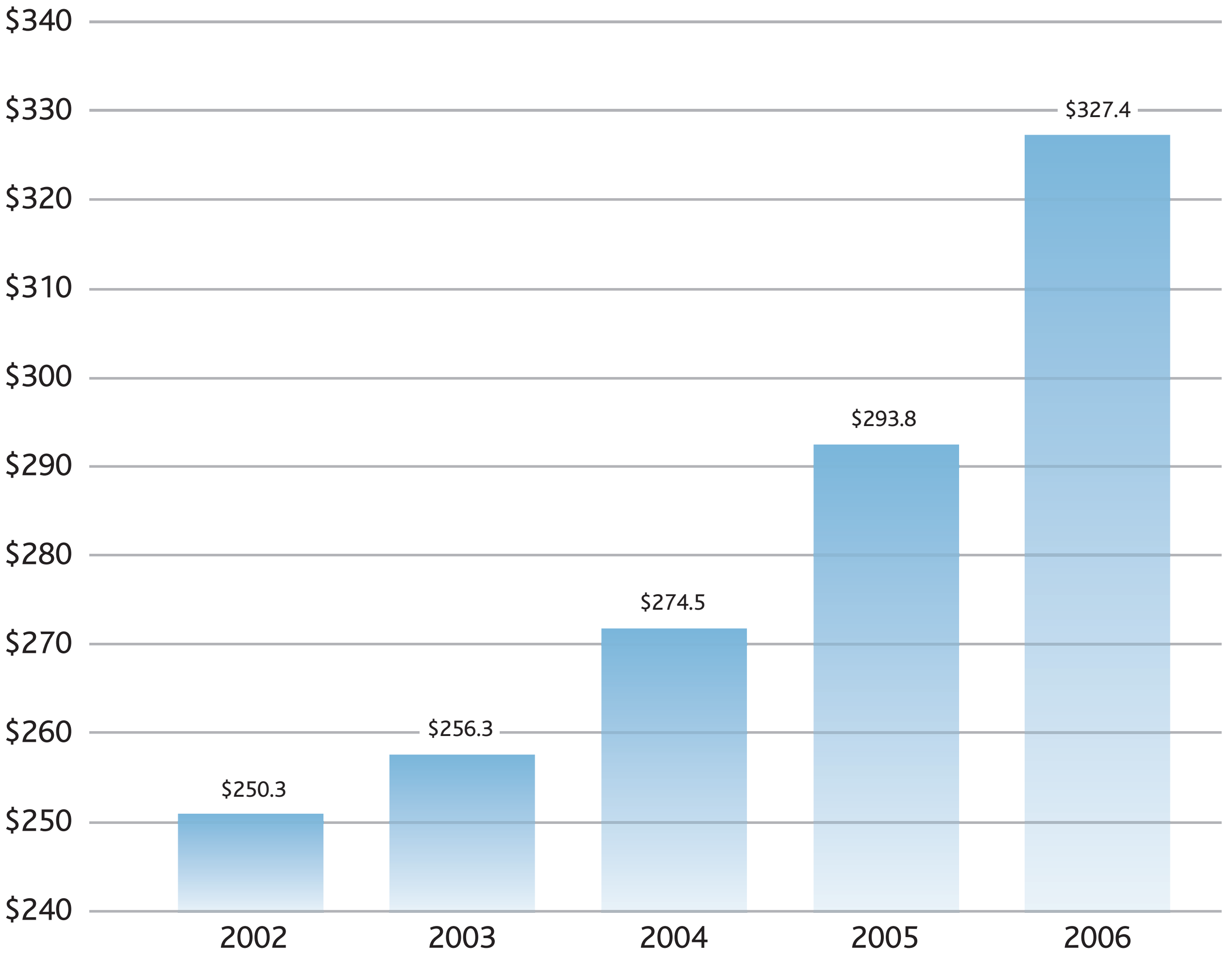
Annual Report 2006

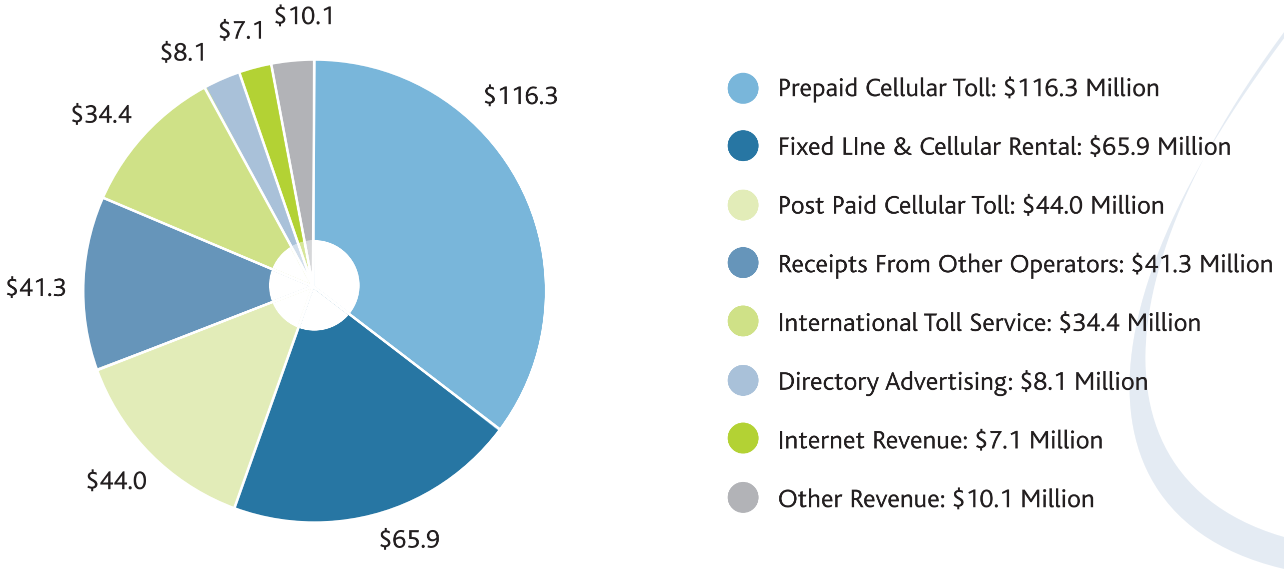
THE BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED

TOTAL REVENUE 2002-2006 ($Millions)



Total revenue from operations grew by 11.4% in 2006

REVENUE SEGMENTS 2006 ($Millions)



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Annual Report For The Year Ended December 31, 2006

Chairman's Message

Julian W. Francis, CBE
Executive Chairman

For more than one hundred years, BTC has been The Bahamas' national telecommunications provider. The Company's growth and development over this period has mirrored that of our country and, like The Bahamas, it today is at a defining point in its evolution.

As the Company looks forward to this new era of market competition, and enhanced partnership, with other domestic and international service providers, we are more than ever committed to building on our legacy and playing a major role in shaping the future of Bahamian telecommunications and related services.

We understand that the availability of innovative telecommunications services is critical if The Bahamas is to achieve economic competitiveness and continuously improve the standard of living of its people.

In 2006, BTC made significant progress in growing its business, improving profitability and strengthening its balance sheet. These are essential prerequisites for access to the capital required for continued investment in modern technology and infrastructure, which make possible the delivery of quality products and services.

In keeping with the developments of a rapidly-evolving global economic environment, BTC continued in 2006 to increase the availability of high-speed broadband connectivity for voice, Internet and data services. As a result, capital investments for the year focused primarily on expanding the infrastructure required to bring these services to an increasing number of customers throughout our beautiful archipelago of islands.

We remain committed to continue with the transformation of BTC into a modern, well-managed company, dedicated to delivering excellence in customer service.

To achieve this we must continue to:

- Understand and adapt to the rapidly-evolving economic, technological, social and regulatory environments;
- Adhere to the highest standards of business management;
- Develop a highly skilled and motivated team of employees;
- Improve our service delivery to business and residential customers.

