

Telecommunications of Jamaica Limited 1996

Chairman's Statement

It is with a great deal of pleasure that once again I review the Company's annual performance. The telecommunications industry, both locally and internationally, has been undergoing continuous change in many respects, as firms in the industry merge, re-engineer structures and processes, create new alliances, grapple with regulatory changes, confront serious competition in all its forms and try to cope with the continuously changing technology. In our specific circumstances, competition emerged in the form of new value-added service providers offering such services as Internet Access. Additionally, the Jamaican economy continued to be characterized by high interest rates and an inflation rate which has exceeded the target set by the Government.

On April 1, 1995, the Merger Act became effective and, therefore, this report is the first to be issued by our fully merged Company.

At the date of this report, the draft Telecommunications Act was still being reviewed by a Joint Select Committee of Parliament. Government, in the meanwhile, has issued a policy paper on the industry, and the establishment of the Office of Utilities Regulation was actively being pursued.

Despite the emerging competitive activity, the Company continued to enjoy a strong demand for its services. A net gain of 55,000 connected main lines was achieved, compared with the previous year's record-breaking performance of 42,000, bringing

the total number of lines now in service to approximately 300,000. There is still, however, a waiting list of over 100,000.

Among the latest technological developments being embraced by the Company, to create even greater opportunities for our customers, are Wireless in the Local Loop (WILL), intelligent networks, and digital cellular. Field trials continued for WILL using products from four different vendors. Test times have been extended to ensure that the most reliable and dependable equipment is implemented. If progress continues as we expect, this technology should become usable within the network during 1996.

This technology has two advantages. Firstly, it is cost efficient and, secondly, it will enable us to speed up the process of telephone service provision.

The programme of digitalizing the cellular network continues and, already, three digital cell sites are in service in Kingston, with seven more scheduled to be put into service in 1996/97. The very positive demand for cellular services continues and we are responding by increasing the capacity of the network to meet both present and future demands. Currently, there are some 45,000 cellular customers.

Further overall expansion of the primary network took place enabling greater penetration, especially in rural Jamaica, of basic telephone services with the installation of some 25 Outside Plant Modules. At the same time, the reliability of our international service will be augmented by the installation of a second international gateway switch in Montego Bay and the relocation of the earth station from St. Thomas, to Kingston.

Plans for further enhancement of the network include the Jamaica - Cayman optical fibre cable. This will considerably increase and improve the Company's international service to Cayman. This cable will also provide fibre connectivity between Montego Bay, Ocho Rios, Port Antonio and Kingston.

The system to be installed is capable of carrying 32,000 calls simultaneously, and increases the Company's ability to efficiently handle broadband services. This undersea cable should be able to withstand most natural disasters.

A contract for deployment of this cable has been signed and completion of construction

is scheduled for October 1996. Additionally, we are introducing into the network, equipment and software which will improve the quality of international calls. The industry term is "intelligent network", and a contract has already been signed for supply and installation of the equipment.

The Company continues to be committed to the timely introduction of new services, and so far there has been the very successful introduction of Internet Access and Teleclass services. Voice Mail will be launched in the second quarter of fiscal 1996/97. At the same time, the importance of data services, particularly broadband, remains central to our strategy for customer satisfaction.

One of the Company's primary focuses is the continuous improvement in the quality of the service provided to customers. We recognize that quality of service has several facets. It includes the way customers who come into our business offices or call on the telephone are treated; it includes the type of response given to customers who seek assistance from operators; it includes the ease and convenience of the arrangements made to allow customers to conduct their business, and the friendliness of the environment.

Consequently, we are constantly trying to make it easier for customers to do business with the Company and to this end, we have, for example, expanded the number of banks at which customers can pay their bills. Furthermore, the recently introduced Interactive Billing Information System (IBIS) enables both cellular and regular telephone customers to interact with our automatic voice response equipment to monitor the status of their accounts. Additionally, a business office was opened in Portmore, St. Catherine, to facilitate that rapidly growing and expanding community. In 1996/97 other business offices are scheduled to be opened in Negril, The Pavilion Shopping Centre in Kingston, Lucea and Linstead. Expansions, upgrades and relocations are planned for Ocho Rios, Montego Bay, Highgate, East Parade in downtown Kingston and for New Kingston. All of these activities will have the effect of bringing the Company closer to our customers and improving the facilities in which they have to do business with us. As we have said before, we are determined to become a totally customer-focussed company.

