Annual Report 2010

KeyTech Limited

challenger WestTel BERMUDA YELLOW PAGES m3 wireless Logic BTC The Bermuda Telephone Company Limited

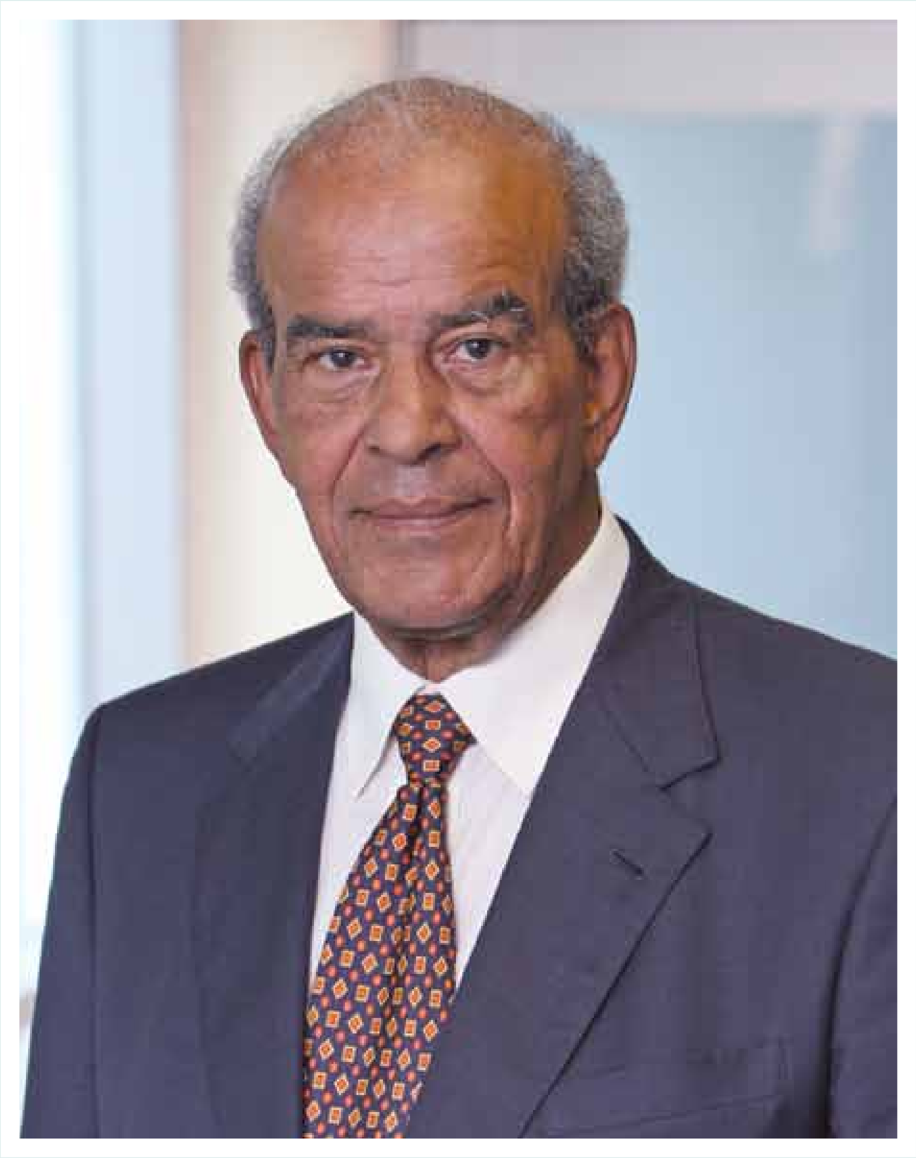
Unlocking a World of Connections

As we faced an environment characterized by a weak economy, regulatory uncertainty and continued customer price pressure, our objectives over the last year focused on customer retention, growing data revenues and improved operating procedures and cost containment.

Total revenues for 2009/10 increased $1.5 million to $107 million due to growth in data and cellular revenues exceeding declines in our fixed line revenue. Our prior year investments in the Challenger high speed submarine cable and M3 Wireless' high speed 3G network are both part of our long term strategies to grow data and wireless revenues.

We anticipate that the economic environment will continue to be difficult however we believe our strategies are sound and we are clear on the work ahead of us for the next year – focusing on our core businesses and customer relations, enhancing service capacity in our wireless networks, deploying further fiber in Cayman and continuing to seek ways to move forward with fiber investment in Bermuda. We will also be fully engaged in the regulatory changes in our industry, seeking opportunities, acting in a proactive manner and putting forth constructive views to ensure the benefits of regulatory change outweigh the costs.

Contents



Chairman's Report

In the 2009 turbulent economic environment, the Company's revenues held up well, increasing 1.5% year over year, due to focus on sales across the group and to growth in data and wireless services, and despite significant on-going declines in fixed line voice services. Importantly, our 2008/09 investments in Challenger and our wireless networks enabled the revenue growth we experienced in 2009/10.

The KeyTech Group of Companies concluded fiscal year 2009/10 with a net income of $6.3 million, down $4.3 million over the prior year due to both a significant decline in the net income from our fixed line voice business and the $2.1 million impairment on a holding of Butterfield Bank shares. In mid 2008, the Company sold the bulk of its marketable securities holdings to fund the construction of the Challenger submarine cable system. At that time, we decided not to liquidate the Butterfield Bank shareholding due to existing market liquidity conditions and share valuations. As of 31 March 2010 the Butterfield Bank holding is the Company's only material marketable security and we intend to hold the investment for the near term to enable shareholders of the Company to benefit from any future price appreciation.

In the current year, as we continued to manage expenses, we took the decision to emphasize our core network services businesses and to reduce the operating expense required to support lower margin peripheral businesses, such as customer premises equipment, by transitioning out of those lines of business. This will be an on-going process. Total cash dividend payments for the year were $0.60 per common share. The Board has revised the cash dividend rate to $0.48 per common share for the next fiscal year, or $0.12 per common share per quarter. While we fully recognize the importance of dividends to our shareholders we believe this is a prudent step which reflects the general weak economic conditions that we expect to continue for 2010/11 and anticipated increases in regulatory costs.

In May 2010, the Bermuda government issued, for industry consultation, draft telecommunications legislation to implement its Regulatory Reform initiative which has been ongoing for the last five years. While reform has been under discussion for some time, the few weeks allowed for turnaround prior to tabling these two major pieces of legislation in the House is insufficient given the long term implications of the legislation to Bermuda.

We agree that change to the current system, which dates from 1986, is warranted. We are very concerned, however, about the breadth of regulation proposed and the additional costs (in time and money) that the industry will incur with additional regulatory fees anticipated to be up to 3% of relevant revenues or, in the case of the Company, up to $3 million annually. Thus, we must strongly put forward the premise that an assessment of proportionality, that the benefits of regulation outweigh the costs, is an essential element of any policy consideration.

Most importantly, at a time when governments around the world are adopting National Broadband Plans to ensure the rollout of next generation fibre networks, the Government's reform agenda is silent on the major infrastructure investments needed to keep Bermuda at the forefront of economic development. Regulatory decisions or regulatory uncertainty will undoubtedly impact the willingness of industry participants, including this Company, to invest in new infrastructure essential for the continued enhancement of communication services in Bermuda.

On behalf of the Board I would thank all the staff for their focus and hard work in ensuring the Company is steered through the current difficult economic conditions and the uncertain waters of regulatory reform. Our goals are to deliver value to shareholders and to ensure the Company is well positioned both to meet future challenges and to benefit from future opportunities. I would also like to take this opportunity to thank the Directors for their time and attention to the affairs of the Company.

