

PERFORMANCE



2009 ANNUAL REPORT

It is an immutable law in
business that words are words,
explanations are explanations,
promises are promises but
only performance is reality.

—Harold S. Geneen
Former CEO, IT&T

Contents

The Bahamas Telecommunications Company Limited
Annual Report For The Year Ended December 31, 2009

Introduction	2
Vision and Mission Statement.	4
Chairman's Report 2009	5
Corporate Governance	6
Executive Management.	7
Acting President & CEO Report	8
BTC History	11
Performing for The Good of Others	15
Outperforming Through Products and Services	19
Management Report	23

AUDITED FINANCIAL STATEMENTS

December 31, 2009.	26
Independent Auditors' Report.	27
Balance Sheet	28
Statement of Operations.	29
Statement of Changes in Equity	30
Statement of Cash Flows	31
Notes to Financial Statements	32-61



PERFORMANCE

PERFORMANCE. Decades after the late Harold Geneen, then CEO of International Telephone and Telegraph (IT&T), gave the world a simple and profound definition of performance as reality, no one has found a way to say it better. Thousands of words and hundreds of attempts have been made but none have summed it up more succinctly or gotten closer to the heart of the meaning than Geneen's:

Words are words and promises are promises but only performance is reality.

How companies measure performance varies. They can point to their profit and loss statement, growth in assets, Shareholder value and earnings, capital investment plans and exciting technology they plan to introduce.

But the real test of performance is what the customer sees, the reality the customer experiences. At BTC, that reality is tested every day. Few companies can state that their products and services are used every day by nearly every adult in the country. Further, the quality of life experienced by the citizenry—financially, socially and otherwise is significantly enabled by the consistency and reliability of these products and services.

This continual scrutiny means that BTC's performance is under a perpetual public microscope. Cell phone coverage must be universal, reception crisp and clear; data transmissions must be instant; landline service must be dependable; and Internet accessibility must be instantaneous. If a call is dropped, if a landline is faulty and repair slow, all the investment in technology, plant and training is of little interest to the customer to whom the reality of the moment is all that matters.

It's all about performance.

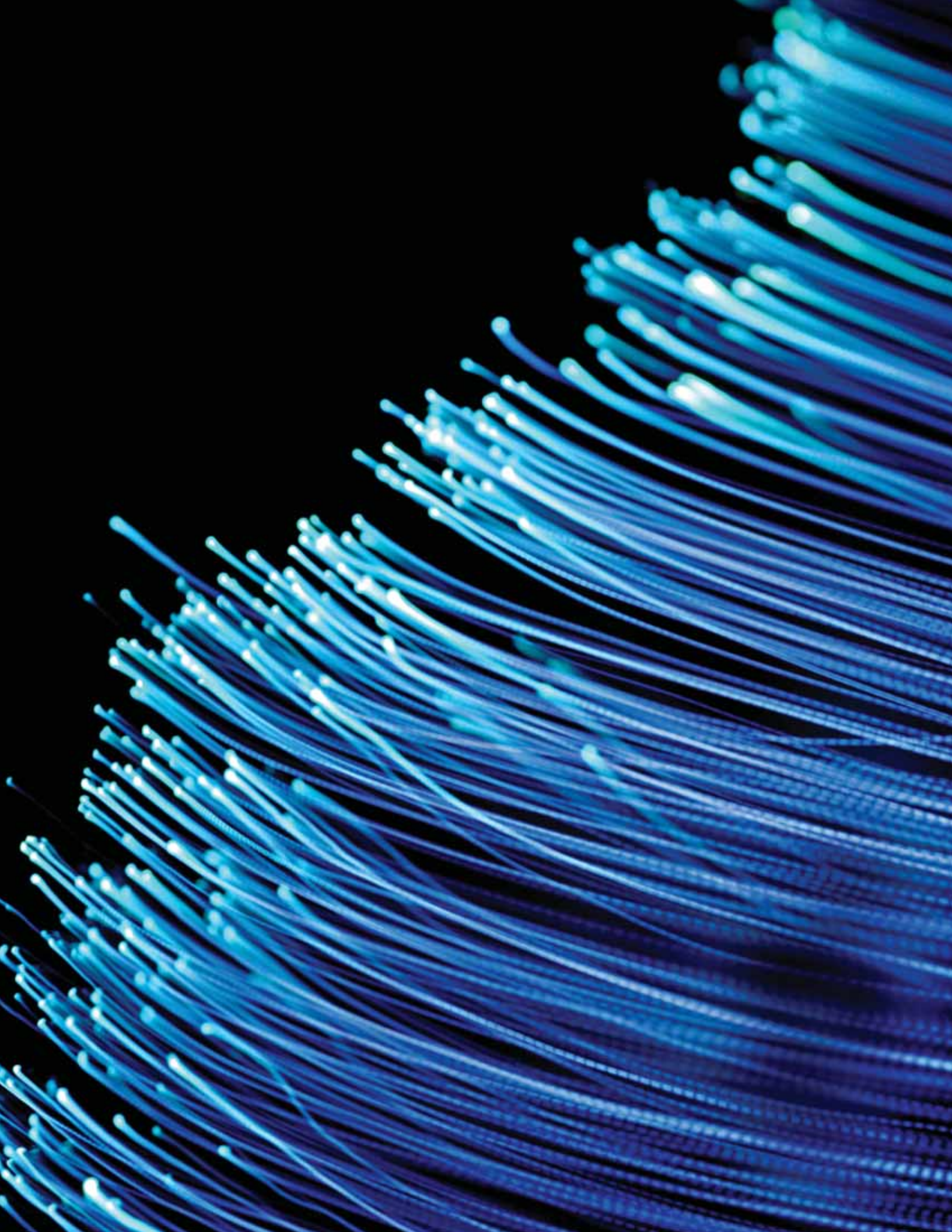
This Annual Report is dedicated to performance because we at BTC believe that in 2009 the company delivered a stellar overall performance despite extremely

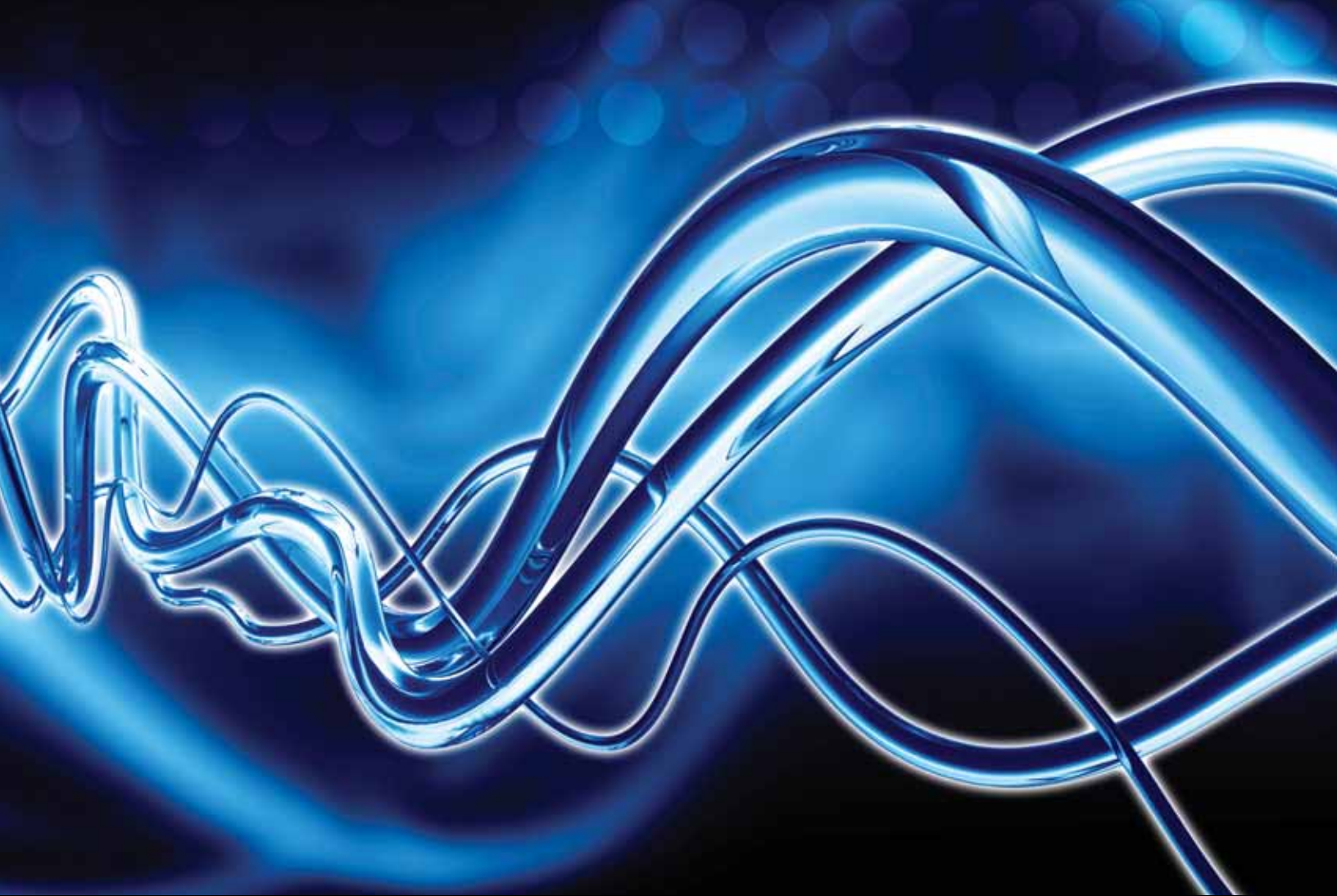
challenging economic times. We are immensely proud of this achievement that reflects sound corporate leadership and sustained commitment from the entire BTC team.

A contracted global economy impacted The Bahamas and naturally, what impacts the nation affects BTC. Concerns over economic prospects have led to streamlined budgets and an unprecedented need to contain operational costs. In most cases, expenditures were contained to what was deemed critical. A sense of "shared sacrifice" pervaded the organization as everyone pulled together to meet the economic challenges of the day.

In spite of the hardship encountered, BTC performed at historic heights. The company returned considerable savings to customers via reduced Blackberry prices, the elimination of charges for calling features, and the bonus credit provided through cellular promotions. The company also enhanced its cost-saving Voice-Over-Internet (VoIP) packages for overseas and Family Island calling and introduced a new eco-friendly billing system that saves paper and associated operational costs. The Outperforming Through Products & Services section of this report details many other initiatives, all of which have a common goal: To deliver the best customer service possible, to create a reality that passes the test of public scrutiny and earns the confidence and admiration of our customers and the public at large.

There is no better way to measure a company's performance than the reality which its customers experience. Not the bottom line, nor the promises of what will happen tomorrow or five years from now but the actual day-to-day experience of the people a company serves—that is the true measure of performance. As we continue on a multi-year journey to become a fully customer-centric company that delivers world class products and services, BTC will remain the first choice for customers who demand the best service and value for their money.





