

CONNNECTIVITY



**BTIC**  
YOUR CONNECTION TO THE WORLD

2007 ANNUAL REPORT

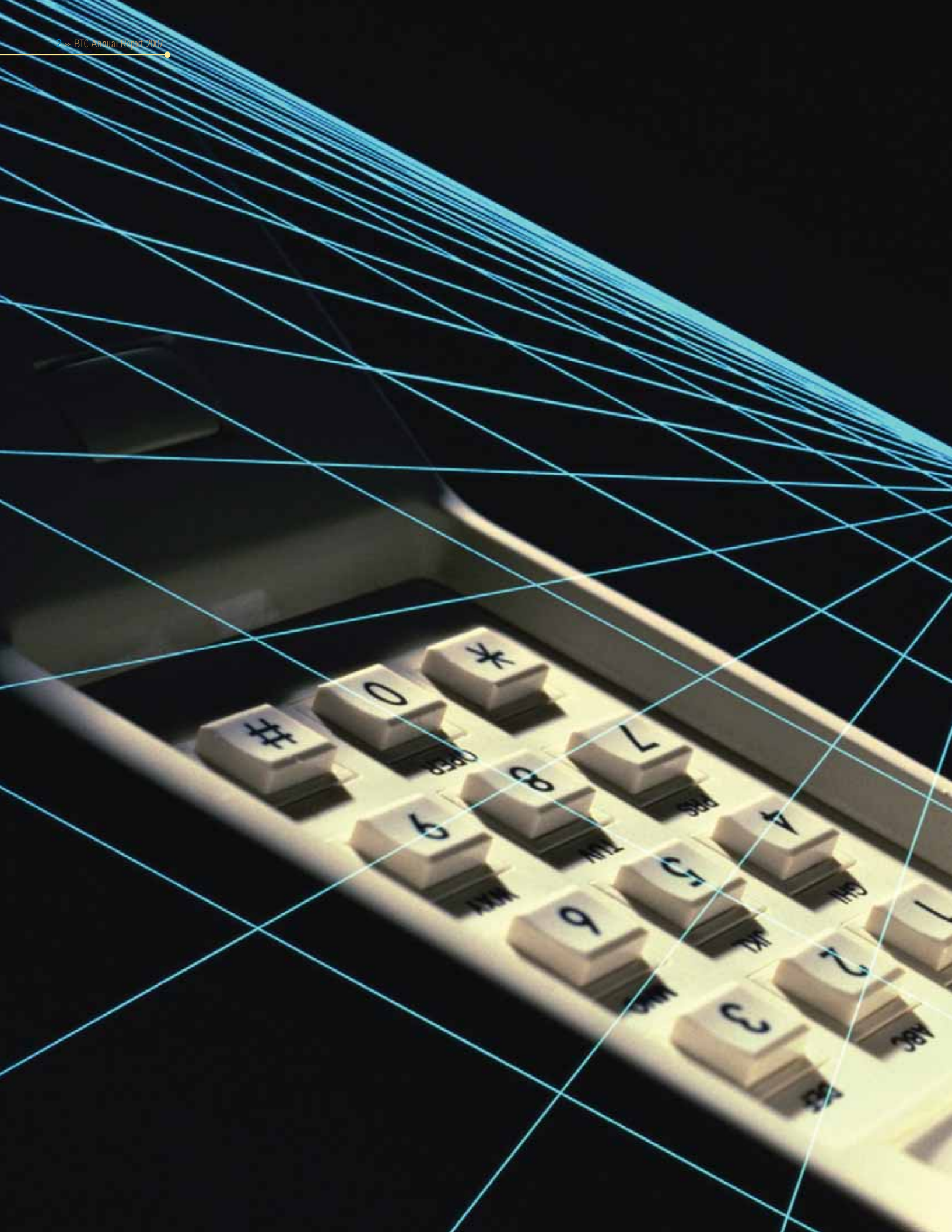


# Contents



## The Bahamas Telecommunications Company Limited Annual Report For The Year Ended December 31, 2007

<b>Introduction</b> .....	<b>3</b>
<b>Vision and Mission Statement</b> .....	<b>4</b>
<b>Chairman's Message</b> .....	<b>5</b>
<b>Management Report</b> .....	<b>6</b>
<b>Connecting to</b>	
>> <b>Our History</b> .....	<b>10</b>
>> <b>Our Businesses</b> .....	<b>12</b>
>> <b>Our People</b> .....	<b>17</b>
>> <b>Our Consumers</b> .....	<b>19</b>
>> <b>Our Community</b> .....	<b>22</b>
<b>AUDITED FINANCIAL STATEMENTS</b>	
<b>December 31, 2007</b> .....	<b>26</b>
<b>Independent Auditors' Report</b> .....	<b>27</b>
<b>Balance Sheet</b> .....	<b>28</b>
<b>Statement of Operations</b> .....	<b>29</b>
<b>Statement of Changes in Equity</b> .....	<b>30</b>
<b>Statement of Cash Flows</b> .....	<b>31</b>
<b>Notes to Financial Statements</b> .....	<b>32-55</b>
<b>Corporate Governance</b> .....	<b>56</b>



In a magazine interview, web pioneer and AOL co-founder Steve Case once revealed the process he went through a dozen years before trying to make people understand the value of the Internet. "I came up with this concept of the 5 Cs," he said. "Services needed to have content, context, community, commerce, and connectivity." Of all of those, he added, relating to people would be most important when it came to management.

Connectivity.

In a technical world, we speak of it in speed and handling capacity. We talk of T-1 with 24 individual channels, or burstable connectivity, capable of high bandwidth in bursts, or T-3 with 672 channels. We speak of laser. We talk of connectivity as an investment; we dissect it by the data it supports and we push it to the limit, lauding every new trick of the chip it employs to allow us to increase speed.

Connectivity. Sometimes we get so caught up in speed and capability, we lose sight of the real meaning—the very heart of telecommunications. Whether by wireline, wireless or Internet, whether through the news we hear on TV or the information we get from talking to our neighbour across the fence, communication is how we gain our sense of community. It connects us to the world around us, but most importantly, it connects us to each other. It is, in the most raw and basic sense, how we know who we are.

This annual report is dedicated to that theme. To the sense of community that BTC is committed to: to strengthen this nation, the people, businesses, schools and institutions in it and those who do business and interact with it by connecting all The Bahamas and The Bahamas to the rest of the world.

Connectivity.

Finding solutions that unite and build our sense of community.

# Connectivity



## Vision

To enhance The Bahamas' competitive position in the global community by developing and maintaining the most modern, cost effective telecommunications solutions for our customers.

## Mission

- To provide superior services;
- To prepare to operate in a competitive environment;
- To bridge the digital divide by increasing internet accessibility and affordability;
- To enable our employees to maximize their potential and share in our success;
- To create value for our shareholders; and
- To improve the quality of life for the people of The Commonwealth of The Bahamas

# Chairman's Message

"Improvement in customer service is our #1 Priority"



**Julian W. Francis, CBE**

As our Mission Statement states, our vision is to enhance The Bahamas' competitive position in the global community.

It is an honour to be Chairman of BTC at this dynamic juncture as we prepare for privatisation and the conversion from a government monopoly to a private competitor draws closer to reality.

The transformation that would carry us through this time solidified in 2006 when our focus changed from being engineering-driven to being market-driven.

In 2007, that focus was further strengthened with a renewed corporate culture of customer centricity, strongly supported by the newly-appointed Directors. At the same time,

BTC continued to invest in internal systems and capital improvements to keep The Bahamas on the leading edge of technology.

Many of the initiatives we implemented will straddle years. These include addressing our customer touch points, converting our Call Centre to a Contact Centre, the introduction of a pilot Six Sigma program and the complete saturation of GSM mobile services in all of the Family Islands. That expansion along with the introduction of CDMA cellular technology and the increase in roaming agreements has led to

greater customer satisfaction as well as increased revenue growth. Overall, the mobile segment continues to perform exceptionally well, due in part to above-noted increased roaming, along with continued local subscriber growth and the migration to a GSM platform.

As forecasted, the long distance calling segment in The Bahamas mirrored global trends with declining revenues attributable to competition, illegal operators, substitution and disruptive technologies. Also as forecasted, the wireline or fixed network continues to grow at a minimal rate with very high customer acquisition costs in the Family Islands.

BTC continued its corporate citizenry with the sponsorship of a number of charities: BTC's Adopt-A-School Program, Technical Cadet Corps Program and The Bahamas CARIFTA Track & Field and Swim Teams.

This has been another successful year for BTC with revenues growing 9% over the previous year and operating income by 2%. However, of equal significance is the fact that the company has embarked on a major transformation path designed to deliver modern telecommunications services that are convenient to access at competitive prices, fulfilling its role, as the title of this annual report suggests, keeping The Bahamas connected to the world.

## BOARD OF DIRECTORS

Far left-right: Raymond Jones, Ian Hepburn, James Moss. Center front: Julian Francis, CBE, Chairman. Right front: Dean Patrick Adderley, Deputy Chairman, I. Kirk Griffin, Acting President & CEO. Stairs front, top-bottom: Garth Buckner, Dedrie Prescott, Claretta Duncombe. Stairs back, top-bottom: Cecile B. Greene, Felicity Johnson, Secretary to the Board.



# Management Report



Our industry is more dynamic and robust than it has ever been. In 2007 worldwide telecom providers increased capital expenditure by 7% over 2006 to top \$251 billion. Correspondingly, revenues were in excess of \$1.3 trillion. The Caribbean Latin American

Region (CALA) was among the fastest growing markets when compared to Europe, the Middle East, Africa and the Asian regions.

Mobile and multimedia services continue to contribute significantly to most service providers' revenues with new smart phones serving as a catalyst in this growth. *Time* magazine named the iPhone the invention of the year after 146,000 units were sold in the first 30 hours, one million phones in just 74 days and two million in six months.

With over 2.7 billion customers worldwide, the growing cellular customer base continues to be the dominant contributor to telecom providers' revenue.

## Mobile Customers

31st December 2006 >>	291,154
31st December 2007 >>	286,159

## GSM Roaming Agreements

31st December 2006 >>	84
31st December 2007 >>	138

## Mobile Revenues

31st December 2006 >>	\$211.6 mn
31st December 2007 >>	\$244.5 mn

## GSM Roaming by Countries

31st December 2006 >>	56 Countries
31st December 2007 >>	78 Countries

BTC's figures are in line with the international trend: increased subscriber growth in wireless and broadband and minimal or no growth in wireline.

Beginning in 2006, major focus was placed on building the national infrastructure to support the growing demands for telecommunications supporting resort, residential and business development throughout the archipelago of The Bahamas. This objective was manifested in a \$60 million Bahamas Domestic Submarine Cable Network (BDSNi) connecting 14 major islands of the island nation in a self-healing ring topology with a spur to the Republic of Haiti. Having "connected" all of the larger Family Islands in a way that would ensure their access to ultra modern telecommunications and information technologies, we turned our focus to the customer experience through:

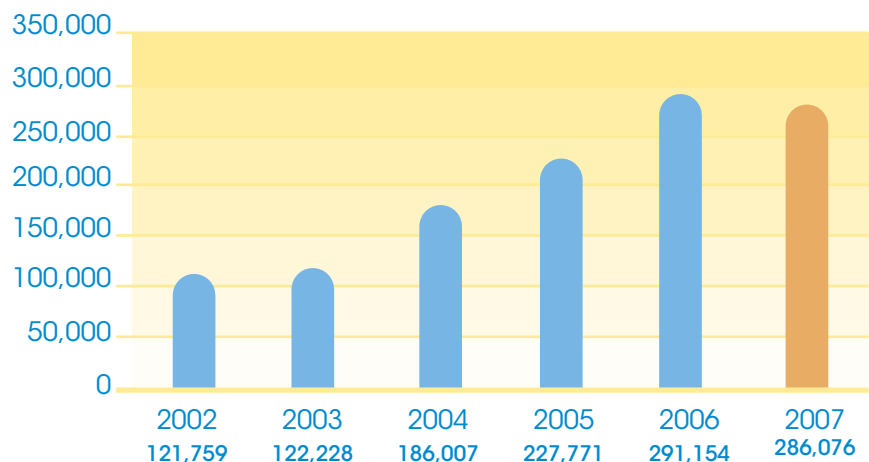
- >> Continuing the change of our corporate DNA to a corporate culture of customer centricity
- >> Making customer satisfaction our top priority
- >> Deploying GSM and CDMA cellular technologies and high-speed internet access (DSL) to the Family Islands

These initiatives were intended to increase revenue, improve customer satisfaction and expand coverage in accordance with our vision to keep The Bahamas competitive in the global community.