James A. C. King, M.D., F.R.C.S.(C.), F.A.C.S., J.P.
Chairman of the Board

Chief Executive Officer's Report

Our Results

While we remained focused on our vital long-term strategies during the current economic downturn, we have been financially buffeted by the downturn's impact on our industry and on our customers in the past year. The 2010 Bermuda National Budget Statement concludes that the Bermuda economy is likely to have contracted by as much as 2.5 % during 2009.

In mid 2008 the deteriorating global economic conditions began to impact revenues particularly in the area of fixed line voice services. This has continued in 2009/10 with fixed line revenues declining $2 million year on year – exceeding our expectations of a more modest decline. The local economy has seen a reduction in employment – both guest workers and Bermudian - which has a direct impact on demand for many of our services. At the same time growth in data service demand from corporate customers is lower than in prior years. We prepared for the continued downturn by negotiating reduced maintenance rates with a number of suppliers, froze executive salaries, and took the difficult decision to reduce the total number of staff positions. Nevertheless our Bermuda fixed line business experienced a severe decline in net income. In addition, as reported in the Chairman's Report, we recorded a $2.1 million charge to net income related to the decline in value of a holding of Butterfield Bank shares.

Our prior year investments in the Challenger high speed submarine cable and M3 Wireless' high speed 3G network, both part of our long term strategies to grow data and wireless revenues, bore fruit. Our wireless and data businesses improved net income as compared to the prior year. In Cayman our losses reduced by $1.1 million and the net income from the directory business remained consistent year over year.

In total consolidated net income for 2009/10 was $6.3 million as compared to $10.6 million in the prior year.

Total revenues for 2009/10 increased $1.5 million to $107 million due to growth in data and cellular revenues exceeding declines in our fixed line revenue. Total expenses for 2009/10 increased $4.7 million compared to the prior year. Salary costs increased $2.7 million due to union wage rate increases of 3.25%, increased health care costs and increased overtime costs related to the implementation of a new billing and operating system in The Bermuda Telephone Company Limited (BTC). The Company incurred $0.8 million in staff separation costs in the current year and a further $1.1 million subsequent to the year end as we continue to restructure the businesses in light of declines in fixed line voice revenues. 2009/10 was the first full year of operation for the Challenger cable system with a resulting increase in amortization of $1.3 million and an increase of maintenance costs of $0.8 million in the current year. Partially offsetting these cost increases, general and administrative costs reduced $0.4 million year over year as we continued to apply tight fiscal discipline over expenditure decisions.

Due to recording an other than temporary impairment on marketable securities of $2.1 million as reported above, realized loss on investments increased $2.2 million compared to the prior year. Equity earnings in affiliates increased $0.7 million in the current year due to improved results from both Bermuda CableVision Limited and QuoVadis Holdings Limited.

After completing a number of large capital projects in the prior year at a total cost of $46.3 million, including the Challenger cable system, total capital asset expenditure in the current year was $11.3 million. Capital projects in the current year included renovations of 30 Victoria Street, completion of the new billing and operating systems in the BTC, cell site expansion in M3 Wireless and cyclical replacement of end of life equipment.

Our operations

As we faced an environment characterized by a weak economy, regulatory uncertainty and continued customer price pressure, our objectives over the last year focused on customer retention, growing data revenues and improved operating procedures and cost containment.

Across the Company we have been successful in customer retention goals, particularly in the areas of cellular and long distance data services. In our Bermuda corporate fixed line business we lost few voice customers to fixed line competition and data revenues were maintained. In our Bermuda residential fixed line business we have seen continued significant cellular substitution for fixed line voice and a 4% decline in residential data revenues due to competition with wireless and wire line competitors.

We have increased cellular data revenues, long distance data revenues and fixed line data revenues in Cayman. In this area we have benefited from our efforts to bring our sales teams to a consistently high standard, provide them with the information and tools they need to be effective and to increase interaction with our customers.

We experienced no severe network interruptions in 2009/10. Logic and Challenger's networks performed consistently well, as did WestTel's fiber network. M3 Wireless' 3G network has experienced congestion issues due to the popularity of the 3G service. WestTel's residential fixed wireless data network has also experienced some congestion issues. To resolve those issues we are speedily deploying additional wireless network capacity in M3 Wireless and WestTel. BTC's network suffered no significant interruptions. However the cutover by BTC from legacy billing and operating systems in 2009 did result in delays in processing service faults and installation of services. Resolution of those issues has been a major focus of management effort.

Planning for the future, we recently embarked on a comprehensive access network strategy review. Our conclusions are that while wireless mobile data services will be increasingly demanded by customers and wireless technology will continue to evolve, absent a significant change in technology, wireless will not replace fixed line as a route to deliver truly high speed broadband services of the future that will support multiple devices in the home and high bandwidth applications such as Internet Protocol television (IPTV). We base these conclusions on our review, with expert advisers, of the technologies and our own many years of experience with both wireless and wire line networks in the markets we serve. However continued investment in copper based fixed line technology is no path to the future. The re-investment over the long term is expensive, also copper is subject to a much higher fault rate than fiber and cannot support the predicted customers' increased demand for higher broadband speeds in the future. Our conclusions are validated by decisions we see being taken by communications companies around the world. The largest wireless carriers are deploying fiber fixed line networks to replace existing copper facilities.

Regulation

We have a technology path, a network design and an estimate of the cost to deploy a fully fiber based network to every home and business in Bermuda. The challenge that lies ahead of us is how to make an investment of this size and ensure it is a reasonable one to make for our shareholders. Of particular concern is the current uncertainty regarding the application of the proposed regulatory reform. The draft legislation received in May 2010 places in the hands of the future regulatory body a full list of dominance "remedies" which they may, or may not, apply to those carriers who may be deemed to have market dominance. Included in this list are pricing remedies and unbundling of network elements.

Our concern with pricing is straightforward – our ability to agree with the regulator the correct pricing cost base; an issue that has proven problematic for us thus far and is the subject of extensive litigation in other jurisdictions. Also what risk based return for our shareholders will be acceptable to a regulator with price-setting powers?

In relation to unbundling, in 2003 the Federal Communications Commission (FCC) took the decision that new fiber investments would not be subject to the unbundling of network elements that proved so costly and contentious for the industry when applied to copper networks. The logic of the FCC decision is that if the network investment is new, then it cannot be a legacy “bottleneck” facility that must be opened by the regulator to facilitate competition. In contrast, the proposed Bermuda regulation specifically lists fiber as a network element which may be subject to regulatory unbundling requirements.

We welcome the opportunity afforded by reform to move from facilities based competition to one where carriers can deploy services based on wholesale services purchased from another carrier. We believe it is effective use of our assets to offer wholesale services (carriers are a major segment of our customers today) and for our Company to have the opportunity to purchase wholesale services from other carriers. We built the submarine cable system Challenger on that basis – to offer non-discriminatory wholesale products to all carriers. Effective leveraging of capital investments in our industry will enable competition, innovation and provide the best possible pricing to customers. However the cost of dissembling a network to its very component pieces, agreeing prices with the regulator for each of those pieces proved a significant investment deterrent in markets with much larger scale and resources than ours. It would be foolhardy in the face of a new and unknown regulatory environment to assume our experience would be different and to proceed to invest significant shareholder resources without answers to these questions. It was only after the FCC decided not to apply unbundling to fiber that major communications companies in the United States invested in the fiber networks being deployed today.