Vision

To enhance The Bahamas' competitive position in the global community by developing and maintaining the most modern, cost-effective telecommunications solution 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.
- To enable our employees to maximize their potential and share in our success.
- To create value for our shareholders.
- To improve the quality of life for the people of The Commonwealth of The Bahamas.

Chairman's Report 2009



Julian W. Francis, CBE

Performance stands out
like a ton of diamonds.
Nonperformance
can always be
explained away.
—Harold S. Geneen
Former CEO, IT&T

It is my honour as Executive Chairman of BTC to present the 2009 Annual Report. The term honour is used because in the three years that I have had the pleasure of serving as Chairman, I have seen the company overcome challenges while deepening its human capital development and focused commitment to quality service. I have been proud to witness dramatic expansion of products and especially the systems that power those products, including the consistency with which broadband services are being deployed to the most distant and remote settlements of The Bahamas. The BTC of today is, in perception and in fact, a very different company from The Bahamas Telecommunications Corporation of several years ago.

It is of particular importance to note that many of these advances have taken place during extremely difficult economic times. Yet the uncertain climate that might have been expected to affect BTC's bottom line was held at bay by the company's management of assets, technology and personnel resulting in a net gain of more than 100% in profitability year-over-year. Net income stood at \$21 million at the end of the previous fiscal year, December 31, 2008 and \$47 million at year-end 2009. However, you will also see in the audited Financial Statements a decline in total assets from \$614.1 million to \$537.1 million year-over-year representing in large part a reduction in cash holdings due to dividend payments to the Shareholder. Total operating revenue showed modest gains, up from \$353.3 million in fiscal 2008 to \$360.7 million in 2009.

The results for BTC in 2009 represent the effective application of cost containment strategies and the exercise of prudent leadership and management discipline. It also reflects the new reality that BTC, like the technology that drives its products, is leaner, delivering more with less. The future prospects for BTC are that much more promising due to the ongoing implementation of and transition to the Next Generation Network (NGN), which represents modern, state-of-the-art technology. We cannot overstate the importance of this development to the future value of BTC and its ability to deliver a wider variety of services to its customers. Additionally, the new technology and streamlined business processes promise faster, more efficient delivery of such services and will significantly minimize outages and customer dissatisfaction.

As we await the decision of the Government of The Bahamas on a partner for the privatization of BTC, we take pride in bringing you this Annual Report: **Performance**. It is an appropriate title, as it represents a portrait of a company that—despite its transitional status and the fragile macro-economic environment in which it operates—delivered outstanding performance in products and services, and responsible corporate governance. This is, at the end of the day, a stellar tribute to the men and women who serve as staff, executive management and the board of directors of BTC.

Julian W. Francis, CBE
Executive Chairman

Corporate Governance



Minister Responsible for The Bahamas Telecommunications Company Limited

The Honourable Orville T. (Tommy) Turnquest, Minister of National Security

Board of Directors



Executive Chairman Julian Francis, Former Governor, Central Bank of The Bahamas; Deputy Chairman, The Very Reverend Patrick L. Adderley, Dean and Rector, Christ Church Cathedral; Acting President & CEO I. Kirk Griffin; Raymond Jones Jr., President, Bahamas Oil Refining Company (Borco); Ian Hepburn, Managing Director, Providence Technology Group; Claretta Duncombe, Former Administrator, Deloitte & Touche; Dedrie Prescott; Garth Buckner, President, Sandyport Development Company; James Moss, Treasurer & VP of Operations, Deltec Bank & Trust; Cecile B. Greene, Chief Financial Officer, BEC; Company Secretary Felicity L. Johnson, Vice President, Legal, Regulatory & Interconnect

Executive Management



Executive Management Team, June 2010

Seated: Felicity Johnson, Antonio Stubbs, I. Kirk Griffin, Tellis Symonette, Paul McClean, Helene Ferguson

Standing: Carl Culmer, Charles McPhee, Dale Knowles, Lisa Major, Ryan Antonio, Howard Mason, Nickola Dawkins, Marlon Johnson, Henry Romer

Mr. I. Kirk Griffin, Acting President & CEO
Mr. Paul McClean, Chief Financial Officer
Mr. Antonio Stubbs, Senior Vice President - Operations
Mr. Tellis Symonette, Senior Vice President - Family Islands & Administration
Ms. Felicity Johnson, Vice President - Legal, Regulatory & Interconnect
Ms. Helene Ferguson, Vice President - Human Resources
Mr. Charles McPhee, Vice President - Internal Audit
Mr. Henry Romer, Vice President - Northern Bahamas
Mr. Dale Knowles, Vice President - Engineering & Planning
Mr. Carl Culmer, Acting Vice President - Network Services
Mr. Ryan Antonio, Deputy Chief Financial Officer
Mr. Marlon Johnson, Vice President - Marketing & Sales
Mr. Howard Mason, Chief Information Officer
Mrs. Nickola Dawkins, Deputy Chief Information Officer
Ms. Lisa Major, Vice President - Training & Development

Message From the Acting President & CEO



I. Kirk Griffin

A confluence of factors produced strong results for BTC in fiscal 2009 with productivity, sales and service achieving new highs and earning accolades for excellence.

Despite the strains on the economy as a whole and on BTC in particular, by increasing vigilance over expenditures and scaling back on discretionary items, BTC was able to keep expenditure substantially below budgeted targets. That coupled with innovative promotions resulted in the company ending the year with record revenues of \$360.7 million, and with a net profit of \$47.9 million. Total assets at year-end stood at \$537.1 million; cash reserves were strong at \$61.1 million and operating expense for the year were down to \$316 million from \$332 million in the prior year. To help ease the burden for consumers, the company gave back considerable savings through reduced prices and other benefits, an unprecedented return from a public corporation.

Packages for text messages were revised and SMS pricing was lowered for fiscal 2009. BTC ran its summer 'Mad Minutes' promotion for prepaid customers providing bonus minutes. In July, the company increased the 'in package' bundled minutes as part of BTC's re-launch of its "More Talk" postpaid packages offering, which had the effect of lowering rates for post-paid users.

Finally, BTC introduced the "We Got Your Back" campaign with the objective of restoring service to customers who may have had their home or cell phone account disconnected. This attractive offer enabled customers to make a minimum payment of 10% of their outstanding account, as part of a payment plan, and enjoy reconnection of services. The offer expired at the end of February 2010.

BTC continued its customary contributions to the public purse. In 2009, BTC paid \$8.8 million to Her Majesty's Customs, \$2.7 million in franchise fees, \$1.2 million in Business License Fees, Communication License Fees of \$3.4 million, and \$95.7 million in dividends to the Shareholder.

The financial results are only part of a bigger picture of BTC, a company that I firmly believe has more reason than ever to take pride in its development, particularly given the challenging economic environment of recent years.

During the course of the year, significant strides were made in the advancement of our core lines of business, which include wireless, broadband, landline, and enterprise segments. The implementation of the Next Generation Network (NGN), the company's largest capital enhancement project, progressed on target. During 2009, BTC continued the improvement of the capacity and coverage of the GSM Network throughout the Bahamian archipelago: The GSM Cellular service enhancement initiative was completed in Grand Bahama and almost all Family Islands, including the Berry Islands, Cat Island, Grand Cay, Inagua, Long Island, Mayaguana, Ragged Island and Rum Cay.

The complete transformation of BTC into a culture of service, not simply to satisfy but to "wow and delight" every customer, took on new energy in 2009 and continues in 2010, with presentations carrying this message to staff throughout the company by members of the executive team led by myself. I am pleased to report excellent buy-in

among staff who are eager to find innovative ways to efficiently serve our customers whether large enterprise, Small Office/Home Office (SOHO) or residential market segments. Staff have renewed their commitment to carrying out the mandate to repair all faults within 48 hours. We have also made considerable improvements to our Call Centre, enabling customers to receive speedier and more efficient assistance with landline, broadband, mobile and enterprise inquiries or queries.

Additionally, through our First Call Resolution initiative, Call Centre agents are able to speed up service, increase efficiency and reduce the number of truck rolls required by our field technicians, thus improving service restoration efforts.

Numerous other products, services and features were enhanced: EZPay Plus made it easier to pay a bill online; EZTopUP enabled pre-paid wireless customers to add minutes more conveniently online; and ViBE-on-the-Go, BTC's competitively-priced VoIP solution, facilitated a reduction in the cost of Family Island or long distance calling anywhere in the world by utilizing a convenient number in the area code of the customer's choice.

The new BTC directories, both online and in print, have proved advantageous for advertisers and have been the source of compliments from customers who appreciate the expanded sections that include a wide range of information from hundreds of handy listings of government departments to simple, yet important, road safety tips. I am very proud to report that the BTC Directory Division was recognised for its outstanding efforts, taking third place in its category in a highly competitive contest among telephone directories from around the world. This award is presented to the "directory publisher that has attained the highest degree of excellence and achievement" among publications of similar size. In 2009, BTC also introduced mobile directories for Smart Phone customers.