One major milestone attained in the drive to provide a high quality service was the introduction of a new Customer Information System (CIS). This system enables the Company to provide more details on customers' bills and to provide faster answers to their queries. The CIS has also equipped us to better manage the flow of work, and to monitor customers' accounts more closely, to our mutual benefit.

A comment on the quality of service provided is appropriate. Ninety-four percent of data faults were cleared within 24 hours of receiving a report, and 84% of all telephone faults were cleared within three days of report. Our annual customer survey indicated a significantly increased level of customer satisfaction when compared with the previous year's survey results.

Net profit after tax for the fiscal year was \$1,890 million, an increase of 11.7% over the previous year, with earnings per stock unit of 48.93 cents, while \$5.2 billion was invested in plant and equipment, an increase of 23% over fiscal 1994/95. The Company is proud to record that this expenditure has resulted in the additional employment of some 3,400 independent contractors, artisans and other categories of workers on the various development projects.

A very important note is that the Company embarked on several initiatives to increase efficiency and reduce costs. However, despite improvements, as measured by exchange lines per employee, the high inflation rate, combined with the high interest rate regime, resulted in a rate of return which was below the minimum of 17.5% allowable under our licence. An application has, therefore, been made to the Minister (in accordance with the All Island Telephone Licence, 1988) for an increase in domestic rates which have not changed in 12 years in an economic environment plagued by escalating inflation, high interest rates and devaluations of the local currency during this period. Of note is the fact that at the end of March 1984 the exchange rate showed: US\$1 = J\$3.550; and at end March 1996: US\$1 = J\$40.169.

Our continued commitment to supplying basic service on demand islandwide, within a reasonable time span, dictates that we must continue to expand our capabilities in order to carry out this mandate. At the same time, we remain convinced that we must satisfy the demand for enhanced and value-added services, such as Audiotex, Prepaid Calling Card, and Teleclass service to the entire island during the coming year. All these developments will involve a capital expenditure of some J\$5.4 Billion in 1996/97.

We expect the business environment of the future to be no less challenging than that experienced in 1995/96. Consequently, we must develop new revenue streams while maintaining strong growth in our core services. We will continue our emphasis on delivering quality service to our customers, to demonstrate the high value we place on their patronage. Our drive for quality will include the continued pursuit of the ISO9002 certification for some key internal processes. As part of the quality culture thrust, we will continue to review the way we do things and will also continue to seek to deploy whatever techniques

are available, including benchmarking, to improve our processes. Additionally, Activity Based Management (ABM) has been introduced in the Company. ABM identifies the association of costs to key business activities, and provides measurements for decision making and performance improvement.

We remain committed, and will continue our efforts, to transforming the organization to adapt to an increasingly competitive environment.

This environment demands that we continue our efforts to improve the efficiency and effectiveness of our operations, and reduce costs.

We think that the task will be easier if the public understands what is being done, the cost of infrastructure, as well as the opportunities telecommunications open up for them, and so we intend to share even more information with them on these issues.

We recognize the key role played by our employees in our efforts to provide quality service to all Jamaica. Ongoing initiatives to improve internal communication have led to increased levels of employee satisfaction, as measured by our annual employee survey. An important element of that improvement was the higher level of knowledge which employees now have of the overall direction of the company and the goals of their own departments. Employee turnover at TOJ was very low for the year and indicates the level of staff satisfaction, but we are not unmindful of the current competitive nature of the job market. We remain committed to equipping our employees with the new skills required for future technologies as well as to provide the training needed for them to become more customer focussed.

We warmly welcome to the board, Hon. Patrick Rousseau, O.J. whose appointment was made consequent on the resignation of former C & W Regional Director BCALA, Duncan McArthur, who served the board with distinction for many years.

Personally, I wish to thank my fellow Directors and all employees for their conscientiousness in achieving the Company's objectives. I am satisfied that, in their capable hands, TOJ's continuing development, growth and profitability are assured.

Mayer M. Matalon, O.J.
Chairman