These are pressing issues, not just for the Company, but also for the future infrastructure of Bermuda. We are well served with international capacity following the investments in submarine cable systems in recent years. The challenge now is how to get the benefits of that connectivity to the places where we live and work. Super fast, reliable communications infrastructure will be one of the underpinnings of Bermuda’s future relative competitive position, or lack thereof. The willingness of private industry to make an investment on this scale, whether this Company or our industry colleagues, will turn on decisions made by a regulator who is yet to be established.

We will continue to convey to the Government our views and questions on these and all regulatory issues in a fact based and forward looking manner. While we have numerous comments we will be making, I would take this opportunity to highlight to shareholders the issue of the cost of the proposed regulation included in the Chairman’s Report. We currently pay $3.7 million per annum in telecommunication license and spectrum fees and a further $2.6 million in employers’ payroll tax for our communications businesses. Our current effective corporate tax rate to the Bermuda government for these two taxes combined is 37% of net income before taxes. It is proposed the new regulator will charge fees to cover their newly formed administration costs, of up to 3% of revenues. If there is no reduction in the existing telecommunication fees contributed to the Government Consolidated Fund, our combined effective tax rate will increase to 53% of net income before taxes. There is only so much tax burden this industry can bear. The cost of additional taxes will fall on jobs in our industry and reduced capital investment. Our domestic market is not growing and it is not likely the industry will recoup this cost from new customer spending.

STANDING LEFT TO RIGHT

Gina Coddington - V.P. Business Sales, Service & Product Management
Nigel D. Burgess - V.P. Field Operations
Francis R. Mussenden - President & CEO
Jeanne M. Schaaf, PhD - V.P. Regulatory Affairs
Paul R. Barnes - V.P. Networks & Planning
Edgar F. Dill - Chief Operating Officer

In line with our strategy on developing data revenues we brought to market a number of enhanced services in the current year. In November 2009 BTC launched its 6 Megabyte per second SimplyDSL product for high bandwidth users and for those customers migrating to broadband from dial up a 1 Megabyte per second SimplyDSL more economical service. Gigabit Ethernet products were launched for corporate customers. BTC has a number of Ethernet data service opportunities in the pipeline to meet future demand for wide area network connectivity at higher bandwidth.

Operationally, the service delays in 2009, after converting BTC's legacy operating systems to a new integrated system, cost us both in overtime salary cost and in customer satisfaction. We are grateful to our customers for their patience with the conversion issues. Over the years the BTC team has worked hard to improve service metrics and we were very frustrated to lose some of that ground as a result of our system conversion. While all projects bring surprises, in conducting a post mortem we recognize we could have more successfully executed the changeover in this case. I am however pleased to report that at the end of the year our service metrics are close to the improved levels we achieved in prior periods. We have a number of remaining system enhancements we are working through with the vendor, however we continue to believe the integrated system will enable operational improvements in the future. The new integrated system combines in one system outside plant and network records, customer service orders and billing. We intend to launch electronic billing and online service repair request in the very near future. Also in 2009/10 BTC provided its field technicians with global positioning system ("GPS") tools such that service ticket completion and changes to the plant records can be entered real-time directly from the field. GPS also facilitates quicker and more accurate location of customer premises by the field technicians.

As we re-evaluated strategy during the year, we took the decision to focus on recurring network revenues – our core business. The provision of telephone systems at business customer premises is serviced by a number of established non-carrier competitors and BTC no longer needs to provide the service itself to enable customers to access our carrier voice and data services. It is not an area in which we have strong competitive advantage and we intend to transition out of this product line. We will continue to support existing customers through this change. In 2010/11 we intend to offer a centrally managed and hosted service for the provision of such services. This solution enables customers to receive the same functionality without the upfront capital investment and ongoing maintenance and upgrade of equipment at their premises. This is a service we have launched with success in Cayman in the current year.

STANDING LEFT TO RIGHT
Jimmy Lim - V.P. Network Operations
Ben Barlaba - Manager, Business Development
Jennifer Mahoney - AVP Marketing & Retail
Paul Coleman - V.P. Marketing
Sam Sena - Manager, Professional Services
Lloyd Fray - Chief Executive Officer

The continued growth in data demand by customers has enabled Logic to again increase data revenues both in residential Internet and the corporate market in the year.

Logic has successfully captured this demand in competitive markets due to its high Internet protocol technical capabilities, excellent customer service and a strong sales and product development skill set. Logic purchased significant additional international bandwidth capacity on the Challenger cable system and maintains redundant facilities on other cable systems serving Bermuda. In 2010/11 Logic will be adding a further point of presence to its international data network in Miami, increasing the resiliency of its network and providing additional network options for customers.

For residential customers, Logic launched 6 Megabyte per second speeds in April 2010 and has maintained consistently high service levels.

Logic has also maintained good market position in long distance prepaid calling cards and corporate long distance voice services. Looking ahead Logic will be enhancing the services and products offered to corporate customers with a range of managed services.

m3 wireless

STANDING LEFT TO RIGHT

Ken Wilson - V.P. Network Operations
Diana Winfield - V.P. Sales & Customer Operations
Karen Pyo - V.P. Marketing & Product Development
Lloyd Fray - Chief Executive Officer

The cellular market in Bermuda continues to be highly competitive with each of the three cellular providers commanding significant market share. M3 Wireless has performed very well in this environment. Building on our strong corporate position and the launch of 3G services in 2009 total revenues increased $2.3 million. Also important to the economics of the cellular business are roaming revenues secured in the wholesale carrier market. Here also M3 Wireless maintained its roaming revenues despite weak economic conditions.

During the year, M3 Wireless continued to increase its roaming contracts with wireless voice providers to enable Bermuda customers to roam overseas. Voice roaming extends to 127 countries, and data roaming to 86 countries.

While our 3G service has experienced strong take-up, this has brought with it some short term issues in the form of network congestion. We know service quality is imperative to customer retention and we are rapidly investing in additional network capacity that will be available this summer to remedy these issues.

BERMUDA YELLOW PAGES®
PRINT • ONLINE • MOBILE

STANDING LEFT TO RIGHT

Wendy Morris - Office Manager
Anthony Richardson - Operations Manager
Gary Taylor - Management Consultant
Antoinette Richardson - Sales Team Leader

Bermuda Yellow Pages (BYP) faced the most challenging sales campaign in many years. BYP customers are for the most part small and medium sized local businesses, many related to the tourism and construction industries. These customers have been hit hard by recent economic conditions. BYP responded by spending more time with customers, extending the Internet sales campaign and adding more product value for the money spent. It is clear customers recognize the value BYP brings to their businesses in terms of qualified sales leads. Had BYP not demonstrated value to customers over the years directory sales would have declined as customers looked to cut costs. Instead BYP delivered a high quality product for advertisers and maintained net income.

The Internet is increasingly part of the BYP business model. For a number of years BYP has promoted online advertising via the www.bermudayp.com website and has added new products and enhancements to that site on a continual basis. BYP is now sharing its extensive knowledge of Internet search and behavior activity to assist its customers with developing their strategies for marketing on the Internet. In 2009/10 BYP completed development of a proprietary software platform and database to support further development of the functionality of www.bermudayp.com and final testing is being completed for a launch in 2010/11

WestTel

STANDING LEFT TO RIGHT

Mike Edenholm - Chief Executive Officer
Lewie Hydes - V.P. Networks
Shannon Oberprillar - Financial Accountant
Graham Baxter - Manager, Professional Services
Calvin Morton - V.P. Sales

WestTel made positive ground in 2009/10. Losses decreased $1.1 million as anticipated with additional data revenues combined with cost reduction steps taken in the prior year improving bottom line performance.