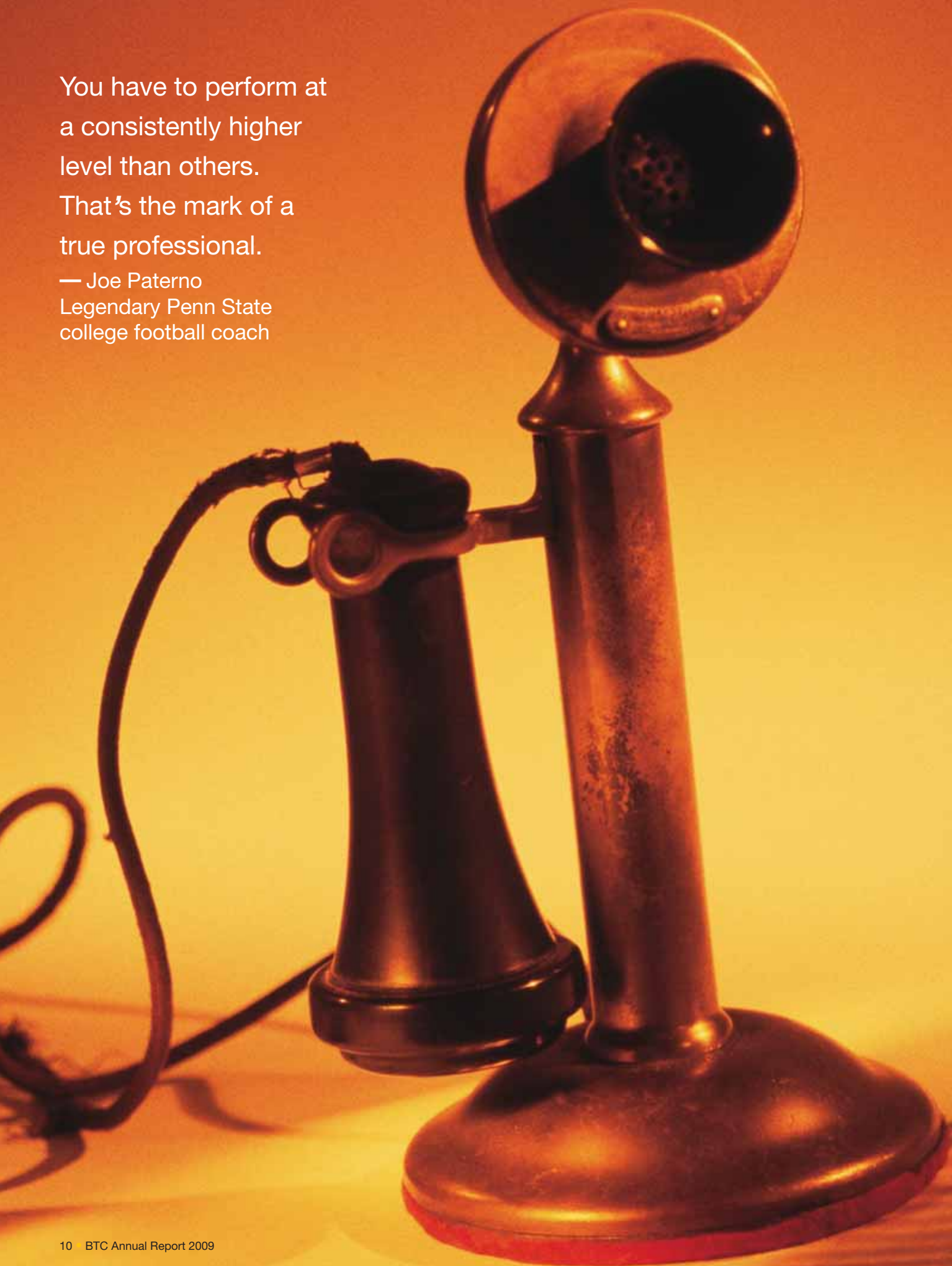
Many of BTC's accomplishments have been orchestrated by effective long-term strategies and capital investment, but one of the greatest successes involved its embrace of the relatively new medium of advertising and enhanced customer relations phenomenon collectively dubbed "social media" in the industry. In March 2009, BTC introduced its Facebook page, joining the most visited social media site in the English-speaking world. Within months, BTC's Facebook Fan Page galloped to record numbers of visitors and had grown to one of the most popular Facebook fan pages in The Bahamas. Offering information and entertainment daily, the site has become a trendsetter, with new visitors joining the lively fun every day.

The combination of improvements in product and service with record financial performance, in the midst of the worst economic challenge in recent history, speaks volumes about the talent, resolve and dedication of all team members at BTC. It is to the staff, management and directors of BTC that I extend the deepest gratitude for dedicating themselves to a company that strives for excellence, moving far beyond mere customer satisfaction to the experience of "wow" with every customer interaction. This is a BTC in which the entire Bahamas can take pride, a company eager to compete in a liberalized communications industry, with unmatched infrastructure and unprecedented preparedness to succeed.

BTC continued its customary contributions to the public purse. In 2009, BTC paid \$8.8 million to Her Majesty's Customs, \$2.7 million in franchise fees, \$1.2 million in Business License Fees, Communication License Fees of \$3.4 million, and \$95.7 million in dividends to the Shareholder.

You have to perform at
a consistently higher
level than others.
That's the mark of a
true professional.

— Joe Paterno
Legendary Penn State
college football coach



BTC History

BTC's history may be called the journey of a million calls. From the most humble of beginnings with the laying of an underwater cable in 1892 between Jupiter, Florida, and the area now known as Cable Beach in New Providence, the company has risen to become a financial powerhouse and an indispensable partner in life, business, health and education.

That climb is reflected in its financial growth.

In 1906, the company had a total capacity of 150 telephone lines. Each of its 60 subscribers had to live within a one-mile radius of the central exchange. Today BTC's reach extends to every corner of the archipelago, providing

The first Bahamas telephone directory was published in 1917, and contained just over 400 listings. The award-winning 2008 directory, which is available online contains almost 61,000 listings in the white and yellow pages.

instantaneous access to communications and information throughout our chain of 700 islands stretched over 100,000 square miles of open ocean. The modern BTC is a company with \$537 million in assets, nearly \$378 million of those assets in fixed property, plant and equipment. In fiscal 2009, BTC earned \$47.9 million in net income.

Growth came slowly at first. In 1931, a telegraph division was created. The following year a radio telephone circuit was activated, allowing voice communication beyond The Bahamas for the first time.

With each generation came products to forecast the future of telecommunications. Young parents who were eagerly introduced to direct dialing in 1971 are now grandparents surfing the internet, watching their grandchildren over iConnect with webcams and speaking for hours at a time for a previously unimaginable low cost thanks to ViBE. Few imagined that the 'new' cellular mobile phone service introduced at Government House in 1988 would turn into a tech trend where the phone can include as many accessories as a teenager's wardrobe. Yesterday's executives who took their time learning the intricacies of the fax machine now send information instantly from conference rooms, busy roads or Family Islands over their BlackBerrys or smart phones. One only need skim the Yellow and White Pages of the phone directory—complete with a weather guide, history pages and touristic tidbits—to see how far BTC has come. It's hard to believe that the giant book which now has separate directories for the major islands began as a small, almost pocket-size document, of three pages.



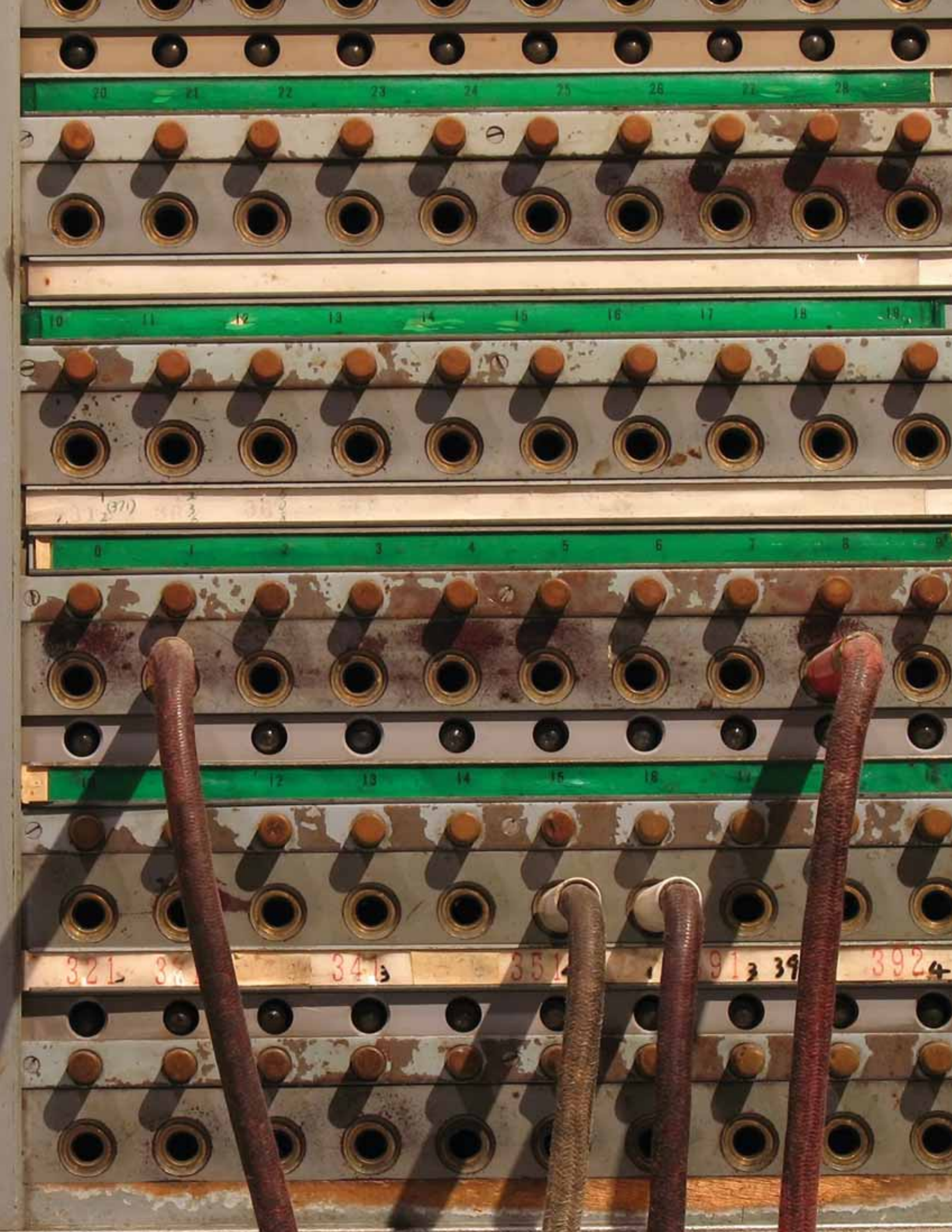
From fewer than 300 employees in 1954 to over 1,200 employees today, BTC continues to lead the way through the latest advancements in telecommunications. Local businesses are able to perform effectively on the road or in the international arena thanks to the wide range of products and services offered by BTC. The telecommunications giant works diligently to keep not just Bahamian clients connected, but also the millions of business and pleasure visitors who frequent The Bahamas every year.

BTC provides a huge variety of services including wireless, private line, frame relay, leased line, cellular, high speed internet, packet switching, prepaid phone cards and landline services. BTC stands prepared to write the next chapter in the telecommunications history of The Bahamas while simultaneously connecting The Bahamas to the wider world beyond.



BTC stands prepared to write the next chapter in the telecommunications history of The Bahamas, connecting this small island nation to the wider world beyond.







Performance means delivering consistent, high quality and instantaneous voice, Internet and data service from anywhere in The Bahamas to anywhere in the world. The public can be very discerning and demands are high from those who visit aboard megayachts or do business in the financial services sector.



Performing for the Good of Others

Since the days of the rotary-dial phone, BTC has been committed to using its resources to benefit local communities from the smallest settlements to the most populated areas of the capital city. In the face of the country's recent challenging economic climate, *our* technology, *our* people and *our* partnerships have continued to make meaningful contributions to the welfare of *our* communities.

In 2009, BTC made financial and in-kind donations to many local organisations and non-profit groups throughout The Bahamas in support of programs that fit within the company's community support mission. In total, some

Like a trained Olympian who embraces sacrifice, BTC often acts selflessly, putting the needs of community uppermost. In such an act of kindness, staff members scaled down their own Christmas festivities dramatically, donating funds earmarked for the annual event to the less fortunate.

91 groups benefitted from the company's contributions, receiving a total of \$168,000. From North Andros to Long Island, each donation underscores the belief in the importance of BTC being an involved corporate citizen and a partner in effecting real change in our communities.

