees complete a

Human Capital	2004	2005
Average number of employees (positions)	65.75	70.5
Employee turnover	15%	19%
Average age	35 years	36 years
Average number of years with the company	4.78 years	3.75 years
Gender distribution		
- Women (positions)	21%	21%
- Men (positions)	79%	79%
Number of positions in (external) services (sold)	70%	74%
Number of positions in management and administration	30%	26%
Number of managers	8	10
- Women	25%	40%
- Men	75%	60%
Education		
Higher education (BA; BS; B.Ed, Master, Ph.D....)	32%	34%
Vocational training	28%	20%
Certified	31%	39%

questionnaire and return it to IMG Gallup, who then analyse the results and return them to the Human Resource Department and the CEO. The Human Resource Department then sees to it that results are presented to supervisors and assists them with follow-up. The report from IMG Gallup is used here to evaluate employee attitudes. The audit was carried out in May 2005.

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 item 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 items. Total employee satisfaction was 4.15, which is a considerable change with respect to the previous audit. The affirmation employees were asked to respond to was the following: “Overall I am satisfied in my job with ANZA.”

Total employee satisfaction has now come very close to “strong” and the intention is for it to have reached that category by the next audit. The audit results are actively used to make improvements where required, but also to

Employee attitudes and expectations	2004	2005
Satisfaction	3,95	4,15
Possibilities of job development	3,72	3,78
Balance between work and private life	3,63	3,92
Flexibility	3,42	3,61
Work environment	3,65	3,98
Workplace atmosphere/Teamwork	3,92	4,17
Employee initiative	3,68	3,58
Professionalism	3,47	3,56
Knowledge of service components	4,05	3,84
Attitude towards management	4,05	3,94
Feedback	3,31	3,64
Image	3,5	3,93

maintain satisfaction in those areas that receive a positive outcome.



Structural Capital

Structural capital is highly important to a knowledge company such as ANZA. In 2001, ANZA became the first company in Iceland to obtain certification for information security management standard BS 7799 and has since employed a security manager on a permanent basis whose role it is to maintain and improve ANZA's information security management system. 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 maintain an information security management system that ensures the confidentiality, integrity and availability of information and prevents unauthorised access, transfer, changes, damage (whether intentional or unintentional) and theft of information and equipment.

ANZA's quality handbook consists solely of a security handbook based on the BS 7799 standard. The security handbook is available to all employees on the company intranet and employees are encouraged to refer to it on a regular basis. The handbook contains a description of work procedures pertaining to the standard. A review of the information security management system is conducted twice a year, through both an internal and an external review. The internal review takes place between January and April and consists in the review, by management and other interested parties, of ANZA's information security policy, procedures and other aspects of the system. The external review is conducted in May or June and consists in the review by external parties of all aspects of the information security management system. ANZA places great emphasis on maintaining the certification and much effort is therefore put into designing the procedures and making employees aware of the correct procedures to follow.

Every year, employees undergo an examination in information security, which each is expected to pass with a minimum score of 60%. An increase in the minimum passing score to 80% is planned. In 2005, the average score for all employees on the

Structural Capital	2004	2005
Mail system	Yes	Yes
Groupware	No	Yes
Intranet	Yes	Yes
Quality System		
Security Certification	Yes	Yes
Security Handbook	Yes	Yes
Registered defined procedures	Yes	Yes
Review of Procedures - How often	2/year	2/year
Are measurable quality goals set?	No	No
Service certified for quality	Yes	Yes
Employee attitudes towards quality and security issues		
Attitude towards security policy	4.39	4.57
Proportion of employees having undergone an information security examination	82%	93%
Average score on the examination	9.1	8.5
Service Procedures		
Help desk - Statistics from the Help Desk	Yes	Yes
Customer satisfaction	N/A	82%
Capacity for innovation	3.76	3.96
Job Development		
Proportion of employee interview/number of employees	85%	0
Job development plans prepared?	No	No
Coordinated orientation for new employees (mentor system)	Yes	Yes

examination was 85.15%. The proportion of new employees that underwent the examination was 95%, the objective being that all new employees do so within 4 weeks of joining ANZA. The average score for new employees was 86.48%. The examination is part of a web course on information security prepared at ANZA's behest.