We completed the first fiber route and revenues exceeded budget. The payback period on the capital investment is attractive and the fiber has proven to be extremely fault resilient enabling more efficient operations. Given we achieved our financial targets for the first fiber route we spent considerable time and energy obtaining the necessary governmental permissions to deploy fiber to the George Town business district. We were successful in those efforts and expect to bring the additional fiber route into service in 2010/11.

WestTel offers both data and local voice services and is a good source of product innovation for both BTC and Logic. WestTel has offered hosted data services for some time in Cayman. Significant effort has been directed at market education with recent encouraging signs around customer acquisition. These experiences are useful for Logic as it started offering hosted data services in the later part of the current year. WestTel has also developed and sold hosted voice services to customers as an alternate to purchasing a physical telephone system. BTC plans to offer similar services in 2010/11.

Subsequent to the year end, the Company has received regulatory permission to acquire the remaining minority interest in WestTel and we expect to complete this transaction early in the new fiscal year. We anticipate WestTel will rebrand to the Logic Communications brand. Many customers in the Cayman market recognize the Logic Communications brand as a market leader in the provision of corporate data services due to the long established position in Bermuda and the cross pollination of business interests between Bermuda and Cayman. We believe the re-brand will enhance WestTel's sale of data services on fiber.

challenger

Ray Charlton - V.P. Cable Station Operations

Cable Co. is the subsidiary which has constructed and operates a submarine high capacity cable system, Challenger. Challenger was completed in December 2008, and spans 1,445 kilometers, linking Bermuda to the United States. Challenger was born of a need to increase competition in the provision of international data capacity and an opportunity to enhance the resiliency of communications to and from Bermuda.

The Challenger cable system has operated to specification and without service interruption since its completion.

Capacity on Challenger is sold wholesale to other carriers serving the Bermuda market, including Logic Communications, enabling them to grow their retail business and develop new products.

We took the view before we commenced the project that with numerous well-established carriers servicing residential and corporate customers today duplicating existing customer care, billing, sales and marketing functions was unnecessary for retail competition to thrive in Bermuda and would be an inefficient business model. We have not changed our views. We believe wholesale access on a non-discriminatory basis is an effective means of leveraging large infrastructure investments effectively.

Affiliates

Bermuda CableVision continues to attract additional revenue both in the provision of entertainment services and high speed data. As a result our earnings from Bermuda CableVision increased versus the prior year.

QuoVadis has had an interesting year. With unanimous shareholder support QuoVadis has formed an agreement with a joint venture partner for its data center and related services in Bermuda, including the construction a new state of the art data center in Hamilton. Its digital certificate business does not form part of the joint venture and in the last six months of our fiscal year QuoVadis has made good progress converting pipeline certificate sales to signed sales, particularly in the Swiss market and the indications are that this trend will continue. QuoVadis also has certificate operations in Bermuda, the Netherlands and the United Kingdom.

Our Community Involvement

We continue to contribute to charities we have long supported. We recognize that in difficult economic times fund raising for charities is hard and they rely heavily on continued support. During 2009/10, in addition to many other deserving causes, we supported the Catlin Bermuda End to End, Tall Ships Bermuda, The Family Centre, Parents Resource Institute for Drug Education "PRIDE", and the Ross Blackie Talbot Golf Charity Classic in Bermuda. In Cayman, we contributed to the Chad Leslie Sponsorship Island Games and Kings Sponsorships Soccer and Hockey programs.

Our Outlook for 2010/11

We anticipate that the economic environment will continue to be difficult however we believe our strategies are sound and we are clear on the work ahead of us for the next year – focusing on our core businesses and customer relations, enhancing service capacity in our wireless networks, deploying further fiber in Cayman and continuing to seek ways to move forward with fiber investment in Bermuda. We will also be fully engaged in the regulatory changes in our industry, seeking opportunities, acting in a proactive manner and putting forth constructive views to ensure the benefits of regulatory change outweigh the costs.

In closing, I would like to take this opportunity to thank the staff for all their hard work and commitment this year. We have operated in a difficult environment with regulatory uncertainty coupled with weak economic conditions. We achieved much of what we set out to do and look to the future determined to continue to ensure this Company remains a strong source of value to all stakeholders – shareholders, customers and employees.

Sheila Lines

Sheila A. Lines
Chief Executive Officer

Board of Directors

STANDING LEFT TO RIGHT

CHAIRMAN
James A.C. King, M.D., F.R.C.S.(C.), F.A.C.S., J.P.
Director since 1979

DEPUTY CHAIRMAN
Senator Jeanne J. Atherden, C.A., J.P.
Chairman
Hotel Pension Fund
Director since 1988

Mr. Glen C. Smith, J.P.
Director
LOM Holdings Limited
Director since 2004

Ms. Fiona E. Beck
President & Chief Executive Officer
Southern Cross Cable Network
Director since 2003

Mr. S. Sean Tucker, J.P., LL.B.
Attorney
King & Associates
Barristers & Attorneys
Director since 2001

Mr. Roderick A. Ferguson III, MBA, J.P.
Chairman
Gorham's Ltd.

Chairman
Purvis Ltd.

Director
Victoria Place Ltd.

Director
Bermuda Container Line Limited
Director since 1988

Mr. Gary L. Philips, OBE, CIArb
Director since 2000

Mr. Michael J. Mello, Q.C., J.P., T.E.P.
Senior Partner
Mello Jones & Martin
Director since 1993

Mr. Colin V.K. Williams
Director
PacketExchange (Ireland) Limited
Director since 1997

Mr. Peter C. Durhager
Chief Administrative Officer
RenaissanceRe Holdings Limited

President
RenaisannceRe Services Limited

Director
Ascendant Group Limited
Director since 2000

Five Year Financial and Statistical Summary

As at 31st March 2010

	2010	2009	2008	2007	2006
Revenue & Expense Items					
($000'S)					
Operating revenues	107,037	105,483	108,478	105,383	98,899
Total expenses excluding amortisation	80,775	77,426	76,414	77,015	67,669
Depreciation and amortization	20,062	18,718	19,063	20,351	18,575
Net earnings	6,314	10,551	14,596	9,170	11,677
Cash dividends declared					
on Common shares	8,738	8,547	7,944	7,771	7,222
Balance sheet items					
($000's, except number of shares)					
Total assets	164,716	173,088	174,886	161,904	159,068
Shareholders' equity	142,712	143,765	145,054	136,431	136,280
Number of common shares	14,564	14,564	13,240	13,240	12,037
Per common share					
($'s)					
Net Earning - Basic	0.434	0.724	1.002	0.630	0.802
Cash dividend	0.600	0.600	0.600	0.600	0.600
Net assets - Basic	9.80	9.87	9.96	9.37	9.35
Items of interest					
Capital expenditures ($000's)	11,316	46,324	24,849	20,960	16,675
Number of employees (full time)	332	395	433	422	408

Auditors' Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants
Dorchester House
7 Church Street
Hamilton HM 11
Bermuda
Telephone +1 (441) 295 2000
Facsimile +1 (441) 295 1242
www.pwc.com/bermuda

23rd June 2010

To the Shareholders of KeyTech Limited

We have audited the consolidated balance sheet of KeyTech Limited as at 31st March 2010 and the consolidated statements of earnings, retained earnings, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31st March 2010 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