These are the objectives which will drive BTC as we move forward.

Julian W. Francis, CBE
Executive Chairman

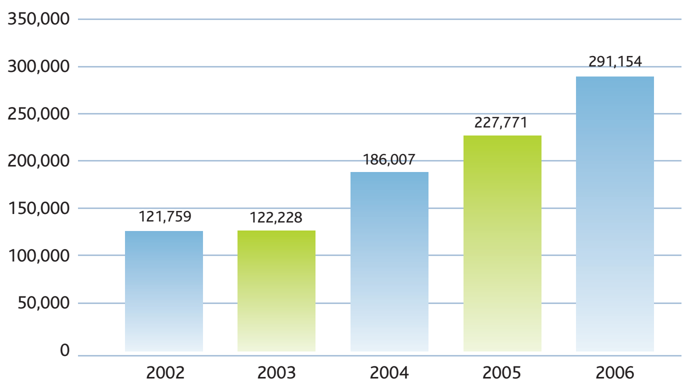
President & CEO's Report

Throughout the year under review, we intensified our focus on generating profitable recurring service revenue, while continuing to drive investments in infrastructure and productivity improvements, and cost efficiencies throughout the organisation.

Leon Williams,
President & CEO

Cellular subscribers, our fastest growing market segment, grew by 27.8% this year, and now represent a majority of BTC's revenues, accounting for 65% of total revenue in 2006.

WIRELESS SUBSCRIBERS 2002-2006



The number of wireless subscribers grew by 27.8% in 2006

We also made steady progress in the area of customer service this year by improving our customer interface processes and resolving issues more promptly. As a result of these developments, we were able to enhance the performance of our high-speed Internet network and improve service for wireline installations and repairs, all of which contributed to customer satisfaction.

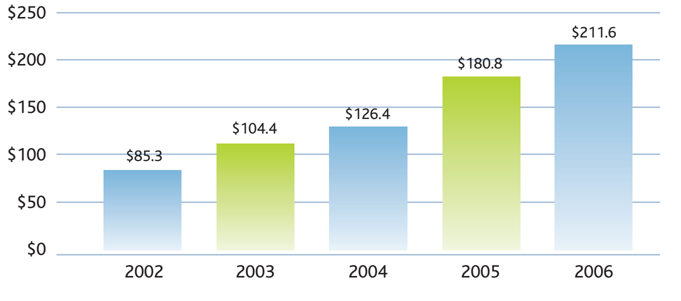
During the past year BTC accomplished a number of marked achievements in the technological and service provisioning areas. More specifically, we completed construction in 2006 of a $62 million next-generation fiber optic network (Bahamas Domestic Submarine Network International - BDSNi), which extends through 14 islands of the Bahamas. The islands include: Abaco, Andros, Cat Island, Crooked Island, Eleuthera, Exuma, Grand Bahama, Inagua, Long Island, Mayaguana, New Providence, Ragged Island, Rum Cay and San Salvador.

In the immediate horizon, BDSNi provides customers with greater bandwidth, and makes it possible for us to offer a more comprehensive portfolio of broadband services such as high-speed Internet access, E-Commerce, E-Government, as well as expansion of GSM service. Looking forward, BDSNi will serve us well by providing the backbone in our infrastructure capable of adapting new technologies in the development of our Next Generation Network. The BDSNi network will also permit us to tie into international gateways and explore new and lucrative opportunities for the company outside of The Bahamas.

We are particularly proud of the contribution BDSNi is making in providing a state-of-the-art network that will also serve the requirements of this country's National Disaster Recovery Plan, as well as provide an incentive for local and foreign investment in the development of other islands of The Bahamas.

We were also successful in bringing new products and services to market like the highly popular BlackBerry®, and V*ibe* service (use of Voice Over Internet Protocol technology). As part of our

WIRELESS REVENUE 2002-2006 (MILLIONS)



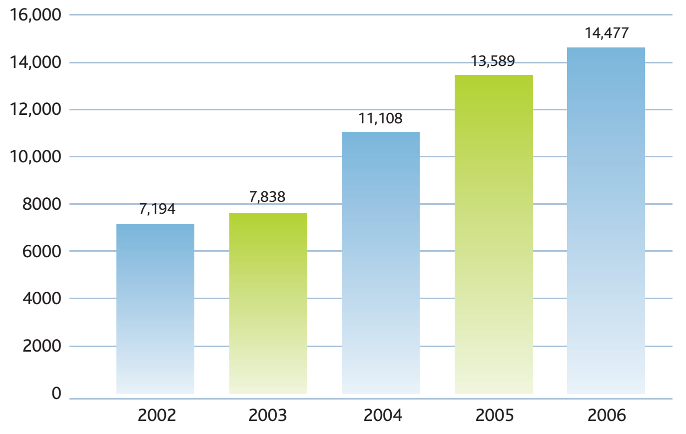
Revenue from wireless subscribers grew by 17.0% in 2006

President & CEO's Report

wireless network expansion initiatives, we also continued rollout of the GSM cellular service in the Family Islands to the tune of $18.2 million in 2006.

In addition to providing the Islands of The Bahamas with greater bandwidth and high-speed connectivity, our market research tells us these services have strong demand with local consumers and businesses, as well as with tourists and foreign investors. Clearly, this will have a positive impact on BTC's future revenue growth potential.

DSL INTERNET SUBSCRIBERS 2002-2006



The number of DSL internet subscribers grew by 6.5% in 2006

OPERATING HIGHLIGHTS

Our 2006 results demonstrate that we are executing our strategy and turning opportunities into profitable growth and creating value for our stakeholders, and for the Bahamian community at large. In 2006, we continued to focus on growing our profitable lines of business, including wireless, prepaid cellular, cellular roaming, high-speed Internet service, as well bringing new products and services to market. Revenue from these services more than made up for the slowdown in our tradition fixed line and long distance businesses. Total operating revenues for 2006 increased 11.4% to a record $327.4 million, resulting in net income of $44.0 million for the year. This compares to a net income of $34.3 million in 2005.

OUR KEY LINES OF BUSINESS

Wireless Operations

Our wireless revenue base grew by $30.8 million in 2006 to $211.6 million, a 17.0% rise when compared to 2005. New subscriber activations continue to increase, as demand for this service remains strong. The investments we continue to make in increasing network capacity and bandwidth will serve us well in the coming years, as we rev-up our efforts to market new wireless-enabled services, and secure future revenue growth for our wireless operations.

Wireline Service

NAS (Network Access Service) or subscriber fixed-lines in service increased by 4,072 in 2006 or 3.1%, and represents a slowing trend for our traditional fixed-line telephone service. Revenue for wireline operations was $90.6 million, and represents a respectable 10.7% increase over 2005. The increase in revenue was due primarily to monthly line rental rate adjustment.

Long Distance

As expected, the increased competition in our long distance market resulted in further revenue erosion in this area. For 2006, revenue from our long distance operations was $27.9 million, and represented a decline of 21% or $7.4 million over 2005 levels. Our revenue base in this area continues to be challenged by growing competition and lower rates, and we anticipate that long distance revenues will continue to remain under pressure.

DSL High-Speed Internet (*i*Connect)

We added 888 new net high-speed Internet customers in 2006, increasing our customer base by 6.5% to 14,477 subscribers. Revenue from High Speed Internet was $5.8 million and reflected a 1.8% increase over 2005 levels. The slow rate of growth in this service is due primarily to competition.