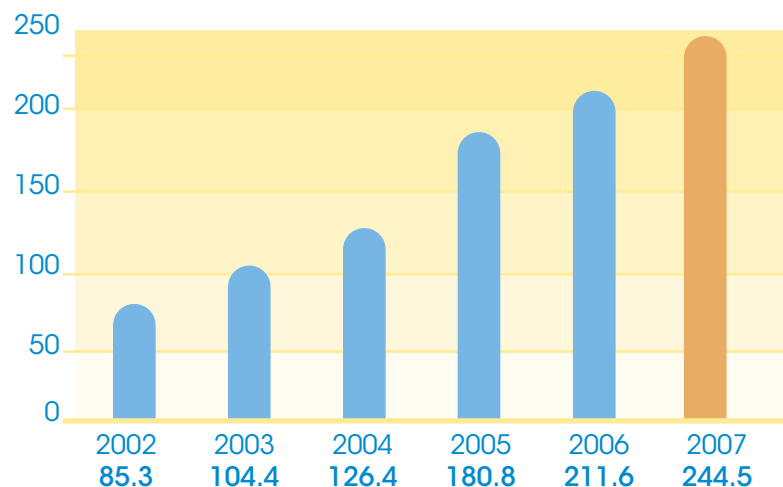
Mobile services continue to contribute the highest revenues of all our products and accounted for \$244 million, or 68% of revenue this year, an increase of 15.55% over 2006. In 2007, BTC's contribution to direct government revenue in franchise fees and customs duties alone totalled \$16.1 million. In April 2007, we

'Time' magazine named the iPhone the invention of the year after 146,000 units were sold in the first 30 hours, one million phones in just 74 days and two million in six months.

### Wireless Subscribers



### Total Wireless Revenues 2002-2007 (\$Millions)



# In 2007, BTC contributed \$16.1 million in the form of franchise fees and customs duties to the public purse.

launched our CDMA inbound-only roaming cellular services with agreements with Verizon and Sprint. We were also able to add seven more roaming partner networks in the U.S., Canada and Bermuda. This has significantly improved the mobility service to residents and visitors, keeping them connected with home and office while away. We have improved our GSM customers' ability to roam while traveling abroad and reciprocally our visitors' ability while

visiting The Bahamas on business or for pleasure.

By the end of 2007, there were roaming agreements for 138 networks in 78 countries, compared to roaming agreements for 84 networks in 56 countries at the end of the previous year, an increase of 64.3% and 39.3% respectively.

During the past year we launched GSM and BlackBerry cellular services in Andros, Berry Islands, Inagua, Long Island, Exuma, Rum Cay and Ragged Island.

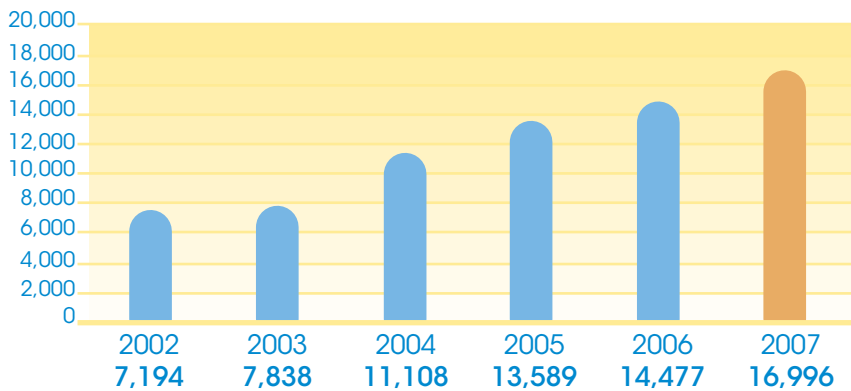
In 2006 there were 67 TDMA cellular sites, 139 GSM cellular sites and 20 CDMA cellular sites deployed, for a total of 226. By the end of 2007, while there was no increase in the deployment of TDMA and CDMA cell-sites, GSM cell-sites deployed had increased to 239, or by 71.9% from 2006.

We are proud that we were able to deploy GSM services to so many Family Islands, providing cellular services for the first time to numerous smaller island communities.

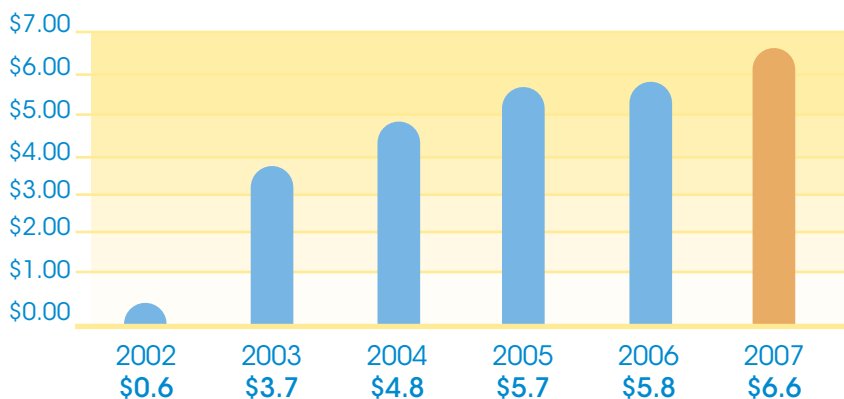
In 2007, the increased popularity of social websites like Facebook and YouTube resulted in more of our customers downloading and uploading bandwidth-hungry programs and applications. To keep pace with the demand, we added 3 STM1s to our international bandwidth capacity, providing 200% greater bandwidth. That improvement not only allowed BTC customers to enjoy greater speed for downloading, it improved the robustness of our network because connectivity is provisioned on two separate fiber optic submarine cables to the USA.

In 2008 our thrust will be to make GSM fully available without troubled zones throughout the major islands of The Bahamas, while significantly improving the coverage and capacity of the network. The work was started in 2007 by increasing the capacity of the GSM MSC to handle more

## DSL Customers 2002-2007



## DSL Revenues 2002-2007 (\$Millions)



subscribers, and will continue in 2008 as we add more cell sites to the network. To this end we engaged Nortel Networks to expand capacity and strengthen coverage throughout the Family Islands at a cost of \$22 million.

The company also expanded the DSL platform, improved the robustness and addressed a number of security issues.

### Preparing our People

As part of our culture we consider our people to be our greatest asset. Every effort was made during 2007 to invest in the appreciation of that asset.

We wanted to ensure that our people would be trained in new technologies, people skills and management as we prepare them to serve our customers in a competitive environment. This is particularly important with the introduction of next-generation networks and living and working in a 'flat world' where the industries of the 21st century have become knowledge and information based.

In 2007, a vice president was hired to fill the post of Training and Development. Seven of our executives attended Advanced Executive Management Courses at Columbia, Duke and Wharton Universities.

A mini-MBA in Telecommunications sponsored by the Caribbean Association of Telecommunications Organizations (CANTO) and facilitated by Informa was conducted in New Providence, with 18 of our senior managers attending.

More than 444 of our employees attended 130 seminars and trade shows abroad and more than 769 attended 43 seminars locally.

BTC invested nearly \$6 million in training and staff development in 2007.



We continue to participate in regional and global organizations like the GSM Association (GSMA), Caribbean Association of National Telecommunication Organizations (CANTO), Caribbean Telecommunications Union (CTU) and the International Telecommunications Union (ITU).

In 2007 CTU visited Nassau, the place of its birth and, along with BTC, hosted its first Ministerial Council Conclave.

BTC is financially viable, healthy and has enjoyed yet another successful year. While we recognise that we are just beginning the journey of earning loyalty by improving customer satisfaction, we remain committed to the transformation of the business in order to continue delivering excellence to our customers and superior returns to our shareholders.

To improve GSM coverage on the Family Islands, we partnered with Nortel to deploy an 850 MHz overlay at a cost of \$22 million.

### High Speed Internet DSL (iConnect)

Internet Customers		Internet Revenues	
31st December 2006 >>	14,477	31st December 2006 >>	\$5.8 mn
31st December 2007 >>	16,996	31st December 2007 >>	\$6.6 mn

# Connecting to OUR HISTORY

**T**elecommunications in The Bahamas, and the subsequent birth of what would become BTC, began more than a century ago. In February 1892 the government of the country elected to lay a submerged telegraph cable between Jupiter, Florida and the area now known as Cable Beach in New Providence.

By 1906 the first voice telephone system was up and running with a capacity of 150 lines and offered voice calling within New Providence only. The 60 subscribers of that system had to be within a one mile radius of that early telephone exchange in order to receive service, an idea that seems ludicrous with today's technology. A telegraph division started in 1931 and a radio telephone circuit was activated the following year, allowing voice communication beyond The Bahamas for the first time.

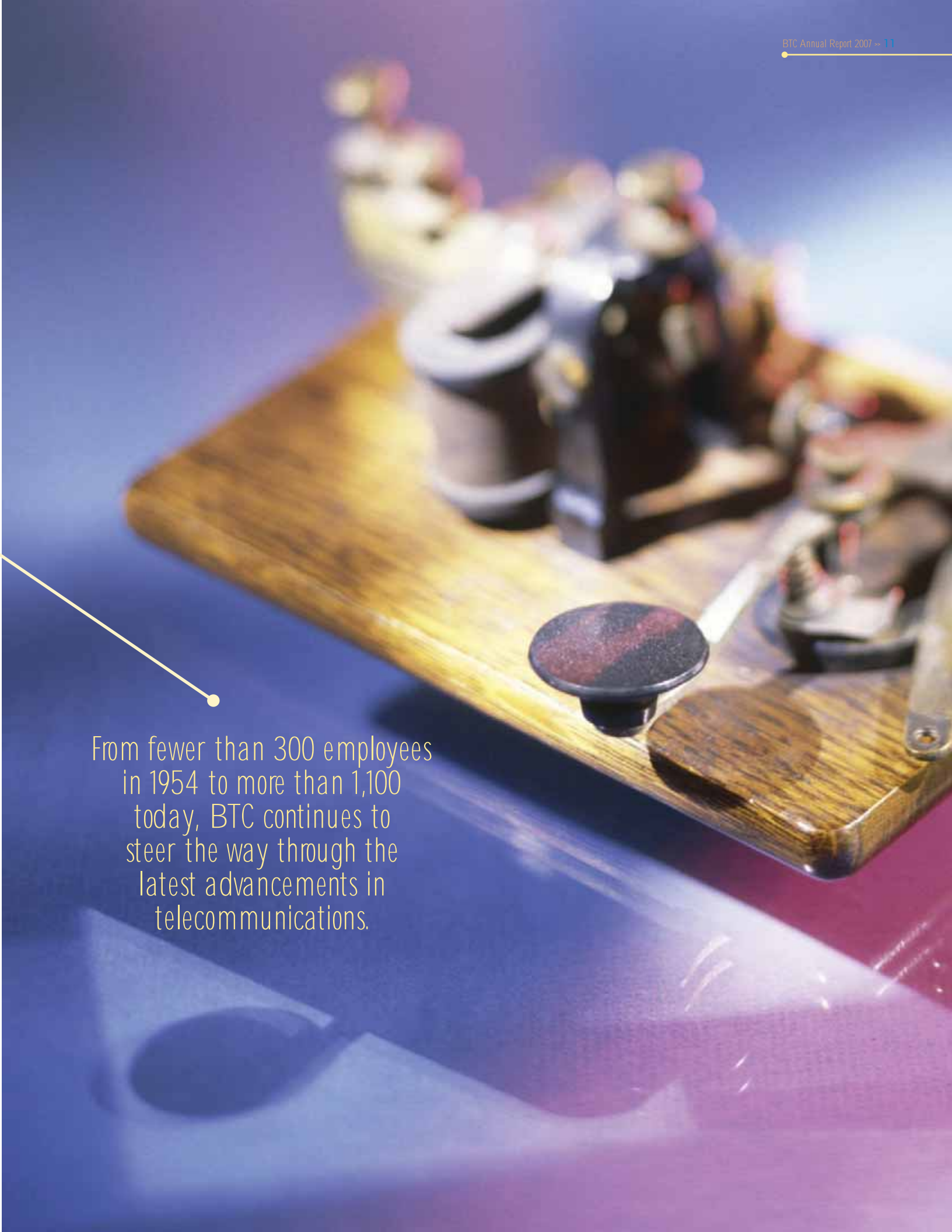
Since the laying of the first cable in 1892, the telecommunications company has continually competed with the best of the modern world through provision of stellar telecommunications services to its valued customers. With each generation came products to forecast the future of telecommunications. Few imagined that the 'new' cellular mobile phone service introduced at Government House in 1988 would turn into a tech trend where the phone itself may have as many accessories as a fashion diva. The parents who were eagerly introduced to direct dialing in 1971 are now grandparents surfing the Internet, watching their grandchildren over I-Connect with webcams and speaking