Chartered Accountants

Consolidated Balance Sheet

As at 31st March 2010

	Notes	2010	2009
Assets			
Current assets			
Cash and cash equivalents	16	$ 7,199,456	$ 7,480,047
Accounts receivable	16	8,824,993	8,407,625
Merchandise, materials and supplies	18	5,049,060	4,951,641
Prepaid expenses and other assets		5,679,684	5,020,973
Total current assets		26,753,193	25,860,286
Marketable securities	16	575,295	3,363,348
Investments in affiliates	6	12,319,538	9,992,721
Capital assets, net	7	103,043,723	113,502,649
Intangible assets, net	8	21,588,925	19,875,717
Deferred pension asset	9	435,000	493,000
Total assets		$ 164,715,674	$ 173,087,721
Liabilities			
Current liabilities			
Bank overdraft	16	$ 59,750	$ 3,220,780
Accounts payable and accrued liabilities		13,212,895	16,695,763
Long-term debt redemption amounts unclaimed	10	552,004	552,004
Preferred share redemption amounts unclaimed	11	945,132	1,149,122
Dividends payable		2,184,538	2,175,610
Deferred income		1,794,706	1,982,410
Total current liabilities	16	18,749,025	25,775,689
Deferred investment gain	6	497,839	746,761
Accrued post-retirement medical benefits	9	2,757,210	2,800,210
Total liabilities		22,004,074	29,322,660
Shareholders' equity			
Share capital	11	3,640,908	3,640,908
Share premium	11	83,413,733	83,413,733
Contributed surplus		20,920,454	20,920,454
Retained earnings		34,687,616	37,112,177
Accumulated other comprehensive income		48,889	(1,322,211)
Total shareholders' equity		142,711,600	143,765,061
Total liabilities and shareholders' equity		$ 164,715,674	$ 173,087,721

Approved by the Board of Directors Director Director

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Earnings

For the year ended 31st March 2010

	Notes	2010	2009
Revenues and other income			
Wireline revenues		$ 50,993,619	$ 53,228,376
Wireless revenues		26,161,902	23,777,986
International long distance and network revenues		16,218,021	14,648,527
Other revenues		13,663,128	13,828,364
Total operating revenues	5	$ 107,036,670	$ 105,483,253
Expenses			
Salaries and employee benefit expenses	4	42,649,980	39,984,293
Maintenance expenses		22,613,225	21,667,160
General and administration expenses		11,542,731	11,913,212
Government taxes, fees and levies		3,969,250	3,860,982
Amortization	6, 7, 8	20,061,896	18,718,526
Total expenses		100,837,082	96,144,173
Net income before undernoted items		6,199,588	9,339,080
Equity in earnings of affiliates	6	1,884,235	1,135,084
Investment income (loss)		110,451	(164,085)
Realized loss on investments		(2,349,635)	(190,376)
Other expense	12	(58,000)	(58,000)
Non-controlling interests		526,959	489,600
Net income		$ 6,313,598	$ 10,551,303
Earnings per common share, basic and fully diluted	13	$ 0.434	$ 0.724

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Retained Earnings

For the year ended 31st March 2010

	2010	2009
Retained earnings - Beginning of year	$ 37,112,177	$ 54,562,989
Net income	6,313,598	10,551,303
	43,425,775	65,114,292
Dividends declared		
Cash	(8,738,159)	(8,547,179)
Shares	—	(19,454,936)
	(8,738,159)	(28,002,115)
Retained earnings - End of year	$ 34,687,616	$ 37,112,177

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Accumulated Other Comprehensive Income (Loss)

For the year ended 31st March 2010

	2010	2009
Accumulated other comprehensive income – Beginning of year	$ (1,322,211)	$ 1,970,374
Change in investments during the year		
Unrealised net loss	(978,535)	(3,482,961)
Realized loss on investments	2,349,635	190,376
Accumulated other comprehensive loss	1,371,100	(3,292,585)
Accumulated other comprehensive income (loss) – End of year	$ 48,889	$ (1,322,211)

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31st March 2010

	2010	2009
Cash flows from operating activities		
Net income for year	$ 6,313,598	$ 10,551,303
Items not affecting cash		
Amortization	20,061,896	18,718,526
Net realized loss on marketable securities	2,239,184	446,635
Equity in earnings of affiliates	(1,884,235)	(1,135,084)
Post-retirement benefits expense in excess of amounts paid	75,000	(4,073,000)
Non-controlling interests	(526,959)	(489,600)
	26,278,484	24,018,780
(Decrease) Increase in non-cash working capital	(4,377,112)	2,667,617
Cash provided by operating activities	21,901,372	26,686,397
Cash flows from investing activities		
Investments, net	(691,504)	—
Sale of marketable securities	1,919,970	8,554,574
Purchase of marketable securities	—	(1,879,812)
Acquisition of capital assets	(11,316,178)	(46,324,188)
Cash used for investing activities	(10,087,712)	(39,649,426)
Cash flows from financing activities		
Bank overdraft	(3,161,030)	3,220,780
Redemption of notes payable	—	(27,542)
Cash paid on share dividend	—	(8,209)
Redemption of preferred shares	(203,990)	(49,006)
Dividends paid on common shares	(8,729,231)	(8,349,385)
Cash used for financing activities	(12,094,251)	(5,213,362)
Decrease in cash and cash equivalents	(280,591)	(18,176,391)
Cash and cash equivalents - Beginning of year	7,480,047	25,656,438
Cash and cash equivalents - End of year	$ 7,199,456	$ 7,480,047

The accompanying notes are an integral part of these consolidated financial statements

Notes to Consolidated Financial Statements

31st March 2010

1. The Company

KeyTech Limited (the "Company") is incorporated in Bermuda with limited liability under the Companies Act 1981. KeyTech Limited, through its subsidiaries and affiliates, is a supplier of information and communications services, providing a wide range of voice, data, Internet, media and consulting products and services.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The following are the significant accounting policies adopted by the Company:

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries; The Bermuda Telephone Company Limited ("BTC"), M3 Wireless Ltd. ("M3"), Logic Communications Limited ("Logic"), Bermuda Yellow Pages Limited ("BYP"), Key Management Services Limited ("KMS"), Cable Co. Ltd. and Cedar Cable Ltd. (jointly "Cable Co.") together with WestTel Limited ("WestTel"), in which the Company has a majority shareholding. All significant inter-company balances and transactions have been eliminated on consolidation.

During the year ended 31st March 2007 the Company subscribed for additional shares in WestTel increasing the Company's proportionate interest to 67% at 31st March 2007. The Company and the other shareholders of WestTel entered into an agreement under which other shareholders of WestTel have the option in the year 2012 to purchase from the Company, at the higher of the original subscription price and an agreed market valuation, sufficient shares in WestTel to reduce the Company's proportionate shareholding to 50%. Under the agreement, unless and until the option is exercised and all indebtedness to the Company is retired, the Company has the right to appoint the majority of the WestTel Board of Directors. WestTel is consolidated as a subsidiary of the Company in these consolidated financial statements as at 31st March 2010 and 2009.

As majority shareholder, the Company recognizes all the losses in WestTel except those funded by contributions from the minority shareholders. At such time as WestTel becomes profitable, the Company would accrue all the profit until the cumulative historical losses accruing to the minority shareholders have been recovered.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates.

(c) Capital assets

Capital assets purchased, are reported at cost and amortized on the straight-line basis over their estimated useful lives. Gains and losses resulting from the retirement of capital assets are included in net earnings for the year.