As the company sought to increase the number of touch-points for customers and improve the accessibility of its offerings, BTC implemented an innovative initiative dubbed "**Neighbourhood Connect**" which reaches directly into the communities the company serves by hosting day-long activities, highlighted by prize giveaways, workshops and more. Through this program, BTC has been able to interact face-to-face with customers and gauge needs while providing information on a personal level about new services, products and innovative technologies.

Like a trained Olympian who embraces sacrifice, BTC often acts selflessly, putting the needs of community uppermost. In such an act of kindness, staff members scaled down their Christmas festivities dramatically, donating funds earmarked for the annual event to the less fortunate. The Bahamas Red Cross, Great Commission Ministries and The Salvation Army were all beneficiaries of a special Christmas gift, funded in this way in 2009, with each group receiving \$5,000.



Staff members were also the first to volunteer in the company's third blood drive. Not only did staff contribute personal time to work the blood drive, they were the first to line up to donate as they encouraged others to do the same, providing much-needed blood to the Princess Margaret Hospital and Doctors Hospital blood banks. The company was able to successfully rally the public to provide a total of 315 pints of blood. The event continues to be one of BTC's key undertakings geared towards improving the quality of life for the people of The Bahamas.

For BTC, improving the quality of life can start at an early age. By generously donating \$59,000 to the Princess Margaret Hospital's "Breathe Easy" campaign, BTC brought the hospital to the halfway mark with a total goal of raising \$300,000 for special ventilators to benefit critically ill newborns at the Neonatal Intensive Care Unit.

For BTC, improving the quality of a recipient's life knows no age. By generously donating \$59,000 to the Princess Margaret Hospital's "Breathe Easy" campaign, BTC brought the hospital to the halfway mark towards the goal of raising \$300,000 for special ventilators to benefit critically ill newborns at the Neonatal Intensive Care Unit.

Six ventilators and two incubators have been purchased using the funds that were allocated by BTC and many other donors to the campaign. The benefits of the new equipment are immeasurable. As a result, the lives of hundreds of premature babies, who would otherwise be unable to breathe, can be saved. Parents will be able to sleep peacefully, knowing that their infant is not struggling to take the next breath.







To my customer: I may not have the answer, but I'll find it. I may not have the time, but I'll make it.

— Unknown

Outperforming Through Products & Services

Over the years of direct feedback from customers with suggestions for improving service, products, offerings and affordability, BTC has implemented a customer-centric strategy. As a result, customer-focused and customer-driven policies now dominate decision-making and translates into a level of service unprecedented in the company's history. Faulty lines are repaired on a tight deadline. Requests for new installations are handled faster. Mobile service reaches more customers in more places with more consistency than ever before. New products are constantly being introduced to add value to existing offerings, improving overall customer experience and functionality as well as providing solutions to telecommunications issues.

Customer-focused and customer-driven policy dominates decision-making, translating into a level of service unprecedented in the company's history.

ViBe on the Go

In an effort to enhance its VoIP offering, BTC introduced ViBe on the Go (VTG), a service that complements its existing ViBe service. The ViBe, which functions as a voice over internet service, provides communication over a broadband connection. With VTG customers are able to use their current ViBE account to make low-cost calls from any phone, including mobile phones, while on the road, on vacation or at work, to anywhere in the world using a PIN-less dialing system.

My I-Connect

Through a partnership with Google®, BTC has upgraded its e-mail platform from being internally managed to one managed by Google. Customers now communicate over a safe and reliable network while saving time and benefiting from the migration, which instantly increased the storage capacity from 1GB to 7GB. Users are able to share documents, compute virtually and access a number of Google applications including Google Calendar, Google Talk, Google Docs and Google Sites.

NGN Naked DSL

The introduction of dry pairs or Naked DSL gives consumers the option of having DSL (I-Connect) internet service without the need for telephone service within their homes.



Metro Ethernet

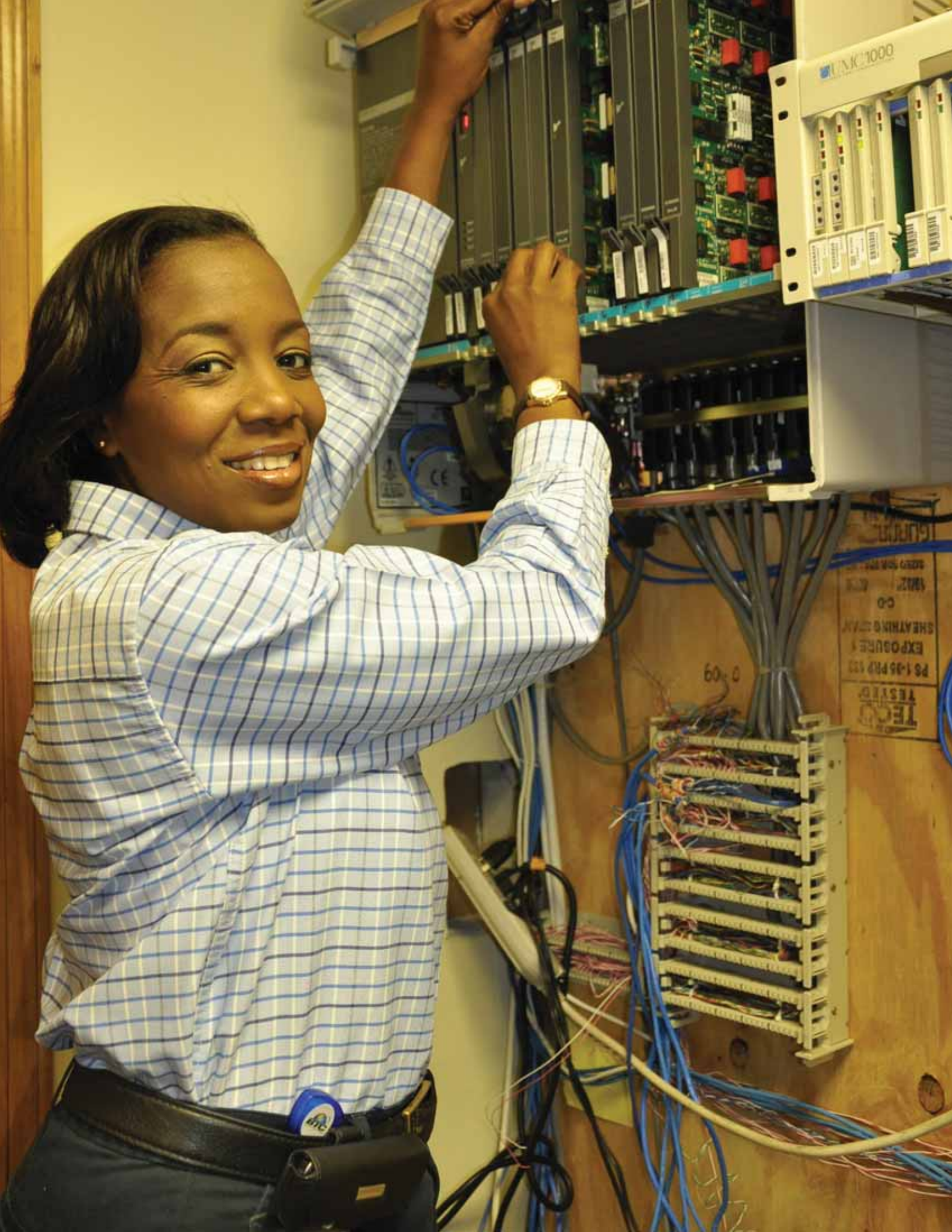
Picture an organisation with branches or locations scattered throughout the island; the staff requires access to a central data server or intranet in order to perform optimally. Through a computer network based on an ethernet standard covering a metropolitan area, this connection is now possible. Benefits of this service include providing more bandwidth, adding increased support for converged voice, video and data services all at a lower cost.

WiFi

Wireless fidelity or Wi-Fi allows users to connect to the internet without the use of cables. BTC has established 'hot spots' where users can log onto the internet for a fee at airports, hotels, and throughout downtown Nassau.

BTC has established 'hot spots' where users can log onto the internet for a fee at airports, hotels and even the port.





Do not waste a minute—not a second—in trying to demonstrate to others the merits of your performance. If your work does not vindicate itself, you cannot vindicate it.

— Thomas Wentworth Higginson, editor, minister,



Management Report

To an outsider looking down on planet Earth, it must seem a place obsessed with connecting. People with gadgets in their ears and in their hands and next to their faces, all talking with no one close by. Peering through windows, those same outsiders would see millions of people pushing white letters on black keyboards. Maybe they would recognise it as another way of sending and receiving signals. What they would witness overall is a frenetic, bustling world of telecommunications. And they would be right—for not only is the world already obsessed with communicating, the industry that powers that communication is growing at warp speed.

What once was a telephone is now expected to be part computer, social secretary, alarm clock, provider of music, movies, stock reports.

The reality is that rapid technological advances produce products and services with short life-cycles that overlap and cannibalize each other. Constant improvement that might be expected to drive up cost has served only to make providers more competitive. What once was a telephone is now expected to be part computer, social secretary, alarm clock, provider of music,

movies, stock reports and just any bit of information from anywhere in the world.

That is the international backdrop against which BTC is measured and with which BTC must compete. The privatization of the company draws closer, the liberalization of the communications sector is imminent. BTC understands fully how important it is to be ready for that future.

Being competition-ready means excelling in every aspect—to maintain the latest in sophisticated products, to ensure consistent quality service at competitive rates and to provide exemplary customer care and execution. Competition readiness has been the driving force behind Executive Management strategy and staff performance for the past three years, but never have management and line staff been more sensitive to the urgency of competition readiness than in 2009.

With that sense of immediacy, 2009 was an historic year in many ways. Two major investments helped prepare BTC for a future of competition. One was the ongoing conversion of BTC's Billing Platforms to Cerillion-powered software, a converged solutions package that, once fully implemented, will enable BTC to bundle and bill services far more efficiently as a result of Cerillion's ability to efficiently 'rate' calls or data transmission. This capability is a key strategic enabler for BTC going forward as it facilitates simplified, easier to read bills for consumers while contributing to BTC's "Go Green"



objectives, including substantially reduced paper bill printouts. Eventually, it is BTC's intention to provide a "converged" bill for its customers with all products and services listed on a single statement, making it easier for customers to make and track payments.

The second major investment of fiscal 2009 was the significant advancement of the \$55 million investment in the Next Generation (NGN) Network. If you think of Cerillion as an office building with all services instantly converging into a single accounting department for rating and billing, picture the NGN network as an underground railway system over which voice, broadband and entertainment information travel in small packets of data. Whether local or long distance calls, weather reports or online shopping, information zips back and forth and back again instantaneously over the system in order to deliver the 21st century telecommunication services that customers demand.

As traditional revenue streams like fixed line and long distance calls fade, investment in new technology is not a luxury but a necessity. The NGN investment has placed BTC on a course to take advantage of new product and service offerings and simultaneously lower operational costs and minimize inefficiencies.