for hours at a time for a previously unimaginable low cost thanks to ViBe. Yesterday's executives who took their time learning the intricacies of the fax machine now send information instantly from conference rooms, busy roads or the Family Islands over their BlackBerrys. One only need skim the yellow and white pages of the phone directory—complete with a weather guide, history pages and touristy tidbits—to see how far BTC has come. It's hard to believe that the giant book which now has separate directories for a few islands began as a small handheld book with three pages.

From fewer than 300 employees in 1954 to more than 1,100 today, BTC continues to steer the way through the latest advancements in telecommunications. Local businesses are able to perform effectively on the road or in the international arena thanks to the wide range of products and services offered by BTC. The telecommunications giant works diligently to keep not just Bahamian clients connected, but also the thousands of business and pleasure visitors who frequent The Bahamas every year.

BTC provides a huge variety of services including: wireless, telegraph and telex, mobile trunking, private line, frame relay, leased line, ISDN, maritime, paging, cellular, high speed DSL Internet, packet switching, prepaid phone cards and Custom Local Area Signaling Services. BTC stands prepared to write the next chapter in the telecommunications history of The Bahamas, all while connecting this small island nation to the wider world beyond.





From fewer than 300 employees in 1954 to more than 1,100 today, BTC continues to steer the way through the latest advancements in telecommunications.

Connecting to

# OUR BUSINESSES

Business Review 2007

*Changing our Corporate DNA:  
The journey continues with the  
same focus and strategic pillars:*

- >> Improving customer service by providing superior products and services;
- >> Delivering abundant and reliable bandwidth to enable next-generation services;
- >> Deploying next-generation products and services to drive on-going profitable growth; and
- >> Contributing to the economic and social development of the communities we serve.



## IMPROVING CUSTOMER SERVICE BY PROVIDING SUPERIOR PRODUCTS AND SERVICES:

### Contact Centre

At our Voice of The Customer town meetings, our customers requested that we improve their ability to reach us. In 2007 we continued the evolution of our Virtual Call Centre to a Contact Centre. We brought skill sets from many geographically diverse locations to single locations in New Providence and Grand Bahama. This dramatically improved the management of the Contact Centre and began the journey to major customer improvements.

We also extended the hours of operations of our Contact Centre.

Another request from our customers was to reduce the waiting time at our

Multi-Service Centres. To assist with this our Contact Centre Associates can now add Custom Local Area Signaling Service (C.L.A.S.S) features including caller-ID, call waiting and call forwarding to wireline and wireless customers over the phone, saving the customer from having to physically visit our offices.

### Six Sigma

Reducing the response time to both fault resolution and the installation of services were other requests made by our customers during our Voice of The Customer town meetings.



The completion of The Bahamas Domestic Submarine Cable Network (BDSNi) has placed us in a position to make good to our customers on a number of promises made.





## When the Royal Bahamas Police Force needed videoconferencing, BTC answered the call.

To address these complaints we piloted the Six Sigma program in the northern Bahamas, with excellent results.

We are now replicating the program in New Providence. We are also training our staff to become green and black belt certified in this program.

### **Universal Customer Service Representatives**

In the northern Bahamas, a Universal Customer Service Representative (CSR) program was piloted with much success.

This program allows a CSR to work across different technologies, products and services to be a "one-stop shop" for our customers.

### **The Bahamas Domestic Submarine Cable Network**

The completion of The Bahamas Domestic Submarine Cable Network (BDSNi) has placed us in a position to make good to our customers on a number of promises made.

We are already seeing the fruits of the investments made in the infrastructure in 2006. The examples below illustrate how the BDSNi has added value to our key government customers:

### **Royal Bahamas Police Force** **>> Police Radio Trunking Network**

Officers of the Royal Bahamas Police Force can now, with the click of a button on a hand-held trunking unit, talk to any other officer in New Providence or the northern Bahamas with access to a trunking radio.

This goes a long way toward improving the strength of communications for police during disasters, especially hurricanes.

This project was a joint effort by the Ministry of Finance, Royal Bahamas Police Force, Motorola, Forsythe's Communications and BTC, who provided the connectivity.

### >> *Police Videoconferencing Network*

Thanks to recent efforts by BTC and its partners, the Royal Bahamas Police Force has one of the most sophisticated videoconferencing networks in The Bahamas.

Located at its headquarters, large screens and cameras allow real-time conferencing with Grand Bahama, Abaco, Exuma, Eleuthera and Long Island.

Again, the investments in BDSNi are paying off.

### **Ministry of Health**

The archipelagic makeup of The Bahamas makes it a prime 'green field' for the testing of eMedicine, eEducation and eCommerce.

In late 2007 BTC, in conjunction with the Ministry of Health, tested a pilot program that allowed medical experts in New Providence to read the vital signs of a patient located at a Ministry of Health clinic in Coopers Town, Abaco. This historic feat was possible primarily because of our broadband connectivity between Abaco and New Providence.



**The Royal Bahamas Police Force Pop Band performs at the opening of Cyber World in George Town, Exuma**

### **Bahamas Broadcasting Corporation**

The General Elections of 2007 greatly increased broadband capability by the Broadcasting Corporation of The Bahamas.

Our inter-island and intra-island broadband capabilities were tested week after week in March, April and May, when the major political parties requested simulcast television broadcasting from multiple islands. Thanks to BTC, the Bahamas Broadcasting Corporation's ZNS television network was able to successfully broadcast every time.

The Multi-Island BDSNi project is bearing fruit.



**Marketing representatives present phone to winner at GSM launch in Long Island**

**Prime Minister Hubert Ingraham and CTU Secretary General Bernadette Lewis at the Ministerial Council Conclave held in The Bahamas in 2007, which BTC and the CTU assisted in hosting**

**Bertram Miller, DATACOMM Department, sets up videoconferencing for Tourism Week**



**Videoconferencing with local high school students and students in the Family Islands at Tourism Week events**

Our inter-island and intra-islands broadband capabilities were tested week after week in March, April and May, when the major political parties requested simulcast television broadcasting from multiple islands. BDSNi worked.



**MPLS (Multi Protocol Layer Switching)**

The legacy TDM network that hosts our 133,000 installed wireline telephone lines has been discontinued and is no longer manufactured. In preparation for the deployment of our next-generation wireline network, BTC has partnered with Cisco Networks to build a new Multiprotocol Label Switching (MPLS) backbone at a cost of \$18 Million.

This new network will allow us to provide new internet-protocol (IP) services to our customers.

**GSM Mobile Deployment**

GSM mobile service and BlackBerry data capabilities were introduced to select Family Islands in mid-2007. Andros, the Berry Islands, Exuma, Inagua, Long Island, Ragged Island and Rum Cay joined already GSM-capable New Providence, Grand Bahama, Abaco and Bimini as we increased the availability of the GSM network and BlackBerry service throughout the country in our efforts to allow as many residents and visitors as possible to take advantage of these technologies. BTC has invested more than \$100 million into the Family Islands in the last five years to increase the technological capabilities of the country.

# Connecting to

## OUR PEOPLE

Our staff is very involved in the improvement of our communities.



### **Boss of the Year 2006 - 2007**

Ms. Nickola Dawkins, Acting CIO, was named Boss of the Year by the International Association of Administrative Professionals, Bahamas Chapter (IAAP) for 2006 -2007.



### **Junior Achievement Executive Advisor of the Year 2007 - 2008**

Mr. Barry Wilmott was named Executive Advisor of the Year 2007 - 2008 by Junior Achievement. Mr. Wilmott has served as an Advisor for J.A. for 23 years. During this time he has been selected as Advisor of the Year on a number of occasions.



### **Junior Achievement Advisor of the Year 2007 - 2008, New Providence**

Ms. Deborah Hall was named Advisor of the Year 2007 - 2008 for New Providence by Junior Achievement. She is the longest serving Advisor in the country, having served for 25 of the 26 years that Junior Achievement has been in existence.



### **Junior Achievement Advisor of the Year 2007 - 2008, Grand Bahama**

Mrs. Eleanor Lewis was named Advisor of the Year 2007 - 2008 for Grand Bahama by Junior Achievement. Mrs. Lewis has served as an Advisor for 12 years and has been selected as Advisor of the Year three times.



### **Technical Cadet Corps Program Instructor of the Year 2007 - 2008, New Providence**

Mr. Kenny Basden was selected as Instructor of the Year for the Technical Cadet Corps Program.



### **National Association of Tower Employees (NATE)**

Our Chief Tower Rigger, Mr. Clement Rolle, is now serving on the Board of Directors for the National Association of Tower Employees.



BTC has poured more than \$100 million into the Family Islands in the last five years to increase the technological capabilities of the country.

# Connecting to

## OUR CONSUMERS

Business Products and Services

**T**elecommunications puts the world within easy reach. With solutions from partners like Nortel, Anixter International, Mitel and Avotus, Bahamian businesses and enterprises operate on par with international counterparts, employing solutions that allow them to take the office with them wherever they go.

Today's mobile office is available on the road, in delivery vehicles and in the palms and pockets of executives. Face-to-face meetings can be held even if one of those faces is digitally transmitted from an office on another continent. By utilizing any of the following products available through BTC, a company can raise its profile from average to exemplary.

### Off-Site Data Storage

>> With so much vital information residing on

computers vulnerable to sabotage, power fluctuation or the effects of natural disasters, off-site data storage provided by BTC is essential for any company wishing to avoid the potentially crippling effects that result when data is lost. With BTC, businesses have the opportunity to invest in a secure,

cost-effective back up storage solution to ensure their success in the age of technology.

### Internet Services

>> Through I-Connect, BTC transforms regular phone lines into high-speed digital lines for turbocharged DSL internet access. I-Connect provides simultaneous internet, voice and fax capabilities over a single phone line resulting in uninterrupted, high speed internet access.

>> For a fraction of the cost of I-Connect or cable modem internet access, BTC also offers customers global internet access through traditional dial-up services.