Land and a building acquired under a capital lease arrangement are reported at the amount of the lease payments paid in advance which is equal to the fair value of the asset on the date the lease was entered into. As lease payments were paid in advance there is no offsetting lease obligation. The asset is amortized on the straight-line basis over its estimated useful life.

Costs incurred relating to plant under construction are capitalized and held unamortized within plant under construction until such time as the asset is substantially complete, at which time the asset is transferred into plant and facilities and amortized over its useful life.

(d) Investments in affiliates

The Company accounts for its investments in affiliated companies over which it has significant influence on the equity basis of accounting, whereby the investments are initially recorded at cost, adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. Where appropriate additional provisions are made to reduce the carrying value to fair value when such declines are considered to be other than temporary.

(e) Marketable securities

Marketable securities classified as long term are carried as long term assets and are accounted for on the fair value basis. Declines in fair value below cost of individual securities are recognized in the consolidated statement of earnings when such declines are considered to be other than temporary.

The Company determined that its portfolio of marketable securities is held on an available-for-sale basis as the portfolio is not actively traded and is not intended to be held to maturity. The fair value of marketable securities is determined by reference to their quoted market prices. Where quoted prices are not available for an unquoted fund, net asset values for the fund are used for fair value. Movements in the unrealized gains and losses on the portfolio of marketable securities during the current and prior year are recorded as changes in other comprehensive income for the period.

When fair value of marketable securities is below cost, the Company conducts a review of evidence of impairment of the relevant marketable securities. Such a review considers factors such as financial condition of the issuer, default in interest or principal payments, significant changes in the operations of the issuer and length of time fair value has been below cost. When a review concludes that there has been an other than temporary impairment, the cost of the marketable security is reduced to the fair value and the impairment is recognized by removing losses previously recorded in accumulated other comprehensive income to the statement of earnings.

(f) Deferred costs

Costs incurred directly relating to the publication of the annual directory are deferred and recognized in income at the date of publication. Deferred production costs of $1,670,740 (2009 - $1,891,445) are included in prepaid expenses and other assets in the balance sheet.

Costs incurred in providing subsidization of mobile handsets are deferred and recognized over the life of the mobile handset user's service contract. Deferred mobile handset subsidy costs of $704,993 (2009 - $Nil) are included in prepaid expenses and other assets in the balance sheet.

(g) Deferred income

Amounts received in advance of publication of the annual telephone directory for advertising sold are shown as deferred income in the balance sheet and are recognized as income at the date of publication.

(h) Merchandise, materials and supplies

Merchandise, materials and supplies are recorded at lower of average cost and net realizable value. The cost of merchandise and materials sold are shown as a deduction from operating revenues.

(i) Goodwill and other intangible assets

Goodwill represents the excess, at the date of acquisition, of the cost over the fair value of the net separately identifiable assets of subsidiary companies acquired. Intangibles acquired in a business combination are distinguished and separately valued from goodwill. Goodwill and intangibles with indefinite useful lives are evaluated for potential impairment annually using estimates of future net cash flows. Intangible assets with definite useful lives are initially recorded at cost and amortized over their useful economic lives to their estimated residual values and reviewed for impairment when indications of impairment exist. Any permanent impairment of the value is charged to earnings in the year the impairment is recognized.

(j) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Bermuda dollars at rates of exchange prevailing at the balance sheet date. Marketable securities, non-monetary assets and transactions denominated in foreign currencies are translated at rates of exchange prevailing at the transaction dates. Exchange gains and losses are included in net earnings for the year.

(k) Pension and post retirement benefits

As described in note 9, some of the Company's subsidiaries maintain defined contribution pension plans for their employees. In addition, the Company has a residual non-contributory defined benefit pension plan and offers post-retirement medical benefits for the benefit of employees and retirees of certain of its subsidiaries.

The cost to provide pension benefits under the defined benefit pension plan and post-retirement medical benefits is accrued and charged to earnings so as to reflect the manner in which the service giving rise to the benefits is rendered. The cost of providing benefits under the defined contribution plans is charged to earnings in the year.

The Company recognizes actuarial gains and losses relating to its defined benefit pension plan in income immediately. Actuarial gains and losses relating to post-retirement medical benefits are amortized to income over the expected average remaining service life of the covered employees.

(l) Earnings per share
Earnings per share is calculated based on the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated on the weighted average number of shares outstanding during the year combined with the weighted average number of shares that would have been issued during the year had all existing dilutive conversion rights been exercised. There existed no dilutive conversion rights in the years ended 31st March 2010 and 2009.

(m) Cash and cash equivalents
Cash and cash equivalents include highly liquid money market instruments, which can be redeemed on demand.

(n) Deferred investment gain
Under the corporate restructuring of Bermuda CableVision Limited ("BCL") (see note 6) there was both an amount in excess of the tangible assets acquired and a deferred investment gain that arose. The Company determined that the excess amount over tangible assets acquired was an intangible asset representing BCL's installed customer base. Further the Company determined that this intangible has a life of ten years being BCL's current licence period. Commencing 1st April 2002, the underlying intangible asset and the associated deferred investment gain are being amortized over ten years. Amortization of these amounts is included as a component of equity earnings in affiliates in the statement of earnings.

(o) Revenue recognition
The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability of the sales price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

For product and equipment sales, delivery generally does not occur until the products or equipment have been shipped, risk of loss has transferred to the customer, and objective evidence exists that customer acceptance provisions have been met.

Revenues derived from local telephone, long-distance and data services are recognized when services are provided. This is based upon either usage (e.g. minutes of traffic processed), period of time (e.g. monthly service fees) or other established fee schedules.

Revenues and expenses related to publishing the print directory are recognized at the time publication of the directory is completed (see notes 2(f) and 2(g) above). Revenues and expenses related to the Internet directory services are recognized on a pro rata basis over the life of the contract.

Revenues relating to minutes on cellular phone plans utilized prior to expiry in a future period are deferred until they are utilized, at which point they are taken into income.

Revenue for other services is generally recognized as services are performed.

(p) Going concern
Management has performed an assessment of the Company's ability to continue as a going concern and has concluded that preparation of these financial statements on a going concern basis is appropriate.

Notes to Consolidated Financial Statements

31st March 2010

3. Adoption of Accounting Standards

The Canadian Institute of Chartered accountants ("CICA") has issued a new accounting standard that is applicable to the Company's 2010 fiscal year. The new accounting standard is as follows:

Intangibles

Section 3064 of the CICA Handbook applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement and disclosure applicable to intangible assets. It replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450 "Research and Development Costs". The Company has included the requirements of this new standard in note 7 of these financial statements. Implementation of this new standard has resulted in the transfer of software in the amount of $48,915,674 (2009: $40,468,162) from property, plant and equipment, at cost and the transfer of $34,041,922 (2009: $28,864,985) from Accumulated Depreciation to Intangible Assets on the Consolidated Balance Sheet. Unamortized Goodwill of $3,701,460 previously disclosed as a separate line item on the Consolidated Balance Sheet is also included in Intangible Assets.

4. Expenses

In the current year, the Company incurred $811,966 (2009 - $2,653,734) in early retirement and redundancy expenses as part of a staff restructuring. These expenses are included in salaries and employee benefit expenses in the statement of earnings for the current and prior year.

5. Segmented information

Reportable segments correspond to the Company's internal organizational structure rather than the industry and geographic areas of operation. The Company operates the following reportable segments which are managed as separate business units as they operate in different industries and require different market strategies and technologies. The Company evaluates each segment's performance based on its contribution to consolidated net income. The accounting policies of the reportable segments are the same as those described in note 2.