Whether local or long distance calls, weather reports or online shopping, information zips back and forth and back again instantaneously over the system in order to deliver the 21st century telecommunication services that customers demand.







THE BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED

Audited Financial Statements

>> Year ended December 31, 2009
with Independent Auditors' Report

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, 2009 and the consolidated statement of comprehensive income, 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 consolidated 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 consolidated 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

Nassau, Bahamas
November 2, 2010

The Bahamas Telecommunications Company Limited

Consolidated Balance Sheet
December 31, 2009

	Notes	2009 \$000's	2008 \$000's
ASSETS			
Current assets			
Cash in hand and at bank	3	61,092	118,600
Accounts receivable	4	56,337	55,586
Inventories	5	15,500	20,704
Other assets	6	6,354	13,723
Available-for-sale-investments	7	735	3,509
Current assets		140,018	212,122
Non-current assets			
Available-for-sale investments	7	18,783	18,257
Property, plant and equipment	8	378,309	383,702
Total non-current assets		397,092	401,959
Total assets		537,110	614,081
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payable	9	1,275	15,883
Accrued and other liabilities	9	35,168	34,262
Security deposits from customers		21,944	24,007
Derivative financial instruments	10	2,780	3,895
Loans payable	11	11,236	14,727
Deferred revenue	12	12,369	12,216
Total current liabilities		84,772	104,990
Non-current liabilities			
Pension liability	13	27,653	25,387
Loans payable	11	35,564	46,800
Total non-current liabilities		63,217	72,187
Total liabilities		147,989	177,177
Equity			
Share capital	14	254,664	254,664
Revaluation surplus		18,974	18,974
Retained earnings		115,483	163,266
Total equity		389,121	436,904
Total liabilities and equity		537,110	614,081

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:



Julian W. Francis, Director
21 October 2010
See accompanying notes.



James Moss, Director

The Bahamas Telecommunications Company Limited

Consolidated Statement of Operations Year ended December 31, 2009

	Notes	2009	2008
		\$000's	\$000's
Operating revenues			
Prepaid cellular toll and other		159,461	143,110
Fixed line and cellular rental		73,589	69,927
Receipts from other operators		42,845	47,084
Post-paid cellular toll and other		27,114	33,523
International toll service		22,563	27,293
Internet revenue		19,409	15,959
Directory advertising		8,106	9,029
Installation fees		1,411	1,651
Pager revenue		(4)	164
Other		6,186	5,629
Total operating revenues		360,680	353,369
Operating expenses			
Plant expense	15	173,357	172,683
Depreciation expense	8	56,855	68,464
Administrative expense	16	48,058	52,242
Pension expense	13,19	13,144	15,805
Personnel and training		8,723	11,010
Government fees	17	10,584	9,001
Provision for litigation cost		1,203	(93)
Bad debt expense	4	4,776	3,723
Amortisation of contributions to capital projects	12	(542)	(783)
Total operating expenses		316,158	332,052
Operating income		44,522	21,317
Other income (expense)			
Interest income		4,838	7,380
Gain/(Loss) on derivative financial instruments	10	1,115	(2,903)
Interest expense	11	(3,318)	(4,513)
Revaluation of Land		-	(533)
Insurance claim on damaged property, plant and equipment	18	343	163
Recovery of bad debt		411	146
Other income (expense), net		3,420	(260)
Net income		47,942	21,057

See accompanying notes.

The Bahamas Telecommunications Company Limited

Consolidated Statement of Changes in Equity Year ended December 31, 2009

	Share Capital	Revaluation Reserves	Retained Earnings	Total
	\$000's	\$000's	\$000's	\$000's
Balance as of January 1, 2009	254,664	18,974	163,266	436,904
Net income	-	-	47,942	47,942
Dividend to Shareholder (note 22)	-	-	(95,725)	(95,725)
Balance as of December 31, 2009	254,664	18,974	115,483	389,121
Balance as of January 1, 2008	254,664	19,352	171,987	446,003
Net Income	-	-	21,057	21,057
Dividend to Shareholder (note 22)	-	-	(29,778)	(29,778)
Reversal of revaluation of land	-	(378)	-	(378)
Balance as of December 31, 2008	254,664	18,974	163,266	436,904

See accompanying notes.

The Bahamas Telecommunications Company Limited

Consolidated Statement of Cash Flows

Year ended December 31, 2009

	Notes	2009	2008
		\$000's	\$000's
Cash flows from operating activities			
Net income		47,942	21,057
Adjustments for:			
Depreciation expense	8	56,855	68,464
Amortisation of contributions to capital projects	12	(542)	(783)
Interest income		(4,838)	(7,380)
Interest expense		3,318	4,513
Bad debt expense	4	4,776	3,723
Provision for inventory obsolescence	5	463	1,267
(Gain)/Loss on derivative financial instruments	10	(1,115)	2,903
Insurance claim on damaged property, plant and equipment	18	(343)	(163)
Revaluation surplus		-	(378)
Write off investments		(166)	-
Loss on disposal of property, plant and equipment		801	2,743
		107,151	95,966
Changes in assets and liabilities:			
Accounts receivable		(5,055)	(638)
Inventories		4,741	(4,782)
Other assets		7,369	(182)
Trade payable		(14,608)	326
Accrued and other liabilities		2,367	228
Security deposits from customers		(2,063)	(4,196)
Deferred revenue		695	2,339
Pension liability		2,266	5,830
Net cash provided by operating activities		102,863	94,891
Cash flows from investing activities			
Acquisition of property, plant and equipment		(53,447)	(74,010)
Proceeds from insurance claims	18	343	163
Acquisition of investments	7	(2,095)	(3,068)
Proceeds from sale of investments	7	4,509	1,863
Self Insurance Trust		(1,168)	(253)
Term deposits		15,564	6,314
Interest received		4,368	7,884
Net cash used in investing activities		(31,926)	(61,107)
Cash flows from financing activities			
Repayment of long-term debt	11	(14,727)	(15,803)
Payment of dividends	22	(95,725)	(29,778)
Proceeds from long term debt		-	5,794
Interest paid		(3,597)	(4,687)
Net cash used in financing activities		(114,049)	(44,474)
Net change in cash and cash equivalents		(43,112)	(10,690)
Cash and cash equivalents at beginning of year		113,473	110,421
Cash and cash equivalents at end of year	3	57,600	100,712

See accompanying notes.

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements

December 31, 2009

(\$000's unless otherwise stated)

1. OPERATIONS AND ACTIVITIES

The Bahamas Telecommunications Company Limited (BTC or the Company) 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) (now repealed), certain assets and liabilities of the Corporation were transferred to and vested in The Bahamas Telecommunications Company Limited (BTC) a company incorporated under and governed by the Companies Act (as amended) of the statute laws of the Commonwealth of The Bahamas on September 4, 2002. In connection with this, certain buildings, parcels of land, and investments were vested in the Treasurer of The Bahamas and in the Public Utilities Commission (Regulatory undertakings).

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

On August 1, 2009, the Utilities Regulation and Competition Act came into force and established a new empowered Regulator the Utilities Regulation and Competition Authority (URCA) and the PUC its predecessor was dissolved. On September 1, 2009, the Communications Act of 2009 replaced the Telecommunications Act of 1999.

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, 2009 were authorized for issue by the Directors on October 21, 2010.

Privatization

In a communication dated February 11, 1998 to Parliament, the Government announced its intention to privatise the Corporation. On September 4, 2002, the assets of the Corporation were vested in the Company. The first privatization 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 which announced that it had not accepted any of the bids. In 2005, the Government conducted negotiations with a single bidder for a 49% ownership of the Company which did not come to fruition.

In March 2008, the Prime Minister appointed a nine member Privatization Committee. The Committee was charged with completing the privatization of the Company in as short a timeframe as possible. It was determined that a 51% interest in the Company will be sold. The sales process is continuing and negotiations are ongoing with a number of potential strategic partners.

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements

December 31, 2009

(\$000's unless otherwise stated)

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, employee pension schemes and depreciation. The consolidated financial statements are presented in Bahamian dollars and all values are rounded to the nearest thousand (\$000's), unless otherwise indicated.

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, 2009. 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 reporting 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 following insured events once approved by the Fund's Claims Committee.

At December 31, 2009, the Self Insurance Trust Fund had net assets of \$20,409 (2008: \$21,457) and earned a net profit of \$1,154 (2008: \$1,114) for the year-ended December 31, 2009.

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 as of January 1, 2009. 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.

(continued)

2.4 Changes in Accounting Policy and Disclosure (continued)

(a) IFRIC 13 – Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and became effective 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 consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This Interpretation had no impact on the financial position or performance of the Company's consolidated financial statements as no such scheme exists.

(b) IFRS 2 Share-Based Payment (Revised)

IFRS 2 Share Based Payment was amended January 2008 and became effective January 1, 2009. This amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. This amendment had no impact on the financial position or performance of the Company.

(c) IFRS 8 Operating Segments

IFRS 8 was issued in November 2006 and is effective for financial years beginning on or after January 1, 2009. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. This IFRS requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses. It is an entity whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This standard has not impacted the financial position or operations of the Company.

(d) IAS 1 (Revised) Presentation of Financial Statements

The revised standard was issued in September 2007 (IAS 1R) and became effective for financial years beginning on or after January 1, 2009. IAS 1R separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. In addition, it requires entities to apply this standard retrospectively, thereby restating its prior year financial statements to reflect the change. The Company has evaluated this revision and has concluded that it has no impact on the Company's presentation of financial statements as the specific disclosure requirements are not applicable to BTC.

(e) IFRS 2 Scope of IFRS 2 and IFRS 3 (Revised)

IFRS 2 becomes effective for periods beginning on or after July 1, 2009. The objective of this amendment is to confirm that, in addition to business combinations as defined by IFRS 3 (Revised), contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2, Share Based Payment. Management does not anticipate that this revision will have an impact on the Company's financial position or results of operations.

(f) IAS 23 (Revised) Borrowing Costs

A revised IAS 23 Borrowing Cost was issued March 2007, and became effective for financial years beginning on or after January 1, 2009. The standard requires capitalization of borrowing costs when such costs relate directly to the acquisition, construction or production of 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, the Company will adopt this as a prospective change. Accordingly borrowing costs will be capitalized with a commencement date after January 1, 2009. This change did not have an impact on the financial position or operating results of the Company.

(g) IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to IAS 32 and IAS 1 were issued February 2008 and became effective for financial years beginning on or after January 1, 2009. The amendment provides a limited scope exception for puttable instruments to be classified as equity if they met a number of specified features. A puttable instrument gives the holder the right to put (sell) the instrument back to the issuer for cash or another financial asset. A puttable instrument is a financial liability of the issuer. These amendments had no impact on the financial position or performance of the Company as no such instruments exist.