### ViBe

>> BTC offers ViBe as the international calling solution for residential and small business customers. With ViBe, customers are able to obtain a phone number for the USA, UK, Switzerland or Canada and utilize it for inbound and outbound calling and faxing on a number of calling plans. A plan which connects the Family Islands is also available. The service allows homes and small businesses to use a standard telephone and broadband internet connection to make and receive phone calls to family, friends and business associates overseas, resulting in substantial savings as opposed to routing calls through a traditional telephone network.



**BTC technicians at work**



### Mobile Trunking

>> This low-cost and effective two way radio communication system provides businesses with island wide coverage to maintain contact with their fleet of salesmen, delivery drivers and work crews. With benefits such as call alert, private conversation, telephone interconnect, talk-around, simple operations and audio clarity, mobile trunking is a better business communications alternative to link companies with their employees on the go.

### C.L.A.S.S

>> By making the most out of telephone features and services offered, BTC's Custom Local Area Signaling Service (C.L.A.S.S) allows residences and single line businesses to improve productivity, control, security, privacy and accessibility with features such as caller name and number delivery, selective call rejection, distinctive ringing tone, selective call forwarding, automatic callback and selective call acceptance.

### Domestic Toll Free

>> BTC's domestic toll-free service (1-242-300-XXXX) offers businesses an established phone line by which persons from the Family Islands can conveniently call without worrying about paying long distance fees. Long-distance calls are billed to the business rather than to the caller.

### Business Systems

>> Big business, small business, any business is BTC's business. BTC Business Systems is the suitable solution for any company needing to handle up to eight external lines and twenty-four internal telephone sets.

### Special Services

>> BTC provides a wide range of special services targeted for businesses which need to go global. With satellite broadcasts, information can be transmitted from one earth station to another via satellite, making it possible to carry out live broadcasts across the world. BTC offers similar products with its Digital Leased Lines and Analog Leased Lines.

### BlackBerry

>> With its BlackBerry service BTC empowers users to travel to and from The Bahamas with the office in the palm of their hands. BlackBerry users in The Bahamas and those visiting from abroad have

the freedom and connectivity of an all-in-one mobile phone, email device, web browser and organizer. BTC can also make specific recommendations for individual, SOHO (Small Office Home Office) and BES (individuals connected to their organisation's server) users.

### Mobile Phones

>> BTC currently offers mobile phone service through GSM. The formerly deployed TDMA network was phased out in the last quarter of 2008 due to the discontinuation of supporting technology. Our Postpaid GSM customers have the freedom to roam in countries including Jamaica, Cuba, the USA, UK, Canada, Switzerland and China with major providers such as Digicel, Cable & Wireless,



Rogers, Fido Wireless, Vodaphone, T-Mobile, AT&T, Cingular and Sprint.

### Prepaid Phone Cards

- >> The Hello Card is a dual purpose phone card that allows users to call anywhere in the world from The Bahamas. Available in denominations of \$5, \$10 and \$20, the card also allows users to call into The Bahamas from the USA, UK, Switzerland or Canada
- >> Offering cheaper rates than an operator-assisted call, the BTC Payphone Card makes regular use of payphones more convenient by eliminating the need to carry or search for quarters, coins or tokens.
- >> Introduced in early 2007 to replace the Rokit and Quikcell cards, the BTC OneCard offers a controlled method of prepaying for airtime. The card is offered in denominations of \$5, \$10, \$20, \$50 and \$100.

*Corporate is the business approach, not customers who walk through the door.*

*Big business, small business, any business is BTC's business.*

# Connecting to OUR COMMUNITIES

The Bahamas is a young and youthful country with 55% of the population under the age of 50 years. Our endeavors have been to focus on the dreams and aspirations of our youth.



**BTC donated \$120,000 to The Bahamas CARIFTA team in 2007, the single-largest contribution ever**

From supporting CARIFTA teams in Jamaica to children in our nation, BTC has an unparalleled commitment to the overall development of the country, and can be viewed as a national leader when undertaking the challenge of corporate donations and sponsorships. Our corporate and social responsibility is a core component of our DNA, and building communities within the country we serve is part of our culture. In 2007 BTC gave nearly three quarters of a million dollars to a wide range of organizations with a focus on youth development, including sports and education, culture and arts, employee training and various local charities. In addition to sports, great emphasis is placed on equipping our young people with the skills necessary for being successful in today's

society. Whether through scholarship sponsorship or the development of social and entrepreneurial skills through partnerships with Junior Achievement, the Gentlemen's Club or Debutante Club, we consider it an obligation and an honour to help assist the youth of our nation. Over the years we've provided funds for students from the Family Islands to attend the Bahamas Technical and Vocational Institute, as well as providing two scholarships for the Bahamas Student of the Year Foundation.

From the support of the Miss Teen Bahamas, Hal Jackson Talented Teen and Miss Bahamas pageants, The Bahamas National Children's Choir and the Crusader Brass Band to the Children's Emergency Hostel, the Girl Guides and the



Ranfurly Home for Children, BTC has extended its arms to the well-being of the nation.

## CARIFTA

BTC was a platinum sponsor of the 2007 CARIFTA Track and Field and Swim Championships, donating a total of \$120,000 to the teams, the single-largest contribution ever. A





**BTC-adopted Oakes Field Primary School Choir performs at their Honour Students Ceremony.**

contribution of \$90,000 was given to the CARIFTA Track and Field team and \$30,000 was donated to the CARIFTA Swim team.

The theme of the championship was "Capturing the Spirit, Fulfilling the Dream, We are all One." Thanks to BTC contributions, the dreams of many aspiring young athletes were realized as they were afforded the opportunity to compete on behalf of The Bahamas, a chance some of them might have missed out on because of insufficient funding.

Throughout the event free I-Connect internet service and ViBe long-distance telephone service was provided to the athletes, coaches and parents who attended the CARIFTA events in the Turks & Caicos Islands and in Jamaica. The Bahamas Broadcasting Corporation's ZNS television network also benefited from the capability to broadcast the games live back to supporters in The Bahamas.

To celebrate the large number of medals won by both teams, BTC awarded fitting prizes to winners. Gold medal winners won an activated

gold Motorola Razr cellular phone, silver medal winners won an activated silver Motorola Razr cellular phone, and bronze medal winners won an activated bronze Motorola cellular phone. All non-medal placing team members received phone in a box packs.

#### **Junior Achievement**

BTC has been a supporter of Junior Achievement (J.A.), a program for high school students designed to teach them the intricacies of entrepreneurship, for over ten years with not only monetary donations but with valuable time and effort. More than 30 of our employees contribute and volunteer their time and energy to this program. The dedication and



**BTC continues to support education through our Adopt-A-School Program in New Providence and Grand Bahama.**



**Top: BTC blood drive. Above: BTC sponsors the "Steppin on the Shores" show.**



leadership of the employees and the hard work of the students paid off as three of our J.A. companies walked away with the prestigious Company of the Year award for 2006-2007 in New Providence, Grand Bahama and Abaco. The New Providence company won other numerous awards including Best Step Show Award and Highest Sales Award—breaking its own long standing record in this category. A Junior Achiever in Grand Bahama won the Most Distinguished Achiever (MDA) award, which included a four-year college scholarship as part of the prize.

### **Technical Cadet Corps Program**

Since the inception of the Technical Cadet Corps in New Providence and Grand Bahama some 20 years ago, BTC has played an integral role in the organisation. BTC staff volunteer as instructors and BTC provides transportation for the students to and from the program. Four college scholarships were awarded to students participating in the New Providence Program, and for the first time BTC awarded one college scholarship to a Grand Bahama student.



**Outstanding Jumper  
Raymond Higgs.**

### **Adopt-A-School Programs**

BTC continues to support education through our Adopt-A-School Program in New Providence and Grand Bahama. The five schools in New Providence adopted by BTC include:

- >> Gambier Primary
- >> Thelma Gibson Primary
- >> H. O. Nash Junior High
- >> Oakes Field Primary
- >> The Stapledon School

### **Other Contributions to Our Communities**

In 2007, BTC adopted Regatta Park in George Town, Exuma across from the BTC offices.

While launching GSM in the Berry Islands, BTC built a shelter stand at the airport in Bullocks Harbour.

BTC also regularly contributes to non-profit organizations and cultural and community-minded events.





# THE BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED

## **Audited Financial Statements**

**>> Year ended December 31, 2007  
with Independent Auditors' Report**

## AUDITORS

Ernst & Young Chartered Accountants  
One Montague Place,  
Third Floor East Bay Street  
Nassau, Bahamas  
P. O. Box N-3231  
Phone: (242) 502-6000  
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www.ey.com

### **Independent Auditors' Report to the Board of Directors of The Bahamas Telecommunications Company Limited**

We have audited the accompanying consolidated financial statements of The Bahamas Telecommunications Company Limited and its subsidiary (the Company), which comprise the consolidated balance sheet as at December 31, 2007 and the consolidated statement of operations, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

November 11, 2008

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style font.

# The Bahamas Telecommunications Company Limited

## Consolidated Balance Sheet December 31, 2007

	Notes	2007 \$000's	2006 \$000's
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash in hand and at bank	3	135,351	128,501
Accounts receivable	4	59,175	61,872
Inventories	5	17,189	16,838
Derivative financial instruments	6	-	977
Other assets	7	13,541	5,661
Total current assets		225,256	213,849
<b>Non-current assets</b>			
Available for sale investments	8	20,561	2,423
Property, plant and equipment	9	380,899	390,837
Total non-current assets		401,460	393,260
Total assets		626,716	607,109
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade payable	10	14,968	18,968
Accrued and other liabilities	10	34,797	64,943
Security deposits from customers		28,203	29,288
Derivative financial instruments	6	992	-
Loans payable	11	15,804	12,437
Deferred income	12	10,660	7,561
Total current liabilities		105,424	133,197
<b>Non-current liabilities</b>			
Pension liability	13	19,557	10,946
Loans payable	11	55,732	59,784
Total non-current liabilities		75,289	70,730
Total liabilities		180,713	203,927
<b>Equity</b>			
Share capital	14	254,664	254,664
Revaluation surplus	9	19,352	19,352
Retained earnings		171,987	129,166
Total equity		446,003	403,182
Total liabilities and equity		626,716	607,109
Commitments & contingencies			

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:



Director



Director

November 11, 2008  
See accompanying notes.

# The Bahamas Telecommunications Company Limited

## Consolidated Statement of Operations Year ended December 31, 2007

	Notes	2007	2006
		\$000's	\$000's
<b>Operating revenues</b>			
Prepaid cellular toll and other		135,880	116,285
Fixed line and cellular rental		67,347	65,941
Receipts from other operators		56,410	41,341
Post-paid cellular toll and other		39,228	44,027
International toll service		27,035	34,447
Internet revenue		14,237	7,066
Directory advertising		8,256	8,119
Installation fees		1,928	2,017
Pager revenue		449	717
Other		6,145	7,400
<b>Total operating revenues</b>		<b>356,915</b>	<b>327,360</b>
<b>Operating expenses</b>			
Plant expense	16	152,308	133,018
Depreciation expense	9	63,772	60,043
Administrative expense	15	63,029	58,691
Pension expense	13	18,075	17,702
Personnel and training		7,860	6,450
Government fees	17	6,516	5,974
Provision for litigation cost		574	1,199
Bad debt expense	4	1,938	2,492
Amortisation of contributions to capital projects	12	(675)	(848)
<b>Total operating expenses</b>		<b>313,397</b>	<b>284,721</b>
<b>Operating income</b>		<b>43,518</b>	<b>42,639</b>
<b>Other income (expense)</b>			
Interest income		6,549	5,043
(Loss) gain on derivative financial instruments	6	(1,969)	305
Interest expense	11	(5,376)	(5,239)
Insurance claim on damaged property, plant and equipment	18	99	1,230
Other income (expense), net		(697)	1,339
<b>Net income</b>		<b>42,821</b>	<b>43,978</b>

See accompanying notes.