BTC - provides a wide range of wireline voice and data services, data center services, and customer premise equipment sales and rentals.

M3 - provides cellular voice and data services and fixed wireless data services.

Logic - provides a wide range of Internet products and services, long distance voice services, consulting services and hardware and software sales.

BYP - provides printed and on-line directory services.

WestTel - provides fixed wireless and wireline voice and data services in the Cayman Islands.

Cable Co. – provides international data services on its submarine cable system between Bermuda and the United States.

Notes to Consolidated Financial Statements

31st March 2010

Segment information

	BTC	M3	Logic	BYP	WestTel	Cable Co.	Total
Year ended 31st March 2010							
Revenues from external customers	$ 54,406,517	$ 20,000,506	$ 19,530,625	$ 5,986,511	$ 5,786,638	$ 889,921	$ 106,600,718
Revenues from internal customers	5,440,699	623,021	549,767	248,083	—	1,033,337	7,894,907
Amortization	9,953,390	4,730,128	2,439,775	61,123	1,404,002	1,788,111	20,376,529
Operating expenses	43,618,487	12,628,342	15,524,611	3,942,865	7,212,296	2,280,277	85,206,878
Interest expense	404,710	444,360	—	—	—	—	849,070
Segment income (loss)	5,870,629	2,820,697	2,116,006	2,230,606	(2,829,660)	(2,145,130)	8,063,148
Segment assets	83,875,779	16,344,840	14,443,726	2,655,282	5,224,257	24,946,852	147,490,736

	BTC	M3	Logic	BYP	WestTel	Cable Co.	Total
Year ended 31st March 2009							
Revenues from external customers	$ 57,521,884	$ 17,663,548	$ 18,646,356	$ 5,850,856	$ 5,898,450	$ 128,146	$ 105,709,240
Revenues from internal customers	4,684,811	649,709	452,893	228,716	—	147,944	6,164,073
Amortization	9,945,892	4,896,902	1,467,788	12,924	1,796,461	524,808	18,644,775
Operating expenses	39,314,498	12,736,735	16,024,436	3,928,358	7,864,168	787,551	80,655,746
Interest expense	512,773	444,360	—	—	213,136	—	1,170,269
Segment income (loss)	12,433,532	235,260	1,607,025	2,138,290	(3,975,315)	(1,036,269)	11,402,523
Segment assets	86,425,978	18,612,867	17,767,923	2,548,071	5,879,107	26,650,198	157,884,144

Revenues by service

	2010	2009
Wireline services	$ 48,901,039	$ 50,859,438
International long distance and network services	16,218,023	14,648,527
Cellular services	18,492,755	16,502,758
Fixed wireless services	7,669,147	7,275,228
International interconnection fees	2,092,579	2,368,938
Hardware and software sales and rental	2,873,188	3,027,974
Directory services	6,015,355	5,849,093
Consulting services	2,922,226	3,500,930
International data services	889,921	128,146
Other services	962,437	1,322,221
	$ 107,036,670	$ 105,483,253

Hardware and software sales and rental revenues are shown net of the related cost of goods sold. Amortization of assets rented is included in amortization expense in the statement of earnings. Cost of goods sold for the current year were $4,427,630 (2009 - $3,824,771).

Notes to Consolidated Financial Statements

31st March 2010

Reconciliations

	2010	2009
Revenues from external customers		
Total segment revenues from external customers	$ 106,600,718	$ 105,709,240
Non-segment other revenue (loss)	435,952	(225,987)
	$ 107,036,670	$ 105,483,253

	2010	2009
Amortization		
Total segment amortization	$ 20,376,529	$ 18,644,775
Non-segment amortization	236,572	221,695
Elimination of inter-company amounts	(551,205)	(147,944)
	$ 20,061,896	$ 18,718,526

	2010	2009
Operating expenses		
Total segment operating expenses	$ 85,206,878	$ 80,655,746
Non-segment operating expenses	2,927,758	3,017,657
Elimination of inter-company amounts	(7,359,450)	(6,247,756)
	$ 80,775,186	$ 77,425,647

	2010	2009
Interest expense		
Total segment interest expense	$ 849,070	$ 1,170,269
Elimination of inter-company amounts	(849,070)	(1,170,269)
	$ —	$ —

	2010	2009
Net income		
Total income for reportable segments	$ 8,063,148	$ 11,402,523
Non-segment other income	(954,160)	861,339
Equity earnings in affiliates	1,884,235	1,135,084
Non-segment administrative expenses	(2,927,758)	(3,017,657)
Non-segment amortization	(236,572)	(221,695)
Elimination of inter-company amounts	(42,254)	(97,891)
Non-controlling interest	526,959	489,600
	$ 6,313,598	$ 10,551,303

	2010	2009
Total assets		
Total assets for reportable segments	$ 147,490,736	$ 157,884,144
Goodwill	3,701,460	3,701,460
Non-segment assets	53,336,796	55,419,137
Elimination of inter-company amounts	(39,813,318)	(43,917,020)
	$ 164,715,674	$ 173,087,721

6. Investments in affiliates

	2010	2009
Investment in CableVision Holdings Ltd.		
Promissory notes and accrued interest thereon	$ 9,297,119	$ 8,841,119
Interest in equity	1,151,472	(570,176)
	10,448,591	8,270,943
Investment in QuoVadis Holdings Ltd.		
Loan and accrued interest thereon	624,891	599,891
Interest in equity	581,610	1,121,887
Interest in preferred shares and warrants	664,446	—
	1,870,947	1,721,778
	$ 12,319,538	$ 9,992,721

Bermuda CableVision Limited

During the year ended 31st March 2000, the Company entered into a corporate restructuring agreement with a minority shareholder of Bermuda CableVision Limited ("BCL"). This restructuring agreement resulted in the Company gaining significant influence over BCL and exchanging its shares of BCL for 40% of the outstanding shares of a new holding company, CableVision Holdings Ltd. ("CHL"), $7,000,000 in cash and a $4,000,000 promissory note. The promissory note is unsecured, has no set terms of repayment and bears interest at 9% per annum. Interest relating to the note is included as a component of equity earnings in affiliates in the statement of earnings. The above transaction resulted in a gain of $3,697,862, net of restructuring expenses, which was deferred and was being amortized into income over a period of seven years. The period of amortization of the deferred gain was adjusted to ten years from 1st April 2002 to reflect the Company's estimate of the useful life of the underlying intangible assets acquired on restructuring. The amortization of the deferred gain is included as a component of equity earnings in affiliates in the statement of earnings.

During the year ended 31st March 2005 the Company loaned BCL $300,000 under a promissory note. During the year ended 31st March 2004 the Company loaned BCL $750,000 under a promissory note. During the year ended 31st March 2006 the Company exchanged the two promissory notes from BCL, plus accrued interest thereon, in exchange for a promissory note from CHL for $1,200,000 and $23,398 in cash. The promissory note from CHL is unsecured and bears interest at 8% per annum. Interest relating to the notes is included as a component of equity earnings in affiliates in the statement of earnings.