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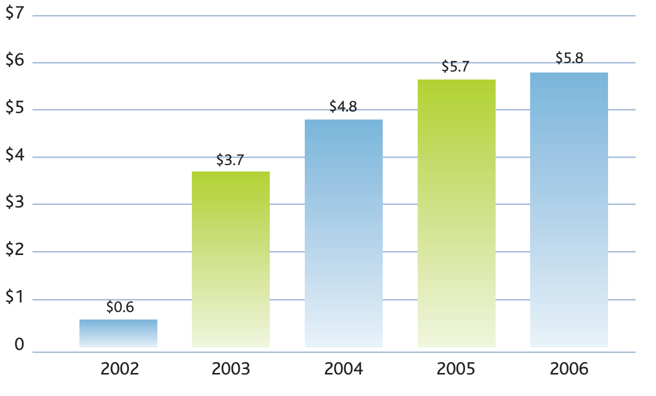
DSL INTERNET REVENUE 2002-2006 (MILLION)



Revenue from DSL Internet operations grew by 1.8% in 2006

NATIONAL, ECONOMIC, & SOCIAL CONTRIBUTIONS

National Communication Infrastructure

In addition to providing customers with leading edge products, services and solutions for all their communication needs, we have also met our commitment to building a state-of-the-art national communication network infrastructure. In particular, the BDSNi submarine cable now permits the residents of even our furthest flung settlements to have access to the kinds of telecommunication and internet products and services enjoyed by the consumers of the world's most sophisticated metropolises. We are immensely proud of this, and wish to thank management and staff, present and past, active and retired for their contribution. This is truly a success story for which all Bahamians should be proud.

Local Suppliers & Vendors

We are also proud of the positive economic impact our operations have had on local suppliers and vendors, through the purchase of goods and provisioning of services from local businesses. The economic fallout has been immeasurable and beneficial for the country, and we remain committed in the belief of a "made in The Bahamas" label to the extent it is feasible and practical.

Community & Social Contribution

BTC and its employees also contributed to many worthy community initiatives and social events (see Business Review section), and we are extremely proud of the financial and other beneficiary contributions made by our managers and staff throughout the year. Clearly, their contribution is an inspiration to our youth and has served our communities well. For this reason, we remain committed to supporting worthy community and social causes.

Public Treasury Contribution

The Company also contributed to the Public Treasury in a number of forms. First, in the form of customs duties, BTC paid out $10.3 million in 2006. Second, with the Board of Directors approval, declared a $15.0 million dividend. Third, BTC paid out $4.0 million in franchise fees.

In conclusion, I am proud of the progress and contributions made by our team in 2006 in the face of growing competition. We invested strategically, and demonstrated our capabilities in executing our plans well. We enter 2007 as a stronger, more dynamic and resourceful company; excited about creating a more promising and thriving future for our customers, our stakeholders, our employees, and the communities in which we serve.

Leon R. Williams
President & Chief Executive Officer

Business Review 2006

We accelerated the transformation of the company in 2006 by increasing our focus on operational execution to strengthen our revenue mix towards growth products and services and to contain our cost structure. We also continued our focus on four strategic pillars:

- Improve customer service by providing superior products and services;
- Deliver abundant and reliable bandwidth to enable next-generation services;
- Deploy next generation products and services to drive ongoing profitable growth;
- Contribute to the economic and social development of the communities we serve.

In 2006, we made significant progress in building upon each of our key strategic pillars:

IMPROVE CUSTOMER SERVICE BY PROVIDING SUPERIOR PRODUCTS AND SERVICES:

V*ibe* Service

The introduction in 2006 of V*ibe*, BTC's new voice over Internet protocol (VoIP) service, allows customers to use a standard telephone and a broadband Internet connection to make and receive local and international phone calls at a very affordable price. In addition to New Providence and Grand Bahamas, V*ibe* was also introduced in Abaco, Exuma, Andros, Long Island, Bimini, Eleuthera and Inagua.

***i*Connect** Service & DSL Rebranding

With the introduction of our V*ibe* service we also took the opportunity to enhance our branding of DSL Internet service, formally known as ONELINE, to ***i*Connect**. Numerous improvements and upgrades to our digital subscriber line service also created an opportunity for us to re-brand the service and enable customers to sign up for ***i*Connect** at attractive low introductory rates.

Voice Of The Customer Program

As part of our "Voice of the Customer Program" we held a series of Town Meetings in New Providence, Grand Bahama, Abaco, Exuma, Eleuthera, Andros, and Long Island so we could

listen to what customers were saying about the products and services we were offering. The meetings were helpful and provided us with a better understanding of customer opinions and expectations on BTC products and services of value to them. The lessons learned by BTC will be incorporated into all aspects of our product and service development, launch, and management of portfolio.

BlackBerry® Service

In 2006 BTC partnered with Research In Motion (RIM) to introduce BlackBerry® in the Bahamas. BlackBerry® provides an end-to-end, 'always-on' solution for organisations and mobile customers that want wireless, email, voice, and data applications in a single hand-held pocketsize device. BTC is proud to bring BlackBerry® to businesses and individuals as part of their suite of communications and productivity tools.

Strategic Partnerships

During the year, we also developed strategic partnerships with leading business organisations in our community to strengthen our BTC brand and enhance our distribution channels. More specifically, we partnered with Bahamasair and Arawak Cay vendors on providing greater visibility for the BTC brand.

We also partnered with Arawak Homes on the Home Connect Program to market BTC products, services, and solutions to new homeowners, and included our wireline, wireless, ***i*Connect**, and V*ibe* suite of products.

EZPay Service

We also introduced ***EZPay*** in 2006 to make it more convenient for customers to manage and pay their accounts with us on line. ***EZPay*** enables customers to:

- Access their accounts through the Internet;
- Activate, change or remove features;
- Reconnect their landline or postpaid TDMA account;
- Recharge their Hello Prepaid Phone Card;
- Pay their BTC phone bills.

DELIVER ABUNDANT AND RELIABLE BANDWIDTH TO ENABLE NEXT-GENERATION SERVICES:

Bahamas Domestic Submarine Cable Network

We completed the deployment of The Bahamas Domestic Submarine Cable Network International, or BDSNi in 2006. BTC undertook construction of this $62 million submarine fiber optic cable network ring in 2005, which now extends to the southern and northern Bahamas from New Providence. It serves as a critical link in our national infrastructure, and plays an important role in ensuring a more robust and reliable communications network that will serve our country's National Disaster Recovery Plan, as well as meet requirements for E-Commerce and E-Government solutions. As part of this country's infrastructure, it will also provide an incentive for local and foreign businesses to invest in those islands of The Bahamas previously lacking in this infrastructure.

The fiber optic network was constructed throughout 14 islands in The Bahamas, and includes: New Providence, Andros, Exuma, Long Island, Acklins, Inagua, Mayaguana, San Salvador, Crooked Island, Cat Island, Eleuthera, Abaco, Rum Cay and Ragged Island.

The bandwidth generated from BDSNi makes it possible to provide residents and businesses of these islands with high-speed Internet access, GSM services, as well as provide the backbone infrastructure capable for new technologies in the development of our Next-Generation Network.

GSM Service Throughout The Bahamas

We continued to invest in 2006 on the deployment of GSM service to the Family Islands. Including New Providence and Grand Bahama, we have invested over $67 million to date, with an expected additional cost to complete of $40 million on providing wireless connectivity to the Islands of The Bahamas.

Other benefits of GSM technology include increased roaming capabilities for local and foreign travelers.

CDMA (Code Division Multiple Access)

We also invested $3.8 million in 2006 in the deployment of a CDMA overlay to provide roaming services for people travelling to The Bahamas.

DEPLOY NEXT-GENERATION PRODUCTS AND SERVICES TO DRIVE ONGOING PROFITABLE GROWTH:

Extend Products & Services To The Family Islands

Building on the bandwidth capacity generated from BDSNi, we will continue to roll-out V*ibe*, ***i*Connect**, and BlackBerry® in The Family Islands, and provide the residents and business, as well as travelers to those locations, with the benefits that these services have to offer.

Wi-Fi Service

Efforts are underway to push forward with the rollout of BTC's Wi-Fi (Wireless Fidelity) network service in the coming year. Designed to provide portable wireless DSL service in public "hotspots", we intend to leverage this technology to target specific segments of our market. Once completed, this service will enable BTC to provide customers with high-speed portable Internet access that offers speeds comparable to current residential and business offerings.