# The Bahamas Telecommunications Company Limited

## Consolidated Statement of Changes in Equity Year ended December 31, 2007

	Share Capital	Other Reserves	Retained Earnings	Total
	\$000's	\$000's	\$000's	
Balance as of January 1, 2007	254,664	19,352	129,166	403,182
Net income	-	-	42,821	42,821
Balance as of December 31, 2006	<b>254,664</b>	<b>19,352</b>	<b>171,987</b>	<b>446,003</b>
Balance as of January 1, 2006	254,664	-	110,188	364,852
Net Income	-	-	43,978	43,978
Revaluation surplus (note 9)	-	19,352	-	19,352
Dividends (note 22)	-	-	(25,000)	(25,000)
Balance as of December 31, 2006	<b>254,664</b>	<b>19,352</b>	<b>129,166</b>	<b>403,182</b>

*See accompanying notes.*

# The Bahamas Telecommunications Company Limited

## Consolidated Statement of Cash Flows Year ended December 31, 2007

	Notes	2007	2006
		\$000's	\$000's
<b>Cash flows from operating activities</b>			
Net income		42,821	43,978
Adjustments for:			
Depreciation expense	9	63,772	60,043
Amortisation of contributions to capital projects	12	(675)	(848)
Interest income		(6,549)	(5,043)
Interest expense		5,376	5,239
Bad debt expense	4	1,938	2,492
Provision for inventory obsolescence	5	1,386	440
Loss (gain) on derivative financial instruments	6	1,969	(305)
Insurance claim on damaged property, plant and equipment	18	(99)	(1,230)
Assets retired	9	902	-
		110,841	104,766
Changes in assets and liabilities:			
Accounts receivable		1,265	3,189
Inventories		(1,736)	(6,110)
Other assets		(7,880)	(2,765)
Trade payable, accrued and other liabilities		(19,777)	9,161
Security deposits		(1,086)	(1,343)
Deferred income		3,773	2,141
Pension asset/liability		8,611	8,970
Net cash provided by operating activities		94,011	118,009
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	9	(54,736)	(92,074)
Proceeds from insurance claims	18	99	1,930
Acquisition of investments	8	(18,307)	(197)
Proceeds from sale of investments	8	169	30
Term deposits		(3,798)	(7,201)
Interest received		6,044	4,661
Net cash used in investing activities		(70,529)	(92,851)
<b>Cash flows from financing activities</b>			
Proceeds from the issuance of long-term debt	11	11,752	60,000
Repayment of long-term debt	11	(12,437)	(12,251)
Payment of dividends	22	(15,000)	(22,000)
Interest paid		(4,745)	(3,425)
Net cash provided by (used in) financing activities		(20,430)	22,324
<b>Net change in cash and cash equivalents</b>		<b>3,052</b>	<b>47,482</b>
Cash and cash equivalents at beginning of year		110,421	62,939
Cash and cash equivalents at end of year	3	113,473	110,421

See accompanying notes.

# The Bahamas Telecommunications Company Limited

## Notes to Consolidated Financial Statements December 31, 2007

### 1. OPERATIONS AND ACTIVITIES

The Bahamas Telecommunications Company Limited (BTC) is incorporated under the laws of the Commonwealth of The Bahamas and provides telecommunications services throughout The Bahamas. On June 29, 2007, BTC established the wholly-owned subsidiary Self Insurance Trust Fund (the Fund), with the Bank of The Bahamas as Trustees to provide a funded retention relating to the All Risks insurance cover. The operations of BTC and the Fund will be referred to as the Company. On January 1, 2002, BTC assumed the operations of its predecessor, The Bahamas Telecommunications Corporation (the Corporation). The Company is wholly-owned by the Government of The Commonwealth of The Bahamas (the Government). Under the Telecommunications Act of 1999 (the Act), certain assets and liabilities of the Corporation were transferred to and vested in BTC on September 4, 2002. In connection with this, certain buildings, parcels of land, and investments were vested in the Treasurer of The Bahamas.

The Act, together with the Public Utilities Act 1993, provides for the establishment of an independent Public Utilities Commission (PUC) that has assumed legal and economic regulatory responsibility for telecommunications in The Bahamas. The Act governs the regulation of telecommunication services within the Commonwealth of The Bahamas.

The principal office of the Company is located at John F. Kennedy Drive, P.O. Box N-3048, Nassau, Bahamas.

The consolidated financial statements of the Company for the year ended December 31, 2007 were authorized for issue by the directors on November 11, 2008.

#### Privatisation

In a communication dated February 11, 1998 to Parliament, the Government announced its intention to privatise the then Bahamas Telecommunications Corporation (the Corporation). On September 4, 2002, the assets of the Corporation were vested in the Bahamas Telecommunications Company Limited (the Company). The first privatisation process saw a number of potential strategic investors conducting due diligence on the Company during 2003 however, on December 12, 2003, the Government appointed Tenders Commission announced that it had not accepted any of the bids. In 2005, the Government commenced negotiations with a single bidder for a 49% ownership of the Company.

In March 2008, the Prime Minister appointed an eight member Privatization Committee. The Committee was charged with completing the privatization of the Company by December 31, 2008. It was also stated that the Government was now prepared to sell a majority interest in the Company to a strategic investor.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, except where disclosed in the accounting policies below. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used principally when accounting for revenues, provision for doubtful debts, provision for inventory obsolescence, payments to telecommunications carriers, deferred income, depreciation and employee pension schemes.

#### 2.2 Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

#### 2.3 Basis of Consolidation

The consolidated financial statements comprise the financial statements of The Bahamas Telecommunications Company Limited and its wholly-owned subsidiary, the Self Insurance Trust Fund as at December 31, 2007. The financial statements of the Self Insurance Trust Fund subsidiary is fully consolidated from the date of establishment, being the date on which the Company obtained control and will continue to be consolidated until the date such control ceases. The financial statements of the Self Insurance Trust Fund are prepared for the same period as the parent company using consistent accounting policies. All intra-group balances, income and expense transactions are eliminated in full. The assets of the Fund are for the sole purposes of paying claims made by BTC for damages sustained during disasters once approved by the Fund's Claims Committee.

For the six month period ended December 31, 2007, the Self Insurance Trust Fund had net assets of \$20.5 million and earned a net profit of \$0.4 million.

## 2.4 Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance of the Company. They did however give rise to additional disclosures.

- (a) **(a) IFRS7 Financial Instruments: Disclosures**  
This standard requires disclosures that enable financial statement users to evaluate the significance of the Company's financial instruments and the nature and extent of risks from those financial instruments. The new disclosures are included throughout the consolidated financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.
- (b) **(b) IAS 1 (Revised) Presentation of Financial Statements**  
This amendment requires the Company to make new disclosures to enable users of the consolidated financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 24.
- (c) **IFRIC 8 Scope of IFRS 2**  
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This interpretation had no impact on the financial position or performance of the Company during the year.
- (d) **IFRIC 9 Reassessment of Embedded Derivatives**  
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Company.

- (e) **IFRIC 10 Interim Financial Reporting and Impairment**

The Company has adopted this as of January 1, 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

- (f) **IFRIC 11 IFRS 2- Group and Treasury Share Transactions**

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This interpretation had no impact on the financial position or performance of the Company during the year.

## 2.5 Estimations and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated balance sheet date, that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

- (a) **Impairment of non-financial assets**  
The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.
- (b) **Impairment of available-for-sale financial assets**  
The Company classifies certain assets as available for sale and recognizes movements in their fair value in equity. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. At December 31, 2007 no impairment losses have been recognized for available-for-sale assets (2006: nil). The carrying amount of available-for-sale assets was \$20,560,540 (2006: \$2,422,895). Further details are disclosed in Note 8.

- (c) **Deferred Revenue- Prepaid Cellular**  
The Company estimates its deferred revenue on prepaid cellular sales by using the cards held at master vendors plus balances on active customer cards.

The Company determines its deferred revenue on prepaid international long distance cards by deducting usage from the beginning card balance plus cards sales to vendors and customers.

- (d) **Pension**  
The cost of the non-contributory defined benefit pension plan is determined using independent actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net liability at December 31, 2007 is \$19,557,123 (2006: \$10,945,835). Further details are disclosed in Note 13.

- (e) **Provisions**  
The Company estimates its provision for legal matters quarterly based on legal counsel's assessment of likelihood of the Company's liability in various matters before the courts. The provision for legal liability at December 31, 2007 is \$1,843,185 (2006: \$1,660,717).

General provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursements.

- (f) **Provision for doubtful debt**  
Details are disclosed in Note 2.6(b)
- (g) **Provision for inventory obsolescence**  
Details are disclosed in Note 2.6(e)

## 2.6 Other Significant Accounting Policies

### (a) Foreign currency translation

- (i) **Functional and presentation currency**  
Items included in the consolidated financial statements of the Company are measured using the currency of the primary economic

environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahamian dollars, which is the Company's functional and presentation currency.

- (ii) **Transactions and balances**  
Monetary assets and liabilities maintained in foreign currencies are translated into Bahamian dollars at the rates of exchange prevailing at the date of the consolidated balance sheet. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing as of the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of operations.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

### (b) Accounts receivable

Accounts receivable are carried at original invoice amounts less provision made for uncollectible amounts. The Company establishes an allowance for doubtful accounts receivable sufficient to cover probable and reasonably estimable losses. The amount of provision is calculated on the ageing of the accounts receivable balance based on the percentages as noted below, together with any adjustment to the estimate due to collection experience and is recognised as bad debt expense in the consolidated statement of operations. In addition, the Company estimates a provision for less than 90 day balances based on the collection experience from the prior quarter. No provision is made against receivables due from the Government, or entities which it controls.

Provisions for fixed, mobile and DSL are determined as follows:

Older than 90 but less than 120 days	10%
More than 120 days	100%

Provisions for dial-up, pager, and trunking are assessed a monthly provision of 75% of all outstanding account receivable balances. Provisions for international carriers are assessed quarterly at varying rates.

**(c) Investments**

The Company's investments are initially recognized at cost, being the fair value of the consideration given. The Company has classified its investments as available-for-sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to the needs for liquidity or changes in market factors. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the consolidated balance sheet date.

Regular purchases and sales of investments are recognised on the trade date which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at cost, which includes transaction costs.

Investments are subsequently remeasured at fair value or at cost, in the absence of reliable fair values. Fair value is determined by reference to quoted market prices or by using valuation techniques, for unlisted investments. Valuation techniques include the use of recent arm's length transactions and discounted cash flow analysis. Unrealised gains or losses arising from changes in the fair value of investments are recognised in equity. Realised gains and losses on disposal are recognised in the consolidated statement of operations.

The Company derecognises an investment when the contractual rights to the cash flows from the investment expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

When an investment is disposed of or the value impaired, the related accumulated fair value adjustment included in equity is included in realised gains and losses in the consolidated statement of operations. The Company assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset is impaired.

**(d) Derivative financial instruments**

Derivative financial instruments, including interest rate swaps, are initially recognised in the consolidated balance sheet at cost (including transaction costs) and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models, as appropriate. Each derivative financial instrument is classified as an asset when its fair value is positive or as a liability when its fair value is negative. Changes in fair values of derivatives that do not qualify for hedge accounting are included in the consolidated statement of operations.

**(e) Inventories**

Inventories comprise items of equipment held for sale or rental, consumable items and engineering materials. Equipment held for sale or rental and consumable items are stated at the lower of cost or estimated net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling costs. Engineering materials are items used in the construction of new plant or for maintenance and when issued, these materials are charged to the cost of the specific plant or to the consolidated statement of operations, respectively. These materials are stated at cost, less a provision for obsolescence.