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 2005 audit, this component received a high score (4.57 out of 5), which indicates that employees appreciate the importance to the company of the information security policy.

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.

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 a score of 3.76 on that component. The score is based on items asking employees to indicate whether they feel employee ideas and suggestions matter and are valued by management.

The Human Resource Department prepares employee interview 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.

Employee interviews are conducted every other year. The last round of interviews was conducted in 2004 and the next round is scheduled for the spring of 2006.

When a new employee joins the company, 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 supervisor 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. On the same occasion, the security manager also meets with employees and discusses the security handbook on the intranet and rules relating to the information security standard.



Relational Capital

ANZA specialises in the development and operation of company information 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 information systems on behalf of clients is the core 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 information systems for a period of 1-4 years in return for a fixed amount, settled through monthly installations. The cost of running the information systems becomes predictable thus increasing the reliability of planning and rendering the management of information technology issues more effective. ANZA takes responsibility for the operation of the information systems and bears the cost if anything goes wrong. The smooth operation of the information systems 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.

Fixed, contract-based revenue has increased considerably since 2004 and now accounts for around 89% of total revenues, of which 95% are from large contracts. As such a large proportion of the company's revenues is derived from fixed service contracts, seasonal fluctuations have less of an impact on ANZA than would otherwise be the case.

ANZA is committed to serving large and demanding clients. The great majority of ANZA's clients are in the private sector, which accounts for 92% of revenues. Public sector entities therefore account for only 8% of total revenues, which nonetheless represents an increase from last year. The

service sector still accounts for most of ANZA's clients, with 57% of total contract revenue.

Total client turnover for 2005 was 6%. Ten new clients joined the company, apart from those who only purchase a limited number of services, such as backup services. The increase in turnover attributable to new clients is estimated at 5%-7%.

Marketing costs increased during 2005 and amounted to 2% of turnover. The reason why the company's marketing costs 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. Direct advertising of the company's product line is therefore minimal although an advertising campaign to make the company

Relational Capital	2004	2005
Proportion of fixed service contracts of total revenues	76%	89%
Large contracts	85%	95%
Small contracts	15%	5%
Proportion of contract revenue from foreign companies	2%	0
Turnover by client category based on fixed contracts		
Public sector	3%	7%
Manufacturing industry	14%	24%
Service sector	59%	57%
Financial services	1%	1%
Market position		
Client turnover	3%	6%
Marketing costs	1,5%	2%
Cooperation on product development or innovation (number of projects)	4	4
Image		
Satisfied customers	N/A	82%
Comparison with competitors	N/A	92%
Confidence and trust	N/A	91%
Initiative	N/A	24%
New products/product development	4	4
Visibility of knowledge		
Web site - visits	N/A	30,892



more visible was continued in 2005. The company also participates in selected trade fairs.

During 2004, ANZA was party to four cooperative projects on product development and innovation and this cooperation was continued in 2005. The projects relate to the development of central hosting of various specialised systems and product development in the field of interconnection between communications and operating services. In mid-2005, a new division was established whose main role is innovation and product development both internally and in cooperation with other companies and institutions. This was undertaken in order to support and encourage product development within the company.

In June 2005, an image survey was conducted for ANZA that provides new

information regarding the company's external image. The survey included questions regarding client satisfaction with the company's services, which 82% of respondents considered good or very good, whereas 92% of respondents felt ANZA provided equally good or better service than its competitors. Interestingly, only 24% of respondents felt the company showed enough initiative in presenting innovations in equipment and product solutions. The survey measured attitudes towards the quality of ANZA's products and services, which 88% considered good or very good.

Visits to ANZA's web site, www.anza.is, numbered 30,892, or 84 per day on average. 50% of the visits were from abroad.