Expansion of GSM Service

Our investment over the last two years in GSM technology and broadband infrastructure will enable us to offer new services for GSM designed to drive content growth. Possible services and content that could be offered through GSM include:

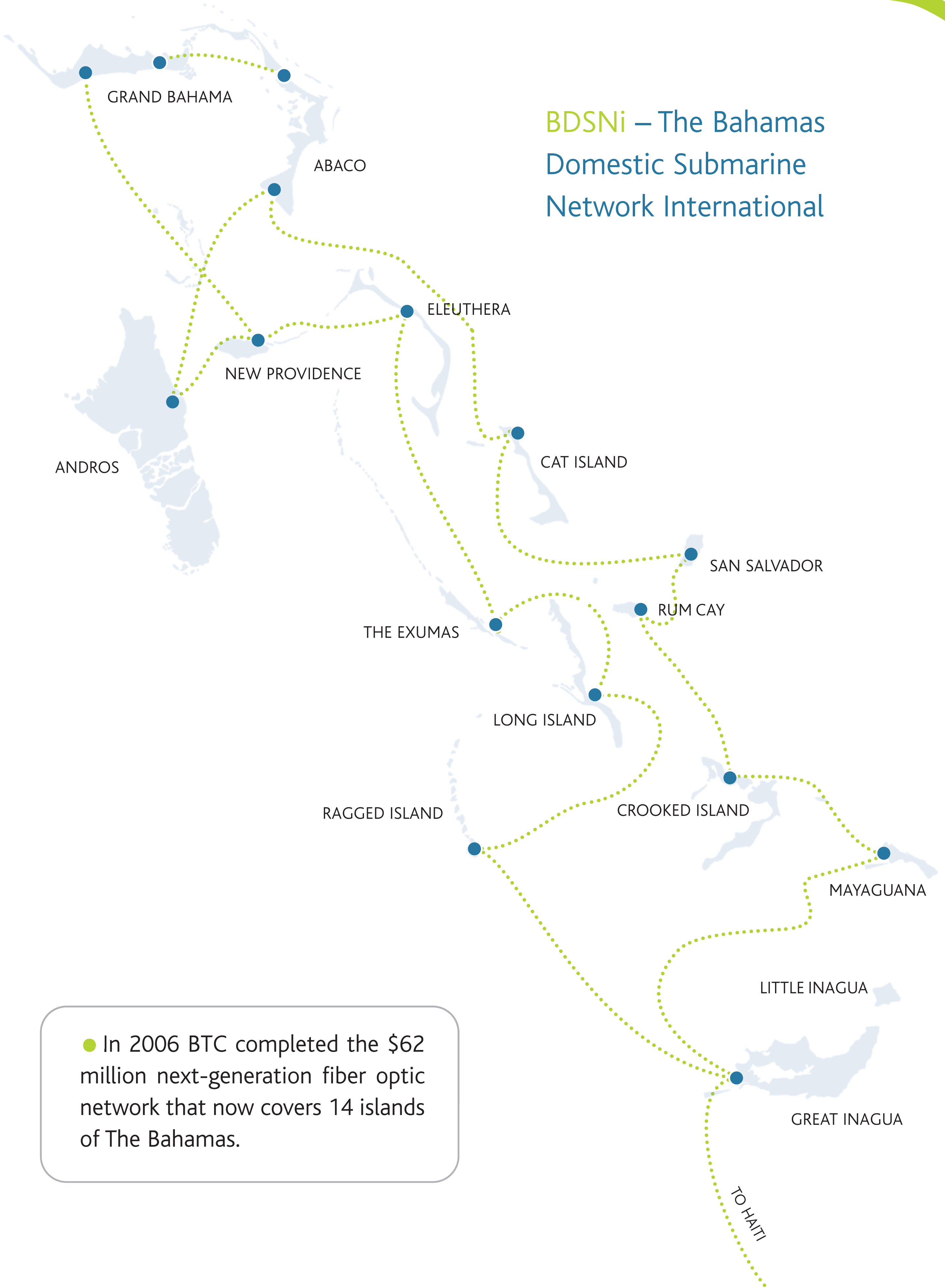
- Music download services;
- Logos and graphics that allow users to customize their wireless phone screen;
- Download games to play on their phone.

Expansion Of Cellular Roaming Services

We will continue to invest and develop our cellular roaming services to enable visitors to The Bahamas to be able to use their mobile devices whether GSM or CDMA technology.

Business Review 2006

BDSNi – The Bahamas Domestic Submarine Network International



In 2006 BTC completed the $62 million next-generation fiber optic network that now covers 14 islands of The Bahamas.

CONTRIBUTE TO THE ECONOMIC AND SOCIAL DEVELOPMENT OF THE COMMUNITIES WE SERVE:

Neighbourhood Connect Program

In 2006 we launched a new information campaign entitled Neighbourhood Connect to assist persons in the community with affordable computers. The program is designed to bring BTC to the people and the communities we serve, with employees volunteering their time.

Adopt-A-School Program

In addition, our commitment to support education through our Adopt-A-School Program remains strong as we continue to contribute resources, assistance and support for a variety of school projects. We currently have 5 schools in our program; they include: Gambier Primary, Thelma Gibson, H.O. Nash, Oakes Field Primary, and Stapleton Gardens.

Technical Cadet Corps Program

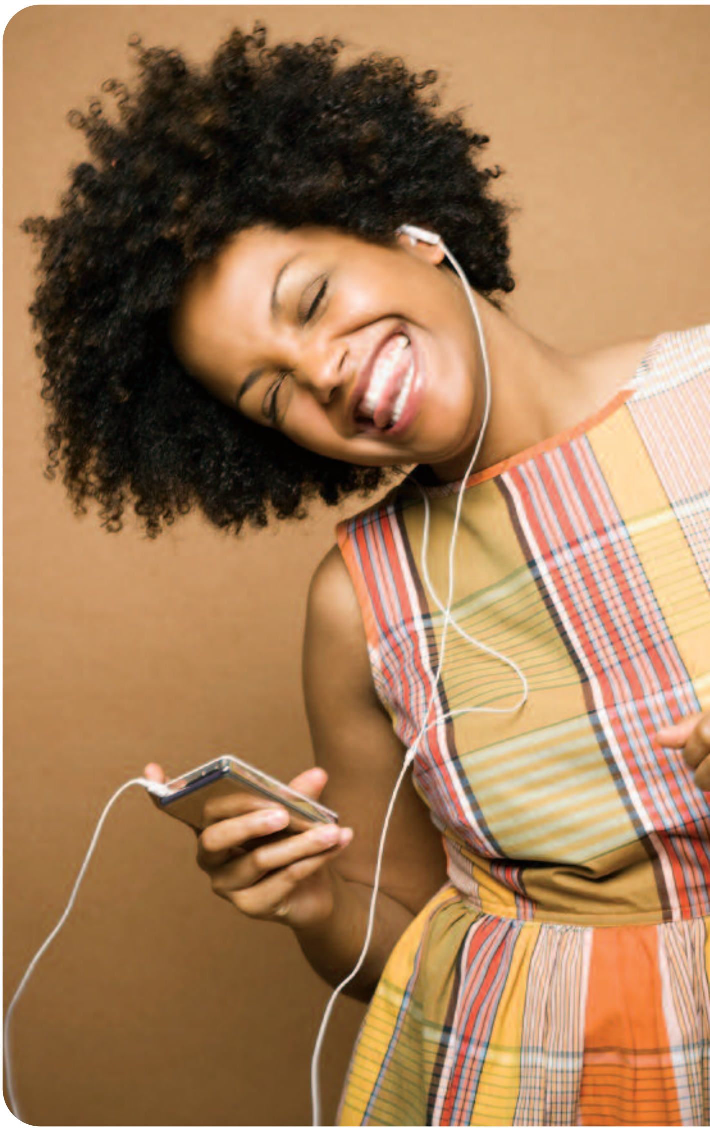
We are proud of our long-standing tradition of supporting and working with students in the technical field. Once again in 2006, BTC through our management and staff, provided educational support and resources to the company's Technical Cadet Corp Program.