**(f) Property, plant and equipment**

Assets acquired are stated at historical cost, less depreciation. Land and buildings held are periodically stated at their revalued amounts being the fair value at the date of revaluation, based on current market values, less any subsequent accumulated depreciation. Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to the revaluation surplus. Depreciation on revalued buildings is charged to the consolidated statement of operations.

Assets constructed by the Company are included at cost in capital work-in-progress (CWIP) until the projects are completed, at which time they are transferred to the relevant asset category. Cost includes raw materials, direct labour, other direct costs and related overheads.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line basis to allocate costs over the estimated useful lives of the assets, with a proportionate charge in the year in which the asset enters service, as follows:

Asset Category	Annual Depreciation Rate
Freehold buildings	2.5%
Fixtures and office equipment	10-33%
Transmission equipment	4-10%
Cable plant	5-6%
Subscribers' apparatus	10-20%
Vehicles and mechanical equipment	25%

CWIP is not depreciated until transferred to one of the above categories of assets.

The Company carries out an annual assessment of whether there are indicators that the value of its assets may have been impaired due to changes in technology. In the event that impairment has been determined to have occurred, the assets concerned are written down to their recoverable amounts, being the higher of their net selling price or their value in use, by way of accelerated depreciation which is recognised in the consolidated statement of operations.

Repairs and maintenance are charged to the consolidated statement of operations during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset, when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company, and is depreciated over the remaining useful life of the related assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations in the year the asset is derecognized.

#### (g) Security deposits from customers

Security deposits are obtained from customers prior to the commencement of service or rental of equipment. These amounts are refundable to the customer upon the cessation of the service or return of equipment and can be offset against any outstanding amount due to the Company as of

that date. Commencing January 1, 2004, interest is being calculated on outstanding deposits, and credited to customer accounts annually and is included in interest expense in the consolidated statement of operations.

#### (h) Loans payable

Loans payable are stated at amortised cost. Borrowing costs directly related to the construction of assets are added to the cost of the asset during the construction period. All other borrowing costs are recognised in the consolidated statement of operations on an accrual basis.

#### (i) Revenue recognition

Operating revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

##### *Telephony Services*

Revenues are recognised in the consolidated financial statements when earned and are recorded on the accrual basis. Receipts from unutilised airtime on customers' prepaid phones and on prepaid cards held at vendors are deferred and recognised as earned in future periods.

Revenues from international toll services are derived from outgoing calls made from The Bahamas and from payments by foreign network operators for calls and other traffic that originate outside The Bahamas, but which utilise the Company's network. These revenues and costs are stated gross in the financial statements. Amounts payable and receivable from the same foreign network operator are shown gross in the consolidated balance sheet although accounts are usually settled on a net basis.

##### *Sale of goods*

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of goods have passed to the buyer.

##### *Interest Income*

Revenue is recognized as interest accrues.

#### (j) Contributions to capital projects

The Company requires contributions from subscribers to assist in defraying the capital cost of certain improvements and new services for the ultimate benefit of the subscribers. The total capital cost of such projects is included in property, plant and equipment. Contributions in respect of incomplete projects are recorded as accrued and other liabilities. Contributions in respect of completed projects are credited to operating expenses over seven years, being the

estimated average useful life of the related assets. The amount not yet recognized in operating expenses is recorded as deferred income in the consolidated balance sheet.

**(k) Cash and cash equivalents**

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, demand and current accounts, term deposits with original contractual maturities of three months or less and bank overdrafts.

**(l) Taxation**

The consolidated financial statements reflect no provision for income or corporate taxes as these taxes are not levied in The Bahamas. However, the Company is subject to an annual business licence fee and a PUC licence fee as disclosed in Note 17.

**(m) Related parties**

Related parties comprise directors, key management personnel, the Government as sole shareholder, and all entities controlled by The Government, including ministries and departments of the Government and Government corporations.

**(n) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of operations on a straight-line basis over the period of the lease.

**(o) Pension obligations**

The Company provides a non-contributory defined benefit retirement plan for regular, permanent and full-time employees. The assets of this plan are independently administered. The plan is reviewed annually by independent actuaries to provide information on the plan's financial condition, the required level of contributions to the plan, and to advise of any gains or losses arising from actual plan experience differing from assumptions adopted for the valuation.

The asset or liability recognised in the consolidated balance sheet in respect of the pension is the present value of the defined benefit plan as of the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The cost of providing benefits under the defined benefit plan is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality bonds (primarily Bahamas Government Registered

Stock) that are denominated in Bahamian dollars and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the consolidated statement of operations over the employees' expected average remaining working lives.

**2.7 Future Changes in accounting policies**

*a) IAS 23 Borrowing costs.*

A revised IAS 23 *Borrowing Cost* was issued in March 2007, and become effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Company will adopt this as a prospective change. Accordingly borrowing costs will be capitalized with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed..

*b) IFRS 8 – Operating Segments;*

IFRS 8 – Operating Segments requires disclosure of information about a Company's operating segments and replaced the requirement to determine primary (business) and secondary (geographic) reporting segments in a Company. This standard becomes effective for annual periods beginning on or after January 1, 2009. The adoption of this standard is not expected to have an impact on the consolidated financial statements in 2009.

*c) IFRIC 12 Service Concessions Arrangements*

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after January 1, 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Company expects that this interpretation will have no impact on the Company.

*d) IFRIC 13 Customer Loyalty Programmes*

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consider-

ation received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this Interpretation will have no impact on the financial position or performance of the Company's consolidated financial statements as no such schemes exist.

e) *IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Company expects that this Interpretation will have no impact on the financial position or performance of the Company as all defined benefit schemes are currently in deficit.

f) *IFRIC 15 Agreements for the Construction of Real Estate*

IFRIC Interpretation 15 was issued in July 2008 and becomes effective for annual periods beginning on or after January 1, 2009. The Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue, and when revenue from the construction should be recognised. The Company expects that this Interpretation will have no impact on the financial position or performance of the Company's consolidated financial statements as no agreements for the construction of real estate exist.

g) *IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

IFRIC Interpretation 16 was issued in July 2008 and becomes effective for annual periods beginning on or after October 1, 2008. This Interpretation provides guidance on accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. The Company expects that this Interpretation will have no impact on the financial position or performance of the Company as no investment in a foreign operation exists.

### 3. CASH IN HAND AND AT BANK

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
Cash in hand, demand and current accounts	17,957	12,577
Term deposits	117,394	115,924
	<b>135,351</b>	<b>128,501</b>

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
Cash in hand and at bank	135,351	128,501
Less: Term deposits with original contractual maturities of more than three months	(21,878)	(18,080)
	<b>113,473</b>	<b>110,421</b>

Included in cash in hand and at bank is \$2,070,692 which is held in term deposit accounts by the Self Insurance Trust Fund and its use is restricted to provide a funded retention relating to the All Risks insurance cover.

The average interest rate on the term deposits was 5.51% (2006: 5.25%) and these deposits have an average maturity of 100 days.

### 4. ACCOUNTS RECEIVABLE

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
Customers' accounts – gross		
Residential and business	85,002	104,247
Public corporations	4,835	3,728
Government ministries and departments	6,779	9,859
International settlement debtors	13,027	10,808
Interest receivable	1,260	754
Miscellaneous receivables	350	257
	<b>111,253</b>	<b>129,653</b>
Less: Provision for doubtful accounts	(52,078)	(67,781)
	<b>59,175</b>	<b>61,872</b>

Provision for doubtful accounts is analysed as follows:

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
Balance as of beginning of the year	67,781	69,501
Bad debt expense	1,938	2,492
Receivables written off	(17,641)	(4,212)
Balance as of end of the year	<b>52,078</b>	<b>67,781</b>

(continued)

#### 4. ACCOUNTS RECEIVABLE CONTINUED

As at December 31, 2007, the aging analysis of trade receivables is as follows:

	Total	Current	0-30 days	31-60 days	61-90 days	90+ days
	(Expressed in \$000's)					
<b>2007</b>	109,643	14,045	15,357	6,166	3,071	71,004
<b>2006</b>	128,642	11,189	11,860	6,469	3,715	95,409

The Company performs an assessment of its accounts receivable balances monthly and establishes a provision for doubtful accounts, as necessary. The Company's estimated potential uncollectible amount of accounts receivable as of December 31, 2007 was \$63.1 million (2006: \$78.8 million) of which \$52.1 million (2006: \$67.8 million) has been provided by way of the provision for doubtful accounts. The remaining balance of \$11 million (2006: \$11 million) has not been provided for because the Company maintains security deposits from customers which can ultimately be used to offset outstanding receivables. During the year, the Company wrote off \$17.6 million of receivables against the provision which were deemed uncollectible.

#### 5. INVENTORIES

	2007	2006
	\$000's	\$000's
Engineering material	12,616	6,099
Equipment held for sale or rental	6,845	11,520
Other	1,379	1,484
	20,840	19,103
Provision for obsolescence	(3,651)	(2,265)
	17,189	16,838

During the year, the Company made provisions for write-downs relating to obsolete inventories totalling \$1,135,497 (2006: \$439,966), and wrote-off inventory with a book value of \$nil (2006: \$326,566) against the provisions.

Provision for obsolete inventory is analysed as follows:

	2007	2006
	\$000's	\$000's
Balance at beginning of year	2,265	2,152
Current year provision	1,386	440
Written off against provision	-	(327)
Balance at end of the year	3,651	2,265

#### 6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company entered into an interest rate swap agreement during 2005 to economically hedge the interest rate risk associated with the US\$60 million loan facility with Citibank N.A. (see Note 11(iii)). As of December 31, 2007, the interest rate swap had a negative value of US\$991,622 (2006: positive US\$977,452). The decrease in value of US\$1,969,074 (2006: increase US\$305,208) is recognized in the consolidated statement of operations.

**7. OTHER ASSETS**

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
Prepayments	13,202	5,320
Deferred costs	339	341
	<b>13,541</b>	<b>5,661</b>

Prepayments primarily relate to the prepayment to Cisco for \$9,910,827 to deploy the new internet backbone (Note 11(iv)) and the unexpired portion of premiums on the insurance policies covering the Company's assets for the period from July 1, 2007 to June 30, 2008 of \$4,288,920.

**8. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2006</b>	<b>Acquisitions</b>	<b>Sales/Redemptions</b>	<b>2007</b>
	(Expressed in \$000's)			
Joint venture - Columbus III	92	-	-	92
Joint venture - Antilles I	74	-	-	74
Bahamas Government Registered Stock	2,219	173	(44)	2,348
Bahamas Government Registered Stock-held in Self Insurance Trust Fund	-	18,007	-	18,007
Clifton Heritage Authority Bonds	8	-	-	8
Accrued interest receivable	30	127	(125)	32
	<b>2,423</b>	<b>18,307</b>	<b>(169)</b>	<b>20,561</b>

(continued)

**8. AVAILABLE-FOR-SALE INVESTMENTS CONTINUED**

	2005	Acquisitions	Sales/Redemptions	2006
	(Expressed in \$000's)			
<b>Non-current</b>				
Joint venture – Columbus III	92	-	-	92
Joint venture – Antilles I	74	-	-	74
Bahamas Government Registered Stock	2,055	164	-	2,219
Clifton Heritage Authority Bonds	8	-	-	8
Accrued interest receivable	27	33	(30)	30
	<b>2,256</b>	<b>197</b>	<b>(30)</b>	<b>2,423</b>

The Company also has investments in strategic joint ventures. These investments are accounted for in accordance with International Accounting Standard 39 as the Company does not have significant influence or control over the joint ventures. Management has decided to carry these investments at cost, because of the absence of reliable fair value estimates.

The Company owns 20,353,600 (2006: 2,219,238) units of Bahamas Government Registered Stock valued at \$20,355,884 (2006: \$2,219,238), as well as 8,300 (2006: 8,300) units of the Clifton Heritage Authority Bonds valued at \$8,300 (2006: \$8,300). 18,007,200 shares of Bahamas Government Registered Stock are held by the Self Insurance Trust Fund valued at \$18,007,200 and are to be used solely for the purpose of paying insurance claims against the Self Insurance Trust Fund. These bonds earn interest at varying rates tied to the Bahamian dollar prime rate and mature between October 2009 and May 2035.