(h) IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and became effective for financial years beginning on or after January 1, 2009. The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation further provides guidance on how to determine whether an agreement is within the scope of IAS11 or IAS 18. This interpretation did not have an impact on the financial position or performance of the Company.

(i) IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC16 was issued in July 2008 and became 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. This Interpretation had no impact on the financial position or performance of the Company as no investment in a foreign operation exists.

(j) IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 was revised in 2008 and becomes effective for annual periods ending on or after June 30, 2009. The amendment requires an entity, when it first becomes a party to a contract, to assess whether an embedded derivative contained in the contract is required to be separated from the host contract and accounted for as a derivative under the standard. The assessment is made on the basis of the conditions that existed at the later of (a) the date when the entity first became a party to the contract or (b) the date of a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. The Company does not expect this revision to have an impact on the Company's financial position and results of operations.

(continued)

2.4 Changes in Accounting Policy and Disclosure (continued)

(k) IFRIC 17 Distribution of Non-Cash Assets to Owners

IFRIC 17 was issued November 2008 and becomes effective for periods ending on or after July 1, 2009. The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. This Interpretation is not expected to have a significant impact on the Company's financial position and results of operations.

(l) IFRIC 18 Transfers of Assets from Customers

This Interpretation becomes effective for periods beginning on or after July 1, 2009. The interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash received and used to acquire or construct specific assets. This interpretation is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This Interpretation is not expected to impact the financial position and operations of the Company.

(m) Improvements to IFRSs

In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to remove inconsistencies and to clarify wording. There are separate transitional provisions for each standard. The adoption of the following amendments has had no impact on the financial position or performance of the Company:

- o IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- o IFRS 7 Financial Instruments: Disclosures
- o IAS 1 Presentation of Financial Statements
- o IAS 23 Borrowing Costs
- o IAS 38 Intangible Assets
- o IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- o IAS 10 Events after the Reporting Period
- o IAS 16 Property, Plant and Equipment
- o IAS 18 Revenue

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 amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of Non-Monetary 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.

(continued)

2.5 Estimations and Assumptions (continued)

(b) *Impairment of Available-for-Sale Financial Assets*

The Company classifies certain assets as available-for-sale and recognises movements in their fair value in equity. The Company assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset is impaired. At December 31, 2009, no impairment losses have been recognised for available-for-sale assets (2008: nil). The carrying amount of available-for-sale assets was \$19,518 (2008: \$21,766). Further details are disclosed in Note 7.

(c) *Deferred Revenue - Prepaid Cellular and Long Distance Cards*

The Company estimates its deferred revenue on prepaid cellular sales by assessing the historical trend of cards purchased by and held at master vendors and deferring sales at the end of the year based on this trend. Further details disclosed in Note 12.

The Company determines its deferred revenue on prepaid long distance cards by deferring any outstanding balance at the end of the year on cards activated during the year. Further details disclosed in Note 12.

(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, 2009 is \$27,653 (2008: \$25,387). 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 legal liability at December 31, 2009 is \$1,723 (2008: \$816). Further details are disclosed in Note 9.

General provisions are recognised 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 recognised 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 comprehensive income, 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)

(h) *Provision for dismantling costs*

Details are disclosed in Note 2.6 (p)

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 recognised in the consolidated statement of comprehensive income.

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, and the movement in the provision is recognised as bad debt expense in the consolidated statement of comprehensive income. 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.

During 2009, the Company had a general provision of 100% for all accounts over 120 days.

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

Older than 90 days 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 monthly at varying rates.

(continued)

2.6 Other Significant Accounting Policies (continued)

(c) Investments

The Company's investments are initially recognised 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. Management is not able to estimate this amount.

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 the statement of changes in equity. Realised gains and losses on disposal are recognized in the consolidated statement of comprehensive income.

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 is impaired, realised gains and losses are included in the consolidated statement of comprehensive income. 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 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 comprehensive income.

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements

December 31, 2009

(\$000's unless otherwise stated)

2.6 Other Significant Accounting Policies (continued)

(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 comprehensive income, respectively. These materials are stated at cost, less a provision for obsolescence.

The provision for inventory obsolescence for all inventories is determined based on the date of the last movement of inventory. The Company prepares an aging of the movement of inventory to identify those balances which require a provision and provides for a percentage of the inventory balance based on the amount of time since the last movement.

(f) Property, Plant and Equipment

Assets acquired are stated at historical cost, net of accumulated 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. In 2006 there was a revaluation of the Company's land and buildings which resulted in the revaluation surplus currently recorded in equity. Depreciation on revalued buildings is charged to the consolidated statement of comprehensive income.

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.

2.6 Other Significant Accounting Policies (continued)

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, which is recognised in the consolidated statement of comprehensive income.

Repairs and maintenance are charged to the consolidated statement of comprehensive income 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 derecognised 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 comprehensive income in the year the asset is derecognised.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

(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 are offset against any outstanding amount due to the Company as of that date. Interest is calculated on outstanding deposits, and credited to customer accounts annually and is included in interest expense in the consolidated statement of comprehensive income.

(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 comprehensive income on an accrual basis.

(i) Revenue Recognition

Operating revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts. The following specific recognition criteria must also be met before revenue is recognised:

Telephone Services

Fixed and cellular 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.

(continued)

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements

December 31, 2009

(\$000's unless otherwise stated)

2.6 Other Significant Accounting Policies (continued)

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 equipment

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

Interest Income

Revenue is recognized as interest accrues.

Installation Revenue

Installation revenue is recognised when a customer pays for the installation of a new service.

Directory Revenue

Directory revenue is recognized each month based on an annual contractual amount.

Broadband Revenue

Broadband revenue is recognised in the consolidated financial statements when earned and are recorded on an accrual basis. Revenue received in advance is deferred and recognised in future periods.

(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 recognised 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.

(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, real property taxes and a URCA licence fee as disclosed in Note 17.

2.6 Other Significant Accounting Policies (continued)

(m) Related Parties

Related parties comprise directors, key management personnel, the Government as sole Shareholder, and all entities controlled by The Government, including ministries, Government Departments 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 comprehensive income 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 consolidated 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 securities (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 comprehensive income over the employees' expected average remaining working lives.

(p) Provision for Dismantling Costs

As a part of the cost of property, plant and equipment, the Company has recognized a provision for the dismantling of cell sites constructed on private and government properties. In determining the provision, assumptions and estimates are made in relation to the expected cost to dismantle and remove all cell sites. The carrying amount of the provision as at December 31, 2008 was \$840 (2007: Nil).

2.7 Future Changes in Accounting Policies

a) *IFRS 5 Disclosures required in respect of Non-Current Assets (of disposal groups) classified as held for sale or discontinued operations*

The amendment to IFRS 5 becomes effective for periods beginning on or after January 1, 2010. The purpose of this amendment is to clarify that IFRS 5; Non-Current Assets held for sale and discontinued operations, specifies the disclosures required in respect of non-current assets classified as held for sale or discontinued operations. The amendment also clarifies that the general requirements of IAS 1 still apply. Early application of IFRS 5 is permitted, however management does not anticipate this revision to have an impact on the financial position and operations of the Company.

b) *IFRS 8 Disclosure of information about Segment Assets*

The amended IFRS 8 becomes effective for periods beginning on or after January 1, 2010. This amendment is a minor textual change to the standard and an amendment to the basis for conclusions to clarify that an entity is required to disclose a measure of the segment assets only if the measure is regularly reported to the chief operating decision maker. This revision will have no impact on the Company's financial position and performance as segment reporting is not applicable to the Company.

c) *IAS 1 Current/Non-Current Classification of Convertible Instruments*

This revised standard becomes effective on or after January 1, 2010. The revision clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current, provided the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period, notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

d) *IAS 7 Classification of Expenditures on Unrecognised Assets*

The amendment to IAS 7 becomes effective on or after January 1, 2010. The amendment requires that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities.

e) *IAS 17 Classification of Leases of Land and Buildings*

Revised IAS 17 becomes effective on or after January 1, 2010. This amendment deleted specific guidance regarding the classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principals of IAS17. The Company is in compliance with this amendment.

f) *IAS 36 Unit of Accounting for Goodwill Impairment Test*

The amendment to IAS 36 becomes effective on or after January 1, 2010. The standard was amended to clarify that the largest cash generating unit to which goodwill should be allocated for the purposes of impairment testing is an operating segment. This amendment is to be applied prospectively, however early application is permitted. This amendment is expected to have no impact on the Company's financial position or results of operations.

2.7 Future Changes in Accounting Policies (continued)

g) *IAS 39 Financial Instruments: Recognition and Measurement provides the following future changes:*

I. Treating Loan Prepayment Penalties as Closely Related Derivatives.

Revised IAS 39 becomes effective for periods beginning on or after January 1, 2010. The revision clarifies that the exercise price of the prepayment option should be considered closely related to the host debt contract as it compensates the lender for loss of interest by reducing the economic loss from reinvestment risk. This revision is not expected to have an impact on the Company's financial position or operations.

II. Scope Exemption for Business Combination Contracts

Amended IAS 39 becomes effective for period beginning on or after January 1, 2010. The amendment clarifies that scope exemption (a) only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date (b) the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction and (c) the exemption should not be applied to option contracts that on exercise will result in control of an entity nor by analogy to investments in associates and similar transactions. The Company does not anticipate this amendment having an impact on the financial position or performance of the Company as the Company does not anticipate engaging in any business acquisitions in the near future.

III. Cash Flow Hedge Accounting

Amendment to IAS 39, Cash Flow Accounting becomes effective for period on or after January 1, 2010. The amendment is to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge or a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit and loss in the period in which the hedged forecast cash flow affects profit and loss. The Company has concluded that this amendment will have no impact on the financial position or performance of the Company as the Company has no hedged contracts.

IV. Hedging using Internal Contracts

IAS 39 Hedging using Internal Contracts becomes effective for period beginning before or after January 1, 2010. This amendment clarifies that entities should no longer use hedge accounting for transactions between segments in their separate financial statements. The Company has concluded that this amendment will have no impact on the financial position or performance of the Company as the Company has no hedged contracts.

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

3. CASH IN HAND AND AT BANK

	2009	2008
	\$000's	\$000's
Cash in hand, demand and current accounts	26,576	18,794
Term deposits	34,516	99,806
	61,092	118,600

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

	2009	2008
	\$000's	\$000's
Cash in hand and at bank	61,092	118,600
Less: Restricted Cash Self Insurance Fund	(3,492)	(2,324)
Less: Term deposits with original contractual maturities of more than three months	-	(15,564)
	57,600	100,712

Included in cash in hand and at bank is \$3,491 (2008: \$2,324), 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 4.35% (2008: 5.11%) and these deposits have an average maturity of 64 days.