Junior Achievement Program

BTC, in cooperation with other business partners in New Providence, Grand Bahamas and Abaco continued its long-standing commitment to the Junior Achievement program.

Other Contributions to The Community

In the course of the year, BTC also provided financial assistance to a number of non-profit organisations and associations for their valuable contribution to cultural and communities affairs.



Audited Financial Statements

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED

We have audited the accompanying financial statements of The Bahamas Telecommunications Company Limited (the Company), which comprise the balance sheet as of December 31, 2006 and the related statements of operations, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company as of December 31, 2005 were audited by other auditors whose report dated June 28, 2006, expressed an unqualified opinion.

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 of 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 principles 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 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

August 16, 2007

Audited Financial Statements

As of December 31, 2006 (Expressed in Bahamian dollars)

Balance Sheet

	Notes	2006 $000's	2005 $000's
ASSETS			
Current assets			
Cash in hand and at bank	3	128,501	73,818
Accounts receivable	4	61,872	67,170
Inventories	5	16,838	11,168
Derivative financial instruments	6	977	672
Other assets	7	5,661	2,898
		213,849	**155,726**
Non-current assets			
Available-for-sale investments	8	2,423	2,256
Property, plant and equipment	9	396,745	350,747
		399,168	**353,003**
Total assets		**613,017**	**508,729**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	89,819	80,531
Security deposits from customers		29,288	30,631
Loans payable	11	12,437	12,250
Deferred income	12	7,561	6,268
		139,105	**129,680**
Non-current liabilities			
Pension liability	13	10,946	1,975
Loans payable	11	59,784	12,222
		70,730	**14,197**
Total liabilities		**209,835**	**143,877**
Equity			
Share capital	14	254,664	254,664
Revaluation surplus	9	19,352	-
Retained earnings		129,166	110,188
Total equity		**403,182**	**364,852**
Total liabilities and equity		**613,017**	**508,729**

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Director: Julian W. Francis, CBE

Director: Cecile B. Green

Date: August 16, 2007

The accompanying notes are an integral part of these financial statements. See Independent Auditors' Report page 10.

Audited Financial Statements

For the year ended December 31, 2006 (Expressed in Bahamian dollars)

Statement Of Operations

	Notes	2006 $000's	2005 $000's
Operating revenues			
Prepaid cellular toll and other		116,285	97,314
Fixed line and cellular rental		65,941	55,400
Post-paid cellular toll and other		44,027	42,924
Receipts from other operators		41,341	35,091
International toll service		34,447	39,461
Directory advertising		8,119	8,007
Other		7,400	6,513
Internet revenue		7,066	6,551
Installation fees		2,017	1,786
Pager revenue		717	801
Total operating revenues		**327,360**	**293,848**
Operating expenses			
Plant expense	15	88,376	92,716
Administrative expense		85,128	69,426
Depreciation expense	9	60,043	57,999
International toll carriers		18,181	14,386
Pension expense	13	17,702	13,198
Personnel and training		6,450	7,051
Bad debt expense	4	2,492	9,728
Government fees	16	5,974	5,960
Provision for litigation cost		1,199	771
Re-engineering consulting		24	4,674
Amortisation of contributions to capital projects	12	(848)	(1,153)
Total operating expenses		**284,721**	**274,756**
Operating income		**42,639**	**19,092**
Other income (expense)			
Interest income		5,043	2,359
Gain on derivative financial instruments	6	305	672
Interest expense	11	(5,239)	(2,303)
Insurance claim on write-off of property, plant and equipment	17	1,230	5,137
Release of security deposits		-	6,722
Realised gain from sale of investments		-	2,660
Total other income		**1,339**	**15,247**
Net income		**43,978**	**34,339**

The accompanying notes are an integral part of these financial statements. See Independent Auditors' Report page 10.

Statement Of Changes In Equity

	Notes	Share Capital $000's	Other Reserves $000's	Retained Earnings $000's	Total $000's
Balance as of January 1, 2005		254,664	1,754	84,349	340,767
Unrealised gain on investments recognized in net income			(1,754)	-	(1,754)
Net income		-	-	34,339	34,339
Dividends	21	-	-	(8,500)	(8,500)
Balance as of December 31, 2005		**254,664**	**-**	**110,188**	**364,852**
Balance as of January 1, 2006		254,664	-	110,188	364,852
Net income		-	-	43,978	43,978
Revaluation surplus	9		19,352	-	19,352
Dividends	21	-	-	(25,000)	(25,000)
Balance as of December 31, 2006		**254,664**	**19,352**	**129,166**	**403,182**

The accompanying notes are an integral part of these financial statements. See Independent Auditors' Report page 10.

Audited Financial Statements

For the year ended December 31, 2006 (Expressed in Bahamian dollars)

Statement Of Cash Flows

	Notes	2006 $000's	2005 $000's
Cash flows from operating activities			
Net income		43,978	34,339
Adjustments for:			
Depreciation expense	9	60,043	57,999
Amortisation of contributions to capital projects	12	(848)	(1,153)
Interest income		(5,043)	(2,359)
Interest expense		5,239	2,303
Verification provision		-	2,930
Bad debt expense	4	2,492	9,728
Provision for inventory obsolescence	5	440	538
Gain on derivative financial instruments	6	(305)	(672)
Insurance claim on write-off of property, plant and equipment	17	(1,230)	(5,137)
Release of security deposits		-	(6,722)
Realised gain on sale of investments		-	(2,660)
		104,766	89,134
Changes in working capital:			
Accounts receivable		3,189	(16,251)
Inventories		(6,110)	1,707
Other assets		(2,765)	408
Accounts payable and accrued liabilities		12,343	1,281
Security deposits		(1,343)	2,154
Deferred income		2,141	410
Pension asset/liability		8,970	5,352
Net cash from operating activities		**121,191**	**84,195**
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	(95,256)	(54,016)
Proceed from insurance claims	17	1,930	5,137
Proceeds from sale of investment	8	-	4,509
Acquisition of investments	8	(167)	(69)
Term deposits		(7,201)	(10,879)
Interest received		4,661	2,171
Net cash used in investing activities		**(96,033)**	**(53,147)**
Cash flows from financing activities			
Proceeds from the issuance of long-term debt	11	60,000	4,597
Repayment of long-term debt	11	(12,251)	(14,292)
Payment of dividends	21	(22,000)	(5,000)
Interest paid		(3,425)	(2,325)
Net cash from (used in) financing activities		**22,324**	**(17,020)**
Net increase in cash and cash equivalents		**47,482**	**14,028**
Cash and cash equivalents, beginning of year		62,939	48,911
Cash and cash equivalents, end of year	3	**110,421**	**62,939**

The accompanying notes are an integral part of these financial statements. See Independent Auditors Report page 10.

1 Operations And Activities

The Bahamas Telecommunications Company Limited (the Company) is incorporated under the laws of the Commonwealth of The Bahamas and provides telecommunications services throughout The Bahamas. On January 1, 2002, the Company 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 1999 (the Act), certain assets and liabilities of the Corporation were transferred to and vested in the Company on September 4, 2002. Concomitant 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, inter alia, 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 financial statements of the Company for the year ended December 31, 2006 were authorized for issue by the directors on August 16, 2007.

Privatisation

In a communication dated February 11, 1998 to Parliament, the Government announced its intention to privatise the Company. As a result of the privatisation process, it was anticipated that a strategic investor would own a maximum of 49% of the Company and assume the responsibility for its management, thereby reducing the financial interest and the direct involvement of the Government.

The Tenders Commission was appointed by the Government to evaluate the suitability of potential strategic investors. A number of potential strategic investors conducted their due diligence during 2003 and submitted bids to the Tenders Commission.