**9. PROPERTY, PLANT AND EQUIPMENT**

COST (\$000's)	2006	Additions	Transfers	Reclass	Assets Retired	2007
Freehold buildings, fixtures and office equipment	96,344	6,557	6,331	(389)	(309)	108,534
Transmission equipment	442,973	4,297	61,648	-	(1,742)	507,176
Cable plant	166,455	2,170	4,604	-	(924)	172,305
Subscribers' apparatus	22,304	384	9	-	(3)	22,694
Vehicle and mechanical	22,744	7,873	-	-	(1,829)	28,788
Land	22,400	110	-	-	(10)	22,500
CWIP	85,111	33,345	(72,592)	389	-	46,253
<b>Total</b>	<b>858,331</b>	<b>54,736</b>	<b>-</b>	<b>-</b>	<b>(4,817)</b>	<b>908,250</b>

(continued)

## 9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

ACCUMULATED DEPRECIATION (\$000's)	2006	Depreciation Charge	Assets Retired	2007
Freehold buildings, fixtures and office equipment	41,510	8,848	(309)	50,049
Transmission equipment	266,876	40,827	(1,647)	306,056
Cable plant	120,824	10,369	(206)	130,987
Subscribers' apparatus	21,257	275	(3)	21,529
Vehicle and mechanical	17,027	3,453	(1,750)	18,730
<b>Total</b>	<b>467,494</b>	<b>63,772</b>	<b>(3,915)</b>	<b>527,351</b>

COST (\$000's)	2005	Additions	Transfers	Reclass	Assets Retired	Revaluation	2006
Freehold buildings, fixtures and office equipment	80,280	5,350	3,385	(1,277)	(650)	9,256	96,344
Transmission equipment	389,908	7,723	63,738	-	(18,396)	-	442,973
Cable plant	165,501	1,637	1,010	701	(2,394)	-	166,455
Subscribers' apparatus	25,057	232	-	570	(3,555)	-	22,304
Vehicle and mechanical	22,289	3,374	-	-	(2,919)	-	22,744
Land	12,221	77	-	6	-	10,096	22,400
CWIP	79,563	73,681	(68,133)	-	-	-	85,111
<b>Total</b>	<b>774,819</b>	<b>92,074</b>	<b>-</b>	<b>-</b>	<b>(27,914)</b>	<b>19,352</b>	<b>858,331</b>

ACCUMULATED DEPRECIATION (\$000's)	2005	Depreciation Charge	Reclass	Assets Retired	2007
Freehold buildings, fixtures and office equipment	35,479	7,101	(421)	(649)	41,510
Transmission equipment	236,220	38,643	-	(7,987)	266,876
Cable plant	111,541	10,064	1,613	(2,394)	120,824
Subscribers' apparatus	24,087	1,438	(1,597)	(2,671)	21,257
Vehicle and mechanical	16,744	2,797	405	(2,919)	17,027
<b>Total</b>	<b>424,071</b>	<b>60,043</b>	<b>-</b>	<b>(16,620)</b>	<b>467,494</b>

(continued)

## 9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

NET BOOK VALUE (\$000's)	2007	2006
	\$000's	\$000's
Freehold buildings, fixtures and office equipment	58,485	54,834
Transmission equipment	201,120	176,097
Cable plant	41,318	45,631
Subscribers' apparatus	1,165	1,047
Vehicle and mechanical	10,058	5,717
Land	22,500	22,400
CWIP	46,253	85,111
<b>Total</b>	<b>380,899</b>	<b>390,837</b>

Property, plant and equipment with costs totalling approximately \$215.4 million (2006: \$166.2 million) are fully depreciated and remain in use as of December 31, 2007, and are included in the tables above.

Included in the \$63.8 million for depreciation expense in the consolidated statement of operations are amounts totalling \$9.8 million of additional depreciation resulting from the decrease in the estimated useful life of certain switching and transmission equipment. This is due to the planned migration from a digital network to a Next-Generation Network (NGN).

In 2006, an independent valuation of the Company's land and buildings was carried out by Mr. Arthur Jones, a licensed real estate appraiser, to determine the fair value of the land and buildings. This resulted in a revaluation surplus of \$19,351,515.

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
	\$000's	\$000's
Trade payables	14,968	18,968
Accrued liabilities	26,023	40,653
International settlements creditors	4,805	4,519
Subscribers' contributions to capital projects in progress (note 12)	1,326	1,171
Interest on security deposits	800	1,939
Dividends payable (note 22)	-	15,000
Provision for asserted claims (see below)	1,843	1,661
	<b>49,765</b>	<b>83,911</b>

In the normal course of business, the Company is exposed to asserted and unasserted claims. As of December 31, 2007, the Company had provisions for asserted claims of \$1,843,185 (2006: \$1,660,717). In the opinion of management and legal counsel, the ultimate resolution of these and other matters will not have a material adverse effect on the Company's financial position.

**11. LOANS PAYABLE**

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
Current portion	15,804	\$ 12,437
Non-current portion	55,732	59,784
	<b>71,536</b>	<b>72,221</b>

	<b>2006</b>	<b>Advances</b>	<b>Repayments</b>	<b>2007</b>
	(Expressed in \$000's)			
First Caribbean International Bank (Bahamas) Limited/ Royal Bank of Canada (i)	1,686		(1,686)	-
First Caribbean International Bank (Bahamas) Limited (ii)	10,535	1,841	(5,501)	6,875
Citibank, N.A. (iii)	60,000		(5,250)	54,750
Cisco Systems Capital (iv)	-	9,911		9,911
	<b>72,221</b>	<b>11,752</b>	<b>(12,437)</b>	<b>71,536</b>

	<b>2005</b>	<b>Advances</b>	<b>Repayments</b>	<b>2006</b>
	(Expressed in \$000's)			
First Caribbean International Bank (Bahamas) Limited/ Royal Bank of Canada (i)	8,437		(6,751)	1,686
First Caribbean International Bank (Bahamas) Limited (ii)	16,035	-	(5,500)	10,535
Citibank, N.A. (iii)	-	60,000	-	60,000
	<b>24,472</b>	<b>60,000</b>	<b>(12,251)</b>	<b>72,221</b>

The maturity of loans payable is as follows:

	<b>Less than 6 Months</b>	<b>Between 6-12 Months</b>	<b>Between 1-5 Years</b>	<b>Total</b>
	(Expressed in \$000's)			
As of December 31, 2007	7,351	8,453	55,732	71,536
As of December 31, 2006	6,187	6,250	59,784	72,221

(continued)

## 11. LOANS PAYABLE CONTINUED

The details of the Company's loans and bank overdrafts as of December 31, 2007 are outlined below:

- (i) (i) During 2001, a loan for US\$27 million was raised from First Caribbean International Bank (Bahamas) Limited (FCIB) to assist with funding the ATM/DSL Multi Service Network Project. The facility was fully drawn down by December 31, 2004. The loan is unsecured and repayable in sixteen equal quarterly instalments of US\$1.687 million that commenced November 1, 2002 after paying interest for a period of one year. Interest is accrued at 1% above the 90-day LIBOR rate, an effective rate of 6.24% as of December 31, 2007 (2006: 6.553%). During February 2004, FCIB entered into a deed of amendment and assignment agreement with The Royal Bank of Canada (RBC) whereby FCIB assigned US\$7 million of the loan to RBC. The loan was repaid during the year.
- (ii) (ii) During 2003, the Company obtained a US\$22 million term loan from FCIB to assist with financing the expansion of the cellular network using GSM Technology. The loan is unsecured and repayable in sixteen equal quarterly instalments of US\$1.375 million, beginning on April 1, 2005, after paying interest for a period of one year. Interest is accrued at 1% above the 90-day LIBOR rate an effective rate of 6.24% as of December 31, 2007 (2006: 6.553%).
- (iii) On November 15, 2005, the Company obtained a seven year, US\$60 million term loan facility from a consortium led by Citibank to finance the cost of the Bahamas Domestic Submarine Network. In support of the facility, the Company has granted a lien in favour of Citibank on certain accounts held with Citibank and SG Hambros Bank & Trust (Bahamas) Limited. It is repayable in quarterly instalments of \$1.750 million commencing in May 2007 with a lump sum payment of \$19.75 million due on February 15, 2013. Interest is accrued at 1.35% above the 90-day LIBOR rate, an effective rate as of December 31, 2007 of 6.607% (2006: 6.934%).
- (iv) On December 23, 2007, the Company executed a \$9.9 million promissory note with Cisco Systems Capital to fund the construction of its new internet backbone. The note is unsecured and bears no interest during the first eight quarters and 3.01% for the last four quarters. It is repayable in quarterly instalments of \$1.101 million beginning May 2008.
- (v) The Company has two overdraft facilities as of December 31, 2007. The first overdraft facility is for US\$2million with Citibank, bearing interest at 1.5% above the 30-day LIBOR rate, an effective rate of 6.86% as of December 31, 2007 (2006: 6.553%). The second overdraft facility with Royal Bank of Canada is in the amount of \$2 million, bearing interest at 1.25% above the Bahamian dollar prime rate, an effective rate of 6.75% as of December 31, 2007 (2006: 6.75%). At December 31, 2007, the balances outstanding on these facilities were nil (2006: nil)

## 12. DEFERRED INCOME

Deferred income comprises contributions received from customers for capital projects completed and funds received in advance for unused prepaid cellular cards, prepaid international long distance cards and telephone rental as detailed below:

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
Contributions to capital projects	1,295	1,565
Deferred revenue on prepaid cards	5,060	1,720
Other deferred revenue	4,305	4,276
	<b>10,660</b>	<b>7,561</b>

Deferred revenue on prepaid cards includes deferred revenue on prepaid cellular cards in the amount of \$2,768,000 (2006: \$1,720,000) and deferred revenue on prepaid international long distance cards in the amount of \$2,292,870 (2006: nil). Effective December 31, 2007, the Company started to determine its deferred revenue on prepaid international long distance cards. The Company has deemed it impractical to quantify the deferred income on prepaid international long distance cards as of December 31, 2006 due to the unavailability of information on prior year's opening balance of deferred income.

Analyses of the movement in contributions received on capital projects in progress and those completed are as follows:

	<b>2007</b>	<b>2006</b>
	\$000's	\$000's
<b>Capital projects in progress</b>		
Liability as of the beginning of the year	1,171	3,003
Contributions received from subscribers during the year	560	623
Contributions relating to projects completed during the year	(405)	(2,455)
<b>Liability as of the end of the year (note 10)</b>	<b>1,326</b>	<b>1,171</b>
<b>Capital projects completed</b>		
Deferred income as of the beginning of the year	1,565	1,673
Contributions relating to projects completed during the year, as above	405	2,455
Contributions written back	-	(1,715)
Amounts amortised during the year	(675)	(848)
<b>Deferred income as of the end of the year</b>	<b>1,295</b>	<b>1,565</b>



### 13. PENSION LIABILITY CONTINUED

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2007	2006
Equities	22%	19%
Bonds	63%	67%
Interest bearing deposits	9%	8%
Loans	3%	4%
Other	3%	2%

The principal actuarial assumptions used were as follows:

	2007	2006
	\$000's	\$000's
Discount rate	6.1%	6.0%
Expected return on plan assets	6.8%	6.2%
Future salary increases	6.7%	6.7%
Future pension increases	0.0%	0.0%

The overall expected rate of return on plan assets is derived by considering the rate of return on each asset class held by the Plan and taking the weighted average of these.