4. ACCOUNTS RECEIVABLE

	2009	2008
	\$000's	\$000's
Customers' account – gross:		
Residential and business	67,429	66,963
Public corporations	952	5,856
Government ministries and departments	2,078	6,736
Due from parent	14,179	-
International settlement debtors	7,858	8,552
Interest receivable	1,226	756
Miscellaneous receivables	463	1,251
	94,185	90,114
Less: Provision for doubtful accounts	(37,848)	(34,528)
	56,337	55,586

There was settlement as at May 31, 2009 of \$15,725 of the amounts receivable from Government ministries and departments by declaration of a dividend in kind as detailed in Note 22.

Amount due from parent represent amounts paid on behalf of the Government of The Bahamas with regards to Privatization cost. See Note 25.

Provision for doubtful accounts is analysed as follows:

(continued)

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

4. ACCOUNTS RECEIVABLE (CONTINUED)

	2009	2008
	\$000's	\$000's
Balance as of beginning of the year	34,528	52,078
Bad debt expense	4,776	3,723
Receivables written off	(1,456)	(21,273)
Balance as of end of the year	37,848	34,528

As at December 31, 2009, the aging analysis of trade receivables is as follows:

	Total	Current	30-60 days	61-90 days	90+ days	120+ days
	(Expressed in \$000's)					
2009	76,372	7,545	9,356	4,056	7,346	48,069
2008	88,107	9,660	10,383	6,203	3,894	57,967

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, 2009 was \$42,355 (2008: \$43,936) of which \$37,848 (2008: \$34,528) has been provided by way of the provision for doubtful accounts. The remaining balance of \$4,507 (2008: \$9,408) 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 \$1,456 (2008: \$21,273) of receivables against the provision which were deemed uncollectible.

5. INVENTORIES

	2009	2008
	\$000's	\$000's
Engineering material	9,530	14,806
Equipment held for sale or rental	7,404	7,866
Other	1,149	844
	18,083	23,516
Provision for obsolescence	(2,583)	(2,812)
	215,500	20,704

During the year, the Company made provisions for write-downs relating to obsolete inventories totalling \$463 (2008: \$1,267) and wrote-off inventory with a book value of \$692 (2008: \$2,106) against the provisions.

Provision for obsolete inventory is analysed as follows:

	2009	2008
	\$000's	\$000's
Balance at beginning of year	2,812	3,651
Current year provision	463	1,267
Write-off against provision	(692)	(2,106)
Balance at end of the year	2,583	2,812

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

7. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The Company has investments in strategic joint ventures. Historically, these investments were accounted for in accordance with International Accounting Standard 39 as the Company did not have significant influence or control over the joint ventures, and Management decided to carry these investments at cost, because of the absence of reliable fair value estimates. During 2009, investigations as to the fair value determined that the value was zero so the investments were written-off.

The Company owns 19,179,600 (2008: 21,217,600) units of Bahamas Government Registered Stock with a market value of \$19,510 (2008: \$21,592), as well as 8,300 (2008: 8,300) units of the Clifton Heritage Authority Bonds valued at \$8 (2008: \$8). 16,559,700 (2008: 18,741,000) units of Bahamas Government Registered Stock are held by the Self Insurance Trust Fund with a market value of \$16,852 (2008: \$19,080) 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 February 2010 and July 2037.

8. PROPERTY, PLANT AND EQUIPMENT

COST (\$000's)	2008	Additions	Transfers	Assets Retired	2009
Freehold buildings, fixtures and office equipment	128,529	7,315	12,938	(1,810)	146,972
Transmission equipment	519,154	925	26,770	(1,600)	545,249
Cable plant	185,365	18	2,619	-	188,002
Subscribers' apparatus	25,053	140	-	(8)	25,185
Vehicle and mechanical	33,001	754	-	(3,390)	30,365
Land	21,604	-	-	-	21,604
CWIP	25,644	44,520	(42,327)	-	27,837
Total	938,350	53,672	-	(6,808)	985,214

ACCUMULATED DEPRECIATION (\$000's)	2008	Depreciation Charge	Reclass	Assets Retired	2009
Freehold buildings, fixtures and office equipment	60,045	9,584	19	(1,512)	68,136
Transmission equipment	308,354	28,742	(19)	(238)	336,839
Cable plant	143,688	12,393	-	-	156,081
Subscribers' apparatus	22,147	773	-	(8)	22,912
Vehicle and mechanical	20,414	5,363	-	(2,840)	22,937
Total	554,648	56,855	-	(4,598)	606,905

COST (\$000's)	2007	Additions	Transfers	Reclass	Assets Retired	2008
Freehold buildings, fixtures and office equipment	108,534	5,310	15,276	382	(973)	128,529
Transmission equipment	507,176	984	60,927	(10,912)	(39,021)	519,154
Cable plant	172,305	-	4,446	8,617	(3)	185,365
Subscribers' apparatus	22,694	68	378	1,913	-	25,053
Vehicle and mechanical	28,788	7,215	-	-	(3002)	33,001
Land	22,500	15	-	-	(911)	21,604
CWIP	46,253	60,418	(81,027)	-	-	25,644
Total	908,250	74,010	-	-	(43,910)	938,350

(continued)

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

NET BOOK VALUE (\$000's)	2009	2008
	\$000's	\$000's
Freehold buildings, fixtures and office equipment	78,836	68,484
Transmission equipment	208,410	210,800
Cable plant	31,921	41,677
Subscribers' apparatus	2,273	2,906
Vehicle and mechanical	7,428	12,587
Land	21,604	21,604
CWIP	27,837	25,644
Total	378,309	383,702

Property, plant and equipment with costs totalling approximately \$354,521 (2008: \$218,675) are fully depreciated and remain in use as of December 31, 2009, and are included in the tables above.

During the year, the Company retired assets with a total cost of \$6,808 (2008: \$43,910) and a book value of \$2,210 (2008: \$2,743). The retirement primarily related to TDMA equipment that was retired as a result of the service being discontinued. The Company ceased the provision of TDMA service effective November 2008.

In 2006, an independent valuation of the company's land and buildings was carried out by a licensed real estate appraiser, to determine the fair value of the land and buildings. This resulted in a revaluation surplus of \$19,352.

During 2008, it was determined that four (4) parcels of land in Grand Bahama that had been revalued to \$911 were subject to long term leases. As a result, \$378 has been written off against the revaluation reserves in equity.

Had the revalued land and buildings been carried under the cost model, the net book value for the buildings would have been \$20,149 (2008:\$21,384) and \$12,252 (2008:\$12,252) for land.

9. TRADE PAYABLE, ACCRUED AND OTHER LIABILITIES

	2009	2008
	\$000's	\$000's
Trade payables	1,275	15,883
Accrued liabilities	26,451	26,293
International settlements creditors	5,604	5,873
Interest on security deposits	542	786
Subscribers' contributions to capital projects in progress (note 12)	848	494
Provision for asserted claims (see below)	1,723	816
Accrued and other liabilities	35,168	34,262

In the normal course of business, the Company is exposed to asserted and unasserted claims. As of December 31, 2009, the Company had provisions for asserted claims of \$1,723 (2008: \$816). 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.

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

10. 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\$60,000 loan facility with Citibank N.A. which effectively fixes the interest rate on this loan at 4.59% (see Note 11(ii)). As of December 31, 2009, the Interest Rate Swap was out of the money by US\$2,780 (2008: out of the money by US\$3,895). As the hedge did not qualify for hedge accounting, the movement in value of US\$1,115 (2008: US\$2,903) is recognised in the consolidated statement of comprehensive income. The interest rate swap matures on February 15, 2013.

11. LOANS PAYABLE

	2009	2008
	\$000's	\$000's
Current portion	11,236	14,727
Non-current portion	35,564	46,800
	46,800	61,527

	2008	Advances	Repayments	2009
	(Expressed in \$000's)			
First Caribbean International Bank (Bahamas) Limited	1,375	-	(1,375)	-
Citibank, N.A. (ii)	47,750	-	(7,000)	40,750
Cisco Systems Capital (iii)	6,608	-	(4,130)	2,478
Cisco Systems Capital (iv)	5,279	-	(1,707)	3,572
Citibank Overdraft (v)	515	-	(515)	-
	61,527	-	(14,727)	46,800

	2007	Advances	Repayments	2008
	(Expressed in \$000's)			
First Caribbean International Bank (Bahamas) Limited (i)	6,875	-	(5,500)	1,375
Citibank, N.A. (ii)	54,750	-	(7,000)	47,750
Cisco Systems Capital (iii)	9,911	-	(3,303)	6,608
Cisco Systems Capital (iv)	-	5,279	-	5,279
Citibank Overdraft (v)	-	515	-	515
	72,221	11,752	(12,437)	71,536

The maturities of loans payable are as follows:

	Less than 6 Months	Between 6-12 Months	Between 1-5 Years	Total
	(Expressed in \$000's)			
As of December 31, 2009	6,044	5,192	35,564	46,800
As of December 31, 2008	8,440	6,287	46,800	61,527

(continued)

11. LOANS PAYABLE (CONTINUED)

The details of the Company's loans and bank overdrafts as of December 31, 2009 are outlined below:

- (i) During 2003, the Company obtained a US\$22,000 term loan from First Caribbean International Bank (Bahamas) Limited (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 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 1.25% as of December 31, 2009 (2008:2.42%). The loan matured in January 2009.
- (ii) On November 15, 2005, the Company obtained a seven year, US\$60,000 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. At 31st December 2009, the balances on the accounts totalled \$732 (2008: \$1,316). Citibank has a right to all funds, balances and other amounts from time to time held in the Operating Account or the Reserve Account, all investment property (if any) from time to time in the Operating Account or the Reserve Account or in which amounts in the Operating Account or the Reserve Account are invested. It is repayable in quarterly installments of \$1,750 commencing in May 2007 with a lump sum payment of \$19,750 due on February 15, 2013. Interest is accrued at 1.35% above the 90-day LIBOR rate, an effective rate as of December 31, 2009 of 1.60% (2008: 2.78%).
- (iii) On December 23, 2007, the Company executed a \$9,911 promissory note with Cisco Systems Capital to fund the construction of its new IP transmission. 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 installments of \$1,101 beginning May 2008 and \$825 per quarter beginning in October 2009 until maturity.
- (iv) On December 19, 2008, the Company executed a \$5,279 promissory note with Cisco Systems Capital to fund a three year maintenance contract. The note is unsecured and bears interest at 3% per annum. It is payable in semi-annual installments of \$927 beginning June 2009. The note matures on December 9, 2011.
- (v) The Company has two overdraft facilities as of December 31, 2009. The first overdraft facility is for US\$2,000 with Citibank, bearing interest at 1.5% above the 30-day LIBOR rate, an effective rate of 1.751% as of December 31, 2009 (2008: 1.936%). The second overdraft facility with Royal Bank of Canada is in the amount of \$2,000, bearing interest at 1.25% above the Bahamian dollar prime rate, an effective rate of 6.75% as of December 31, 2009 (2008: 6.75%). At December 31, 2009, there were no balances outstanding on these facilities (2008: \$515).