On December 12, 2003, the Tenders Commission announced that it had not accepted any of the bids, and that alternate means of privatisation were being considered. As of December 31, 2006, the Privatization Evaluation and Negotiation Committee were in negotiations with a preferred buyer for the purchase of 49% ownership of the Company.

The privatisation of the Company is considered a necessary prelude to the liberalisation of the telecommunications sector, which will facilitate competition in the sector.

See Independent Auditors' Report page 10.

Notes To The Financial Statements

December 31, 2006

2 Summary Of Significant Accounting Policies

Statement of Compliance

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

Basis of Preparation

The 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 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 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.

The following is a summary of the significant accounting policies:

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The 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 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 statement of operations.

(b) Accounts receivable

Accounts receivable are carried at original invoice amounts less provision made for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the market rate of interest and is recognised as bad debt expense in the statement of operations. No provision is made against receivables due from the Government, or entities which it controls.

See Independent Auditors' Report page 10.

2 Summary Of Significant Accounting Policies (continued)

(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 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 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 IAS39.

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 statement of operations. The Company assesses at each 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 balance sheet at cost (including transaction costs) and subsequently are 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 are included in the 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 and 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 statement of operations, respectively. These materials are stated at cost, less a provision for obsolescence.

See Independent Auditors' Report page 10.

2 Summary Of Significant Accounting Policies (continued)

(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 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 to 33%
Transmission equipment	4 to 10%
Cable plant	5 to 6%
Subscribers' apparatus	10 to 20%
Vehicles and mechanical equipment	25%

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

When an asset is retired or sold, gains and losses are determined by comparing proceeds with carrying amounts and are recognised in the statement of operations.

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 and their value in use, by way of accelerated depreciation which is recognised in the statement of operations.

Repairs and maintenance are charged to the 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.

See Independent Auditors' Report page 10.

2 Summary Of Significant Accounting Policies (continued)

(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 1 January 2004, interest is being accrued on outstanding deposits.

(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 statement of operations on an accrual basis.

(i) Operating revenues

Revenues are recognised in the 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. The Company pays a proportion of the international traffic revenue it collects from its customers via hubbing and transit to destination network operators. 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 balance sheet although accounts are usually settled on a net basis.

(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 accounts payable. Contributions in respect of completed projects are credited to income over seven years, being the estimated average useful life of the related assets. The amount not yet recognised in income is recorded as deferred income in the balance sheet.

(k) Cash and cash equivalents

For the purposes of the 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. Bank overdrafts are included within loans payable in current liabilities on the balance sheet.

(l) Taxation

The 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 16.

(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 statement of operations over the period of the lease.

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Notes To The Financial Statements

December 31, 2006

2 Summary Of Significant Accounting Policies (continued)

(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 balance sheet in respect of the pension is the present value of the defined benefit obligation as of the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligation 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 statement of operations over the employees' expected average remaining working lives.

(p) Adoption of IFRSs during the year

The Company has adopted the following revised standards during the year and comparative figures have been amended as required. Adoption of revised standards does not have any effect on equity as at January 1, 2005.

- IAS 19 Amendments – Employee Benefits
- IAS 21 Amendments – Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement

(q) Future changes in accounting policies

Early adoption
The Company did not early adopt any new standards during the year.

IFRSs and IFRIC Interpretations not yet effective
The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 7 Financial Instruments: Disclosures, requires disclosures that enables users to evaluate the significance of the Company's financial instruments and the nature and extent of the risks from those financial instruments. This standard becomes effective for annual periods beginning on or after January 1, 2007, and as a result, certain amounts and disclosures related to the Company's financial instruments may change upon adoption.

IFRS 1 Presentation of Financial Statements includes amendments that require that an entity discloses information that enables the users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. These amendments are effective for annual periods beginning on or after January 1, 2007, and as a result, certain amounts and discloses related to the Company's capital may change upon adoption.

IFRIC 8 was issued in January 2006 and is required to be applied for financial years beginning on or after May 1, 2006. It requires IFRS 2 Share-based Payment to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee equity participation plans, the interpretation had no impact on the financial position of the Company.

See Independent Auditors' Report page 10.

2 Summary Of Significant Accounting Policies (continued)

IFRIC 9 was issued in March 2006, and becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entry first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Company expects that adoption of this interpretation will have no impact on its financial statements when implemented in 2007.

IFRIC 10 was issued in November 2006, and becomes effective for financial years beginning on or after November 1, 2006. This interpretation addresses the reversal of impairment losses recognized in an interim period. The Company does not have interim reporting requirements and expects that adoption of this interpretation will have no impact on the Company's financial statements when implemented in 2007.

IFRIC 11 was issued in November 2006, and becomes effective for financial years beginning on or after March 1, 2007. This interpretation addresses group and treasury share transactions related to share-based payments to employees. As equity instruments are only issued to employees in accordance with the employee equity participation plans, the interpretation will have no impact on the Company.

IFRIC 12 was issued in November 2006, and becomes effective for financial years beginning on or after January 1, 2008. This interpretation gives guidance on the accounting by operators for public to private service concession arrangements. This interpretation is not expected to be relevant for the activities of the Company.

3 Cash In Hand And At Bank

	2006 $000's	**2005 $000's**
Cash in hand, demand and current accounts	12,577	9,153
Term deposits	115,924	64,665
	128,501	**73,818**

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

	2006 $000's	**2005 $000's**
Cash in hand and at bank	128,501	73,818
Less: Term deposits with original contractual maturities of more than three months	(18,080)	(10,879)
	110,421	62,939

The average interest rate on the term deposits was 5.25% (2005: 3.9%) and these deposits have an average maturity of 99 days.

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Notes To The Financial Statements

December 31, 2006

4 Accounts Receivable

	2006 $000's	2005 $000's
Customers' accounts – gross		
Residential and business	105,001	97,609
Public corporations	3,728	9,687
Government ministries and departments	9,859	13,665
International settlement debtors	10,808	13,285
Miscellaneous receivables	257	2,425
	129,653	136,671
Less: Provision for doubtful accounts	(67,781)	(69,501)
	61,872	**67,170**

Provision for doubtful accounts is analysed as follows:

	2006 $000's	2005 $000's
Balance as of beginning of the year	69,501	63,365
Bad debt expense	2,492	9,728
Rental and other revenue adjustments	(4,061)	(2,000)
Receivables written off	(151)	(1,592)
Balance as of end of the year	**67,781**	**69,501**

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 impairment of accounts receivable as of December 31, 2006 was $78.8 million (2005: $77.9 million) of which $67.4 million (2005: $69.5 million) has been provided by way of the provision for doubtful accounts. The remaining balance of $11.4 million (2005: $8.4 million) has not been provided for because the Company maintains security deposits from customers which can ultimately be used to offset outstanding receivables.

5 Inventories

	2006 $000's	2005 $000's
Engineering material	6,099	9,661
Equipment held for sale or rental	11,520	2,375
Other	1,484	1,284
	19,103	13,320
Provision for obsolescence	(2,265)	(2,152)
	16,838	**11,168**

See Independent Auditors' Report page 10.

5 Inventories (continued)

	2006 $000's	2005 $000's
At cost		
Engineering material	1,751	6,444
Equipment held for sale or rental	10,705	1,772
Other	1,213	1,083
	13,669	9,299
At net realisable value		
Engineering material	4,348	3,217
Provision for obsolescence	(1,699)	(1,614)
	2,649	1,603
Equipment held for sale or rental	815	603
Provision for obsolescence	(453)	(430)
	362	173
Other	271	201
Provision for obsolescence	(113)	(108)
	158	93
Total	**16,838**	**11,168**

During the year, the Company made provisions for write-downs relating to obsolete inventories totalling $439,966 (2005: $538,459), and wrote-off inventory with a book value of $85,566 (2005: $406,320) against the provisions.

Provision for obsolete inventory is analysed as follows:

	2006 $000's	2005 $000's
Balance at beginning of year	2,152	2,020
Written off against provision	(327)	(406)
Current year provision	440	538
Balance at end of the year	**2,265**	**2,152**

6 Derivative Financial Investments

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, 2006, the interest rate swap had a positive value of US$977,452 (2005: US$672,244). The increase in value of US$305,208 (2005: US$672,244) is recognized in the statement of operations.