### 14. SHARE CAPITAL

The authorised share capital of the Company as of December 31, 2007 and 2006 is \$254,664,000, allocated as 254,664,000 shares of par value \$1 each, all of which have been issued to the Government and are fully paid.

### 15. ADMINISTRATIVE EXPENSE

Included in administrative expenses is \$1.75 million for write down of retail inventory from cost to net realizable value.

### 16. PLANT EXPENSE

Included in plant expense is \$39.8 million (2006: \$26.7 million) for cost of sales which includes cost of retail sales and vendor discounts on sales of prepaid cellular cards.

### 17. GOVERNMENT FEES

During the year, the Company recorded business licence fees of \$0.7 million (2006: \$0.6 million) and PUC licence fees of \$1.8 million (2006: \$1.4 million). Franchise fees for the year were \$4.0 million (2006: \$4.0 million).

### 18. PROCEEDS FROM INSURANCE

During the year, the Company received \$0.1 million from its insurers for damages sustained for various incidents throughout the year. The 2006 amount of \$1.9 million relates to damages sustained during Hurricanes Francis and Jeanne in 2004. This was offset by an overpayment of \$0.7 million which was charged to the 2006 proceeds in the consolidated statement of operations.

**19. STAFF COSTS**

	<b>2007</b>	<b>2006</b>
	<b>\$000's</b>	<b>\$000's</b>
Salaries and benefits	72,128	67,226
Pension costs (note 13)	18,075	17,702
National Insurance	1,430	1,405
Total amount of staff costs capitalised into property, plant and equipment	(2,498)	(1,799)
<b>Total</b>	<b>89,135</b>	<b>84,534</b>

The number of employees as of December 31, 2007 was 1,252 (2006: 1,236). The average number of employees for the year ended December 31, 2007 was 1,244 (2006: 1,217).

**20. RELATED PARTY TRANSACTIONS AND BALANCES**

During the year, the total remuneration of the Directors was \$96,000 (2006: \$121,490).

Total salaries and benefits expense relating to key management personnel was \$2,873,887 (2006: \$3,123,828).

	<b>2007</b>	<b>2006</b>
	<b>\$000's</b>	<b>\$000's</b>
Transactions and balances with Government Ministries, Departments and Corporations:		
Revenues	14,845	14,501
Expenses	43,809	27,528
Amounts due from	10,588	12,257
Amounts due to	8,665	5,721
Available-for-sale investments	20,384	2,257

## 21. COMMITMENTS AND CONTINGENCIES

### a. Operating lease commitments

The future aggregate minimum lease payments under operating leases are as follows:

	2007	2006
	\$000's	\$000's
Not later than 1 year:	925	684
Later than 1 year and not later than 5 years	1,943	2,004
Later than 5 years	762	281
<b>Total</b>	<b>3,630</b>	<b>2,969</b>

The Company has expensed amounts in the consolidated statement of operations totalling \$1,153,430 (2006: \$1,259,421) that relate to operating leases for the year.

Included in assets vested to the Government was an administrative office building in Freeport, which is the Company's principal administrative location in Freeport. At the time of issuance of these financial statements, the Company had not signed a lease agreement with the Government indicating the amounts payable and an appropriate lease term. Accordingly, no provision has been made in these consolidated financial statements in respect of any lease payment to the Government. Management estimates that rental for 2007 for similar office space is \$319,000 per annum.

In constructing the Company's TDMA and GSM cell phone networks, the Company has erected towers on several sites (cell sites) which may be owned by the Government or third parties. The Company is in the process of finalising formal arrangements with all parties concerning the terms and compensation related to these sites. It is management's opinion that any payments related to cell sites are not likely to have a material adverse effect on the Company's financial condition or results of operations in the future.

In addition, there is no provision made for potential cost of dismantling towers at the end of the lease periods as the Company deems such removal to be unlikely in the foreseeable future.

### b. Capital and other commitments

Capital expenditure on property, plant and equipment contracted for as of the consolidated balance sheet date but not recognized in the consolidated financial statements amounted to approximately \$5.8 million (2006: \$5.9 million).

In October 2007, a letter of credit was issued on the Company's behalf to ICO uniforms for \$0.4 million. As of December 31, 2007, the balance remaining was \$0.4 million.

### c. Contingencies

The Public Utilities Commission (PUC) has made a claim against the Company of \$1.9 million relating to fees for the years 2002 to 2006. The Company has disputed this claim under Section 6.3(g) of the Telecommunications Act on the basis that no evidence has been presented to demonstrate that the costs incurred by the PUC to regulate the services of BTC exceed the fees paid in the period.

The Company is expected to make payments for 2007 Executive Performance Bonus, 2007 Staff Performance payments, and the October 1, 2007 to December 31, 2007 portion of the Union Industrial Agreement in 2008. These amounts have not been determined as yet.

## 22. DIVIDENDS

During 2007, the Board of Directors did not declare any dividends (2006: \$25 million) representing \$nil (2006: \$0.10) per share. As of December 31, 2007, dividends payable totalled \$nil (2006: \$15.0 million).

During the year, the Company paid \$15.0 million relating to dividends declared in 2006.

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Company include cash and cash equivalents, accounts receivable and investments which arise directly from its operations. Financial liabilities of the Company include loans payable and bank overdrafts, accounts payable and accrued liabilities and security deposits from customers. The main purpose of these liabilities is to raise finance for the Company's operations.

### a. Liquidity risk

The object of liquidity risk management is to maintain sufficient cash and marketable securities, and funding through an adequate amount of committed credit facilities to honour all of the Company's financial commitments. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

### b. Foreign currency risk

The Company does business principally in either the functional currency or United States dollars. Therefore, the Company has no significant foreign exchange risk.

### c. Interest rate risk

While the Company does have significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises primarily from long-term loans. Loans obtained at variable rates expose the Company to cash flow interest-rate risk. The Company manages its exposure to fluctuations in interest rates by linking its cost of borrowing to prevailing domestic or international interest rates, as well as by the use of derivative financial instruments. The Company monitors the use of derivative financial instruments through the use of well-defined market and credit risk limits and timely reports to senior management.

The Company has entered into an interest rate swap to convert floating rate exposure into fixed rate exposure where it is considered appropriate. As a result of these hedging activities the majority of the Company's long-term debt is subject to fixed interest rates.

*(continued)*

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

The notional principal or amounts outstanding are as follows:

	<b>2007</b>	<b>2006</b>
	<b>\$000's</b>	<b>\$000's</b>
<b>Maturities</b>		
December 15, 2013	54,750	60,000

The fair and carrying value of the interest rate swap as of December 31, 2007 was \$991,622 out of the money (2006: \$977,452 in the money)

The interest rates and terms of repayment of the Company's loans payable and bank overdrafts are disclosed in Note 11.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's profit. There is no impact on the Company's equity.

	<b>2007</b>	<b>2006</b>
		<b>\$000's</b>
2007	+20	321
	-20	(321)
2006	+20	455
	-20	(455)

### d. Credit risk

Credit risk arises from the failure of counterparty to perform according to the terms of the contract. Substantially all of the Company's cash and cash equivalents are deposited with highly rated reputable financial institutions. The credit risk of the Company is concentrated around its accounts receivable. The Company manages its exposure to this risk by:

- i. requiring new customers to pay security deposits (refer to Note 2 – 2.7(g));
- ii. constantly monitoring the accounts receivable balances;
- iii. maintaining contact with and/or disconnection of delinquent customers;

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligations as at December 31, 2007 in relation to each class of recognized financial assets other than derivatives, is the carrying amount of those assets as indicated in the consolidated balance sheet.

*(continued)*

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2007 based on contractual undiscounted payments.

<i>December 31, 2007</i>	<i>On Demand</i>	<i>Up to 1 Year</i>	<i>1-5 years</i>	<i>5+ Years</i>	<i>Total</i>
Interest bearing loans	-	15,804	55,732	-	71,536
Trade & other payables	47,122	-	-	-	47,122
Other liabilities	2,643	-	-	-	2,643
<i>December 31, 2006</i>					
Interest bearing loans	-	12,437	59,784	-	72,221
Trade and other payables	65,311	-	-	-	65,311
Other liabilities	18,600	-	-	-	18,600

## 24. FINANCIAL INSTRUMENTS

### Capital management

The primary objective of the Company's capital management is to ensure that it maintains strong debt to equity ratios in order to support its business and maximize shareholder value. No changes were made to the objectives, policies or procedures during the years ended December 31, 2007 and December 31, 2006.

The Company monitors its capital using a debt to equity ratio which is debt divided by total shareholder's equity. The policy of the Company is to obtain loan funding for long term infrastructure projects.

	<b>2007</b>	<b>2006</b>
	<b>\$000's</b>	<b>\$000's</b>
Loans payable	71,536	72,221
Shareholder's equity	452,412	403,182
Debt to equity ratio	16%	18%

### Fair values

Set below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the consolidated financial statements.

	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
Cash	135,355	128,501	135,355	128,501
Accounts receivable	59,175	61,872	59,175	61,872
Available-for-sale investments	20,561	2,423	20,561	2,423
Derivative financial instruments	-	977	-	977
<b>Financial Liabilities</b>				
Loans payable	71,536	72,221	77,777	76,160
Derivative financial instruments	922	-	922	-

## 25. RECLASSIFICATION OF ACCOUNTS

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Certain accounts in the December 31, 2006 financial statements were reclassified to conform with the presentation of the December 31, 2007 consolidated financial statements.

## 25. SUBSEQUENT EVENTS

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On March 31, 2008, the Company paid \$1.6 million representing payment for profits share for 2006. This amount was charged to the consolidated statement of operations in 2007 when it was approved by the Board of Directors, and is included in salaries and benefits (Note 19).

During 2008, the Company will request proposals from financial institutions to secure financing of up to \$55 million for the proposed NGN.

On June 19, 2008, the Company declared a dividend to the shareholder for \$25 million which was paid on June 27, 2008.

# CORPORATE GOVERNANCE

## MINISTER RESPONSIBLE FOR THE BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED

The Honourable Zhivargo Laing, M. P., Minister of State for Finance (appointed May 7, 2007)

## BOARD OF DIRECTORS (Appointed July 17, 2007)

Mr. Julian W. Francis	Chairman
Dean Patrick Adderley	Deputy Chairman
Mr. Raymond Jones	Director
Mr. Ian Hepburn	Director
Mr. James Moss	Director
Mr. Garth Buckner	Director
Mrs. Cecile Green	Director
Ms. Deidre Prescott	Director
Ms. Claretta Duncombe	Director

## FISCAL 2007 EXECUTIVE MANAGEMENT

Mr. Leon R. Williams *	President & Chief Executive Officer
Mr. I. Kirk Griffin**	Executive Vice President
Mr. Paul McClean	Chief Financial Officer
Mr. Antonio Stubbs	Senior Vice President & CTIO
Mr. Alfred Phillips	Vice President-Planning & Engineering
Mr. Tellis Symonette	Vice President-Wireless & Internet
Ms. Felicity Johnson	Vice President-Legal, Regulatory & Interconnect. & Co. Secretary
Ms. Helene Ferguson	Vice President-Human Resources & Administration
Mr. Edward Miller***	Vice President Logistics
Mr. Charles McPhee	Vice President-Internal Audit
Mr. Henry Romer	Vice President-Northern Bahamas
Mr. Dale Knowles	Vice President-Network Services
Mr. Jeffery Moncur	Vice President-Customer Services
Mr. Ryan Antonio	Deputy Chief Financial Officer
Mr. Marlon Johnson	Vice President-Marketing & Sales
Mrs. Nickola Dawkins	Acting Chief Information Officer
Ms. Lisa Major****	Vice President-Training & Development

\* Mr. Leon Williams demitted office May 1, 2008.

\*\*Mr. I. Kirk Griffin was appointed Acting President and CEO September 16, 2008.

\*\*\* Retired June 2007.

\*\*\*\* Appointed May 7, 2007.



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