12. DEFERRED REVENUE

Deferred revenue 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:

	2009	2008
	\$000's	\$000's
Contributions to capital projects	2,224	2,382
Deferred revenue on prepaid cards	4,536	5,286
Other deferred revenue	5,609	4,548
	12,369	12,216

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

	2009	2008
	\$000's	\$000's
Capital projects in progress		
Liability as of the beginning of the year	494	1,326
Contributions received from subscribers during the year	738	1,038
Contributions relating to projects completed during the year	(384)	(1,870)
Liability as of the end of the year (note 9)	848	494
Capital projects completed		
Deferred income as of the beginning of the year	2,382	1,295
Contributions relating to projects completed during the year, as above	384	1,870
Amounts amortised during the year	(542)	(783)
Deferred revenue at the end of the year	2,224	2,382

13. PENSION LIABILITY

	2009	2008
	\$000's	\$000's
Present value of funded obligations	263,867	252,941
Fair value of plan assets	(197,034)	(189,466)
Pension plan deficit	66,833	63,475
Present value of unfunded obligations:		
Unrecognised actuarial losses	(39,180)	(38,088)
Pension liability	27,653	25,387

(continued)

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

13. PENSION LIABILITY (CONTINUED)

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	2009	2008
	\$000's	\$000's
Current service cost	8,995	9,356
Interest cost	15,137	15,330
Expected return on plan assets	(12,107)	(11,370)
Net actuarial loss recognised during the year	1,119	2,489
Pension expense (Note 19)	13,144	15,805

The actual return on the assets underlying the pension obligations totalled \$6,270 (2008: \$7,467) during the year.

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

	2009	2008
	\$000's	\$000's
Liability at beginning of year	25,387	19,557
Total expense (as above)	13,144	15,805
Contributions paid	(10,878)	(9,975)
Liability at end of year	27,653	25,387

The Company expects to contribute \$11,810 to its defined benefit plan in 2010.

Changes in the present value of the defined benefit obligation are as follows:

	2009	2008
	\$000's	\$000's
Present value of defined benefit obligation at beginning of year	252,941	256,097
Current service cost	8,995	9,356
Interest cost	15,137	15,330
Benefits paid	(9,580)	(9,582)
Actuarial gains on obligation	(3,626)	(18,260)
Present value of defined benefit obligation at end of year	263,867	252,941

Changes in the fair value of plan assets are as follows:

	2009	2008
	\$000's	\$000's
Fair value of plan assets at beginning of year	189,466	181,606
Actual return on plan assets	6,270	7,467
Contributions	10,878	9,975
Benefits paid	(9,580)	(9,582)
Fair value of plan assets at end of year	197,034	189,466

(continued)

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

13. PENSION LIABILITY (CONTINUED)

	2009	2008	2007	2006
	(Expressed in \$000's)			
Present value of funded obligations	263,867	252,941	256,097	250,143
Fair value of plan assets	(197,034)	(189,466)	(181,606)	(165,460)
Deficit	66,833	63,475	74,491	84,683
Present value of unfunded obligations:				
Unrecognized actuarial losses	(39,180)	(38,088)	(54,934)	(73,737)
Pension liability	27,653	25,387	19,557	10,946
Experience adjustment on plan assets	3.0%	2.1%	(3.1%)	(0.3%)
Experience adjustment on defined benefit obligation	(1.4%)	(7.2%)	(3.6%)	(8.8%)

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

	2009	2008
Equities	22%	20%
Bonds	57%	62%
Interest bearing deposits	16%	11%
Loans	2%	3%
Other	3%	4%

The principal actuarial assumptions used were as follows:

	2009	2008
	\$000's	\$000's
Discount rate	6.0%	6.1%
Expected return on plan assets	6.3%	6.8%
Future salary increases (average)	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 authorized share capital of the Company as of December 31, 2009 and 2008 is \$254,664 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 the consolidated statement of comprehensive income for the year ended December 31, 2009, are plant expenses totalling \$173,357 (2008: \$172,683).

	2009	2008
	\$000's	\$000's
Payroll	49,779	46,679
Vendor discounts	36,590	33,740
Payment to operators	23,406	23,816
Maintenance expense	11,209	15,593
Contract services	12,621	13,082
Utilities	10,730	11,915
Cost of sales	7,516	7,739
Employment benefits	4,285	5,687
Service and Support	5,055	5,111
Other	12,166	9,321
Total plant expenses	173,357	172,683

16. ADMINISTRATIVE EXPENSE

Included in the Company's consolidated statement of comprehensive income for the year ended December 31, 2009 are administrative expenses totalling \$48,058 (2008: \$52,242).

	2009	2008
	\$000's	\$000's
Payroll	13,381	12,113
Employee benefits	3,691	7,498
Insurance	3,500	4,362
Advertising	1,522	3,578
Consultancy	2,483	2,438
Other	23,481	22,253
Total administrative expenses	48,058	52,242

17. GOVERNMENT FEES

During the year, the Company expensed business licence fees of \$1,173 (2008: \$702) and URCA fees of \$2,919 (2008: \$4,299). Franchise fees for the year were \$2,667 (2008: \$4,000), Communication Licence fee of \$3,387 (2008: nil) and real property taxes of \$438 (2008: nil).

18. PROCEEDS FROM INSURANCE

During the year, the Company received \$343 (2008: \$163) from its insurers for damages sustained for various incidents throughout the year.

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

19. STAFF COSTS

	2009	2008
	\$000's	\$000's
Salaries and benefits	84,273	82,955
Pension costs (Note 13)	13,144	15,805
National insurance	1,415	1,437
Total amount of staff costs capitalised into property, plant and equipment	(2,375)	(4,701)
	96,457	95,496

The number of employees as of December 31, 2009 was 1,228 (2008: 1,255). The average number of employees for the year ended December 31, 2009 was 1,242 (2008: 1,258).

20. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the total remuneration of the Directors was \$74 (2008: \$77).

Total salaries and benefits expense relating to key management personnel was \$2,032 (2008: \$1,878).

	2009	2008
	\$000's	\$000's
Transactions and balances with Government Ministries, Departments and Corporations:		
Revenues	10,421	14,895
Expenses	20,619	26,867
Amounts due from	3,030	12,592
Amounts due to	7,062	8,440
Available-for-sale investments	19,518	21,592

21. COMMITMENTS AND CONTINGENCIES

a. Operating Lease Commitments

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

	2009	2008
	\$000's	\$000's
Not later than 1 year	946	1,062
Later than 1 year and not later than 5 years	941	1,626
Later than 5 years	575	764
	2,462	3,452

The Company has expensed amounts in the consolidated statement of comprehensive income totalling \$1,303 (2008: \$1,311) that relate to operating leases for the year. The leases have an average life of between three and twenty five years with certain renewal clauses.

(continued)

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Included in assets vested to the Government in 2002 was an administrative office building in Freeport, which was the Company's principal administrative location in Freeport. BTC vacated this building on September 30, 2009.

In constructing the Company's GSM Cell Phone Networks, the Company has erected towers on several sites (cell sites) which may be owned by the Government or third parties. A Master Cell Site Agreement was formalised and signed with the Treasurer of The Bahamas on December 23, 2009.

In addition, the Company has provided for potential cost of dismantling towers at the end of the lease periods. The estimated cost is \$840 (Note 8).

b. Capital and Other Commitments

Capital expenditures on property, plant and equipment contracted for as of the consolidated balance sheet date but not recognised in the consolidated financial statements amounted to approximately \$23,500 (2008: \$42,700).

22. DIVIDENDS

During 2009, the Board of Directors declared the following dividends:

	2009	2008
	\$000's	\$000's
Paid in Cash	80,000	25,000
Settlement of Receivables	15,725	-
Privatization Costs	-	4,778
Total	95,725	29,778

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.

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2009 based on contractual undiscounted payments.

(continued)

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	On Demand	Up to 1 Year	1 -5 Years	5+ Years	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
December 31, 2009					
Loans payable		11,236	35,564	-	46,800
Trade payable	1,275	-	-	-	1,275
Accrued and other liabilities	35,168	-	-	-	35,168
Security deposits from customers	21,944	-	-	-	21,944
Derivative financial instruments	-	-	2,780	-	2,780
Deferred income	12,369	-	-	-	12,369
	70,756	11,236	38,344	-	120,336
December 31, 2008					
Loans payable	-	14,727	46,800	-	61,527
Trade payable	15,883	-	-	-	15,883
Accrued and other liabilities	34,262	-	-	-	34,262
Security deposits from customers	24,007	-	-	-	24,007
Derivative financial instruments	-	-	3,895	-	3,895
Deferred income	12,216	-	-	-	12,216
	86,368	14,727	50,695	-	151,790

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.

The principal amounts outstanding are as follows:

(continued)

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	2009	2008
	\$000's	\$000's
Maturities		
December 15, 2013	40,750	47,750

The fair and carrying value of the Interest Rate Swap as of December 31, 2009 was \$2,780 out of the money (2008: \$3,895 out of 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.

	2008	2007
	Increase/Decrease in Basis Points	Effect in Net Income \$000's
2009	+20	82
	-20	(82)
2008	+20	298
	-20	(298)

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;
- 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, 2009 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.

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 year ended December 31, 2009.

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.

(continued)

The Bahamas Telecommunications Company Limited

Notes to Consolidated Financial Statements, December 31, 2009 (\$000's unless otherwise stated)

24. FINANCIAL INSTRUMENTS (CONTINUED)

	2009	2008
	\$000's	\$000's
Loans payable	46,800	61,527
Shareholder's equity	375,670	436,904
Debt to equity ratio	12%	14%

Fair Values

Financial Instruments

Fair Value Disclosure

Financial Instruments are valued based on whether the inputs to the valuation techniques are observable or unobservable. Observable inputs reflect the market data obtained from independent sources. Unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy.

Level 1: Quoted prices in active markets for identical assets and liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs to the valuation techniques for the asset or liability is not based on observable market data.

Assets and liabilities measured at fair value include available-for-sale investments and derivative financial instruments both of which falls within Level 2 of the fair value hierarchy.

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.

	Carrying Amount		Fair Value	
	2009	2008	2009	2008
	\$000's	\$000's	\$000's	\$000's
Financial Assets				
Cash	61,092	118,600	61,092	118,600
Accounts Receivable	42,158	55,586	42,158	55,586
Available-for-sale investments	19,518	21,766	19,518	21,766
Financial Liabilities				
Loans payable	46,800	61,527	49,260	54,604
Derivative financial instruments	2,780	3,895	2,780	3,895

25. SUBSEQUENT EVENTS

The privatization costs of \$14,179 (2008: \$4,778) was approved by the Board of Directors as a dividend on October 21, 2010.

BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED
JOHN F. KENNEDY DRIVE
P.O. BOX N-3048, NASSAU, BAHAMAS
TEL: (242) 225-5282
FAX: (242) 326-7474
www.btcbahamas.com

Produced by Diane Phillips & Associates, Nassau, Bahamas
Designed by Janice Hardy