See Independent Auditors' Report page 10.

7 Other Assets

	2006 $000's	2005 $000's
Prepayments	5,320	2,147
Deferred costs	341	751
	5,661	**2,898**

Prepayments primarily relate to the unexpired portion of premiums on the insurance policies covering the Company's assets for the period July 1, 2006 to June 30, 2007 at a cost of $9.2 million.

8 Available-For-Sale Investments

	2005	Acquisitions	Sales/ Redemptions	2006
		(Expressed in $000's)		
Non-current				
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
	2,256	**197**	**(30)**	**2,423**

The Company has several 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 2,219,238 (2005: 2,054,900) units of Bahamas Government Registered Stock at a cost of $2,219,238 (2005: $2,054,900), as well as 8,300 (2005: 8,300) units of the Clifton Heritage Authority Bonds at a cost of $8,300 (2005: $8,300). These bonds earn interest at varying rates tied to the Bahamian dollar prime rate and mature between October 2017 and May 2035.

See Independent Auditors' Report page 10.

9 Property, Plant & Equipment

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							
Switching	66,994	3,826	-	45,600	(118)	-	116,302
Other	322,914	3,897	63,738	(45,600)	(18,278)	-	326,671
Cable plant							
Fiber	63,063	457	-	-	(701)	-	62,819
Other	102,438	1,180	1,010	701	(1,693)	-	103,636
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	79,589	(68,133)	-	-	-	91,019
Total	**774,819**	**97,982**	**-**	**-**	**(27,914)**	**19,352**	**864,239**

ACCUMULATED DEPRECIATION ($000's)	2005	Depreciation Charge	Reclass	Assets Retired	2006
Freehold buildings, fixtures and office equipment	35,479	7,101	(421)	(649)	41,510
Transmission equipment					
Switching	32,770	7,318	37,518	(118)	77,488
Other	203,450	31,325	(37,518)	(7,869)	189,388
Cable plant					
Fiber	46,798	3,127	495	(701)	49,719
Other	64,743	6,937	1,118	(1,693)	71,105
Subscribers apparatus	24,087	1,438	(1,597)	(2,671)	21,257
Vehicle and mechanical	16,744	2,797	405	(2,919)	17,027
Total	**424,071**	**60,043**	**-**	**(16,620)**	**467,494**

NET BOOK VALUE ($000's)	2006	2005
Freehold buildings, fixtures and office equipment	54,834	44,802
Transmission equipment		
Switching	38,814	34,224
Other	137,283	119,463
Cable plant		
Fiber	13,100	16,265
Other	32,531	37,695
Subscribers apparatus	1,047	969
Vehicle and mechanical	5,717	5,545
Land	22,400	12,221
CWIP	91,019	79,563
Total	**396,745**	**350,747**

See Independent Auditors' Report page 10.

Notes To The Financial Statements

December 31, 2006

9 Property, Plant & Equipment (continued)

Property, plant and equipment with costs totalling approximately $166.2 million (2005: $146.8 million) are fully depreciated and remain in use as of December 31, 2006, and are included in the tables above. The cash outflow relating to acquisitions amounted to $95.3 million (2005: $54 million) of which $7.9 million (2005: $15.4 million) related to acquisitions made in the prior year. Included in accounts payable and accrued liabilities in the balance sheet are amounts totalling $24.7 million (2005: $30.4 million) related to acquisitions.

Included in the $65.0 million for depreciation expense in the statement of operations are amounts totalling $9.1 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.

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. The effective date of the valuation is December 31, 2006. This resulted in a revaluation surplus of $19,351,515.

In May 2006, the Company migrated its Fixed Assets Register as at April 30, 2006, from the legacy ROSS Application onto the integrated Fixed Asset Management Module of PeopleSoft. On migration, the PeopleSoft Application recomputed the life-to-date accumulated depreciation. As a result, it was determined that ROSS had been miscalculating the depreciation and that the total accumulated depreciation at April 30, 2006 was overstated by $6.0 million. As no history was migrated onto PeopleSoft, it was not possible to re-compute the accumulated depreciation for prior years to determine what amounts of the $6.0 million overstatement related to prior years, so the total amount has been adjusted in the current year.

Prior to the migration onto PeopleSoft, a detailed review was carried out of the classification of the assets, which were reallocated to accurately report the classifications. There is no prior period adjustment to depreciation as a result of this reclassification.

10 Accounts Payable And Accrued Liabilities

	2006 $000's	2005 $000's
Trade payables and accrued liabilities	65,530	55,001
International Settlements Creditors	4,519	7,460
Subscribers' contributions to capital projects in progress (Note 12)	1,171	3,003
Interest on security deposits	1,939	2,153
Dividends payable (Note 22)	15,000	12,000
Provision for asserted claims (see below)	1,660	914
	89,819	**80,531**

In the normal course of business, the Company is exposed to asserted and unasserted claims. As of December 31, 2006, the Company had provisions for asserted claims of $1,660,717 (2005: $914,370). In the opinions 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

	2006 $000's	2005 $000's
Current portion	12,437	12,250
Non-current portion	59,784	12,222
	72,221	**24,472**

(Expressed in $000's)	2005	Advances	Repayments	2006
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
	24,472	**60,000**	**(12,251)**	**72,221**

The maturity of loans payable is as follows:

	Less than 6 Months $000's	Between 6-12 Months $000's	Between 1-5 Years $000's	Total $000's
As of December 31, 2006	6,187	6,250	59,784	**72,221**
As of December 31, 2005	6,125	6,125	12,222	**24,472**

The details of the Company's loans and bank overdrafts as of December 31, 2006 are outlined below:

(i) During 2001, a loan for US$27 million was raised from FirstCaribbean 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 installments 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 6.553% as of December 31, 2006 (2005: 5.536%). 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.

(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 installments 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 6.553% as of December 31, 2006 (2005: 5.536%).

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Notes To The Financial Statements

December 31, 2006

11 Loans Payable (Continued)

(iii) On November 15, 2005, the Company obtained a $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 installments commencing in May 2007. Interest is accrued at 1.35% above the 90-day LIBOR rate, an effective rate of 6.934% as of December 31, 2006 (2005: 5.886%). As of December 31, 2006, this facility was fully drawn down.

(iv) The Company has two overdraft facilities as of December 31, 2006. The first overdraft facility is for US$2 million, bearing interest at 1.5% above the 90-day LIBOR rate, an effective rate of 6.553% as of December 31, 2006 (2005: 6.06%). The second overdraft facility 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, 2006 (2005: 6.75 %).

12 Deferred Income

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

	2006 $000's	**2005 $000's**
Contributions to capital projects	1,565	1,673
Deferred revenue on prepaid cards	1,720	1,170
Other deferred revenue	4,276	3,425
	7,561	**6,268**

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

	2006 $000's	**2005 $000's**
Capital projects in progress		
Liability as of the beginning of the year	3,003	1,995
Contributions received from subscribers during the year	623	1,102
Contributions relating to projects completed during the year	(2,455)	(94)
Liability as of the end of the year (Note 11)	**1,171**	**3,003**
Capital projects completed		
Deferred income as of the beginning of the year	1,673	2,732
Contributions relating to projects completed during the year, as above	2,455	94
Contributions written back	(1,715)	-
Amounts amortised during the year	(848)	(1,153)
Deferred income as of the end of the year	**1,565**	**1,673**

See Independent Auditors' Report page 10.

13 Pension Obligations

	2006 $000's	2005 $000's
Present value of funded obligations	250,143	259,621
Fair value of plan assets	(165,460)	(154,855)
Pension plan deficit	84,683	104,766
Present value of unfunded obligations:		
Unrecognised actuarial (losses)/gains	(73,737)	(102,791)
Pension liability	**10,946**	**1,975**

The amounts recognised in the statement of operations are as follows:

	2006 $000's	2005 $000's
Current service cost	8,578	7,727
Interest cost	14,023	13,382
Expected return on plan assets	(12,365)	(11,730)
Net actuarial loss recognised during the year	7,466	3,819
Total (Note 18)	17,702	13,198

The actual return on the assets underlying the pension obligations totalled $11.9 million (2005: $9.6 million) in the year.

The liability recognised in the balance sheet and the movement are as follows:

	2006 $000's	2005 $000's
As of beginning of year	1,975	(3,377)
Total expense (as above)	17,702	13,198
Contributions paid	(8,731)	(7,846)
As of end of year	**10,946**	**1,975**

The principal actuarial assumptions used were as follows:

	2006	2005
Discount rate	6.0%	5.5%
Expected return on plan assets	6.2%	8.0%
Future salary increases	6.7%	4.5%
Future pension increases	0.0%	0.0%

14 Share Capital

The authorised share capital of the Company as of December 31, 2006 and 2005 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 Plant Expense

Included in plant expense for the year ended December 31, 2006 are costs of $0.1 million (2005: $5.8 million) related to restoration efforts following Hurricanes Jeanne, Frances and Wilma.

See Independent Auditors' Report page 10.

Notes To The Financial Statements

December 31, 2006

16 Government Fees

During the year, the Company recorded business licence fees of $0.6 million (2005: $0.5 million) and PUC licence fees of $1.4 million (2005: $1.8 million). Franchise fee for the year was $4 million (2005: $4 million).

17 Proceeds From Insurance

During the year, the Company received $1.9 million from its insurers for damage sustained during Hurricanes Frances and Jeanne in 2004. The Company has been advised by the insurers that there was a potential overpayment of $0.7 million which has been charged to the proceeds in the statement of operations.

18 Staff Costs

	2006 $000's	2005 $000's
Salaries and benefits	67,226	66,873
Pension costs (Note 13)	17,702	13,198
National insurance	1,405	1,154
Total amount of staff costs capitalised into property, plant and equipment	(1,799)	(600)
Total	**84,534**	**80,625**

The number of employees as of December 31, 2006 was 1,236 (2005: 1,197). The average number of employees for the year ended December 31, 2006 was 1,217 (2005: 1,186).

19 Related Party Transactions And Balances

During the year, the total remuneration of the Directors was $121,490 (2005: $50,900).

Total salaries and benefits expense relating to key management personnel was $3,123,828 (2005: $1,864,537).

Transactions & balances with Government Ministries, Departments and Corporations:	2006 $000's	2005 $000's
Revenues	14,501	14,097
Expenses	27,528	28,132
Amounts due from	13,587	23,352
Amounts due to	5,721	7,844
Available-for-sale investments	2,257	2,090
Provision for impairment of account receivables	1,330	333

20 Commitments And Contingencies

a. **Operating lease commitments**

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

	2006 $000's	2005 $000's
Not later than 1 year	684	498
Later than 1 year and not later than 5 years	2,004	1,623
Later than 5 years	281	178
Total	**2,969**	**2,299**

See Independent Auditors' Report page 10.

20 Commitments And Contingencies (continued)

The Company has expensed amounts in the statement of operations totalling $1,259,421 (2005: $1,278,588) that relate to operating leases for the year.

Included in assets vested in 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 financial statements in respect of any lease payment to the Government. It is management's opinion that any payments for the four years ended December 31, 2006 or future payments as a result of the lease agreement are not likely to have a material adverse effect on the Company's financial condition or results of operations in the future.

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.

b. Capital commitments

There are no capital commitments outstanding (2005: $37.3 million), as all expected capital expenditure on property, plant and equipment contracted for as of the balance sheet date has been recognised in the financial statements under contractual assets and liabilities of $17.0 million.

c. Contingencies

During 2005, a letter of credit was issued on the Company's behalf to Nordeutche Seekablewerke (NSW) for US$4.5 million. As of December 31, 2006, the balance remaining was nil (2005: US$1.3 million).

d. Industrial Agreements

Per Article 53 of the Industrial Agreement with The Bahamas Communications and Public Officers Union and Article 47 of the Industrial Agreement with The Bahamas Communication and Public Managers Union, the Company agrees to implement a profit sharing scheme and that the Company will appoint a select committee for the purpose of conducting the necessary research and to compile recommendations to be presented to the Board of Directors. No recommendation for the year had been made to the Board of Directors at December 31, 2006 and the determination of the terms of any profit sharing scheme is the subject of ongoing unresolved negotiation at the date of signing of these financial statements. It is not possible therefore to quantify the amount, if any, that may be approved by the Board of Directors as a result of any profit sharing scheme and consequently, no provision has been made in these financial statements.

21 Dividends

During 2006, the Board of Directors declared dividends totalling $25 million (2005: $8.5 million) representing $0.10 ($0.03) per share. As of December 31, 2006, dividends payable totalled $15 million (2005: $12.0 million).

During the year, the Company paid $3.5 million relating to dividends declared in 2004, $8.5 million relating to dividends declared in 2005 and $10 million of the dividend declared in 2006.

22 Financial Risk Management

Financial assets of the Company include cash and cash equivalents, accounts receivable and investments. Financial liabilities of the Company include loans payable and bank overdrafts, accounts payable and accrued liabilities and security deposits from customers.

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.

See Independent Auditors' Report page 10.

22 Financial Risk Management (Continued)

b. Interest 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.

The notional principal or amounts outstanding are as follows:	**2006 $000's**	**2005 $000's**
Maturities		
31 August 2012	60,000	30,000

The fair and carrying value of the interest rate swap as of December 31, 2006 was $977,452 (2005: $672,244).

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

c. 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(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, 2006 in relation to each class of recognized financial assets other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

23 Subsequent Events

On February 28, 2007, the Company paid $15 million representing the dividends payable balance due to the shareholder as at December 31, 2006 per Note 21.

In addition, the Company is presently requesting proposals from financial institutions to secure financing for the proposed Next Generation Network in the amount of $55 million.

24 Comparative Figures

Certain 2005 figures have been reclassified to conform with the financial statement presentation adopted for 2006.

See Independent Auditors' Report page 10.

MINISTER RESPONSIBLE FOR THE BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED

The Honorable Zhivargo Laing, M.P., ***Minister of State for Finance*** *(Appointed May 7, 2007)*

BOARD OF DIRECTORS (Appointed July 17, 2007)

Mr. Julian W. Francis, CBE	*Executive Chairman*
Dean Patrick Adderley	*Deputy Chairman*
Mr. Garth Buckner	*Director*
Ms. Claretta Duncombe	*Director*
Mrs. Cecile B. Greene	*Director*
Mr. Ian Hepburn	*Director*
Mr. Raymond Jones, Jr.	*Director*
Mr. James Moss	*Director*
Ms. Dedrie Prescott	*Director*

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 S. Stubbs	*Sr. Vice President & CTIO*
Mr. Ryan Antonio	*Deputy Chief Financial Officer*
Ms. Nickola Dawkins	*Chief Information Officer*
Ms. Helene A. Ferguson	*Vice President, Human Resources & Safety*
Ms. Felicity L. Johnson	*Vice President, Legal, Regulatory, Interconnection Affairs & Company Secretary*
Mr. Marlon Johnson	*Vice President Marketing & Sales*
Mr. Dale Knowles	*Vice President, Network Services*
Ms. Lisa Major	*Vice President Training & Development (Appointed May 7, 2007)*
Mr. Charles McPhee	*Vice President, Internal Audit*
Mr. Edward Miller	*Vice President, Logistics (retired June 2007)*
Mr. Jeffrey Moncur	*Vice President, Customer Services*
Mr. Alfred L. Phillips	*Vice President, Planning & Engineering*
Mr. Henry Romer	*Vice President, Northern Bahamas*
Mr. Tellis L. Symonette	*Vice President, Wireless & Internet Services*

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