QuoVadis Holdings Limited

During the year ended 31st March 2005, the Company purchased a 20% equity interest in QuoVadis Holdings Limited ("QuoVadis"), a company registered in Bermuda, for $1,009,513. QuoVadis is a provider of managed security services. The Company amortized 78% of the intangible assets acquired on purchase of this equity interest over a period of five years and is amortizing 22% over a period of sixteen years. Immediately subsequent to the purchase of the equity interest in QuoVadis, the Company subscribed $3,028,538 for additional shares. The Company's proportionate equity interest after the issuance of these additional shares increased to 30%. The Company has also provided a loan to QuoVadis. Advances under the loan facility bear interest at 5% and are secured on the fixed and floating assets of QuoVadis. Amortization of the intangible assets acquired and interest on the loan are included as a component of equity earnings in affiliates in the statement of earnings. During the year ended 31st March 2008 a private equity firm based in the United States invested $7,500,000 in preference shares and common share warrants issued by QuoVadis. Repayment of the remaining loan balance is subordinated to repayment of the convertible preference shares.

During the year ended 31st March 2010 the Company committed to contribute $1,000,000 to purchase preference shares and common share warrants. As at 31st March 2010 $664,446 of the committed contribution had been made and it is the Company's expectation that the balance will be contributed during fiscal 2011. At the same time as the Company's additional investment, the existing private equity firm investor contributed an additional $4,000,000 to purchase preference shares and common share warrants. Should all outstanding common share warrants be exercised, the Company's proportionate equity interest in Quo Vadis will reduce to 22%.

7. Capital assets

	Range of amortization rates	2010	2009
Capital assets, at cost			
Land		$ 3,752,442	$ 3,752,442
Land leased under capital lease		1,000,000	1,000,000
Buildings and fixtures		54,753,966	46,007,217
Buildings leased under capital lease		831,398	831,398
Plant and facilities		202,476,276	192,945,158
Submarine cable system		26,677,227	26,453,310
Machinery and equipment		30,531,185	30,334,880
Total		320,022,494	301,324,405
Less: Accumulated amortization			
Buildings and fixtures	2% - 10%	29,299,354	25,999,322
Buildings leased under capital lease	2%	108,105	91,473
Plant and facilities	6% - 25%	162,294,821	155,797,269
Submarine cable system	6.7%	2,312,919	524,783
Machinery and equipment	20% - 33%	26,251,369	25,795,950
		220,266,568	208,208,797
Net capital assets in service		99,755,926	93,115,608
Plant under construction		3,287,797	20,387,041
Capital assets, net		$ 103,043,723	$ 113,502,649

Amortization on capital assets for the current year was $13,327,593 (2009 - $12,799,791).

8. Intangible assets

	Leased Telecommunications capacity $	Other intangibles $	Goodwill $	Total value $
Year ended March 31, 2010				
Opening net book amount	4,150,461	12,023,796	3,701,460	19,875,717
Acquisitions	—	8,447,511	—	8,447,511
Disposals	—	—	—	—
Amortization	(1,521,946)	(5,212,357)	—	(6,734,303)
Closing net book amount	2,628,515	15,258,950	3,701,460	21,588,925
At March 31, 2010				
Cost	11,282,521	49,820,082	3,701,460	64,804,063
Accumulated amortization	(8,654,006)	(34,561,132)	—	(43,215,138)
Net book amount	2,628,515	15,258,950	3,701,460	21,588,925
Year ended March 31, 2009				
Opening net book amount	5,070,696	13,901,387	3,701,460	22,673,543
Acquisitions	—	3,120,909	—	3,120,909
Disposals	—	—	—	—
Amortization	(920,235)	(4,998,500)	—	(5,918,735)
Closing net book amount	4,150,461	12,023,796	3,701,460	19,875,717
At March 31, 2009				
Cost	11,282,521	41,372,571	3,701,460	56,356,552
Accumulated amortization	(7,132,060)	(29,348,775)	—	(36,480,835)
Net book amount	4,150,461	12,023,796	3,701,460	19,875,717

Included in amortization on intangible assets for the current year is a $700,000 impairment charge on leased telecommunication capacity acquired by the Company in 1998.

Other Intangibles

Other intangibles include computer software and wireless networks.

Goodwill

The goodwill arising on the Logic acquisition in 1998 and the acquisition of a majority interest in WestTel is evaluated for potential impairment on an annual basis using estimates of future discounted net cash flows. The unamortized goodwill of $3,701,460 (2009 - $3,701,460) did not require an impairment provision in the fiscal years ended 31st March 2010 and 2009.

9. Pensions and post-retirement medical benefits

During the year ended 31st March 2000, with the coming into force of the National Pension Scheme (Occupational Pension) Act 1998 (the "Act"), the Company initiated a new defined contribution pension plan for the benefit of employees of certain subsidiaries in order to provide benefits for current and future service in compliance with the Act.

As a result of the initiation of the defined contribution plan above, the Company's non-contributory defined benefit plan (the "former plan") was amended in the year ended 31st March 2000 to substantially cease accruing benefits for future service as such service now accrues benefits under the new defined contribution plan (the "current plan"). In addition, certain other amendments were made to the former plan in order to make the provisions more consistent with similar provisions in the current plan. Employees were permitted to elect to surrender the benefits due under the former plan and transfer an amount of cash to their account in the current plan based on an actuarial estimate of the benefits surrendered. The former plan remains on a run-off basis to provide benefits to existing retirees and benefits earned to date and payable on retirement to those employees who so elected. As a result of these various transactions, there was a net increase in the net assets of the former plan. Further, as required by generally accepted accounting principles (see note 2(k)), the Company remeasured the assets and liabilities of the former plan resulting in an increase to the net assets for accounting purposes as at 1st April 2000. The Company established a valuation allowance as at 1st April 2000 to reduce the amount of the increase recorded in these financial statements to the amount that can be realized.

Subsidiaries of the Company offer post-retirement medical benefits for retired employees. The Company adjusted its accounting policy for post-retirement medical benefits for employees as required under generally accepted accounting principles (see note 2(k)). In the prior year, the Company determined to continue to provide post-retirement medical benefits only to existing retiree recipients and to those employees aged 60 at 1st April 2009. These benefits are fully vested and accrued at 31st March 2010 and 2009 and therefore no benefits for future service will be accrued in future periods. From 1st April 2009, post-retirement medical benefits are a fixed monthly financial contribution to assist the retiree with medical costs.

Notes to Consolidated Financial Statements

31st March 2010

The following table provides summaries of the post-retirement medical benefits and the defined benefit pension plans' estimated financial position as of 31st March:

	Defined benefit pension plan		Post-retirement medical benefits	
	2010	**2009**	**2010**	**2009**
Accrued benefit obligation				
Balance - Beginning of year	$ (49,324,000)	$ (50,447,000)	$ (3,010,210)	$ (7,475,210)
Current service cost	—	—	—	(233,000)
Interest cost	(3,073,000)	(2,899,000)	(188,000)	(438,000)
Net actuarial loss on plan liability	(150,000)	(248,000)	(60,000)	—
Settlements	—	—	—	4,784,000
Benefits paid, net	4,083,000	4,270,000	231,000	352,000
Balance - End of year	**(48,464,000)**	**(49,324,000)**	**(3,027,210)**	**(3,010,210)**
Plan assets				
Fair value - Beginning of year	$ 64,649,000	$ 94,996,000	$ —	$ —
Actual return on plan assets	4,564,000	(26,077,000)	—	—
Benefits paid, net	(4,083,000)	(4,270,000)	—	—
Fair value - End of year	$ 65,130,000	$ 64,649,000	$ —	$ —
Defined benefit pension plan assets consist of:				
Equity securities	66%	61%		
Debt securities	33%	34%		
Other	1%	5%		
	100%	100%		

On 31st March 2010 9.69% (2009 - 10.8%) of plan assets were invested in common shares of the Company.

	Defined benefit pension plan		Post-retirement medical benefits	
	2010	**2009**	**2010**	**2009**
Status of plan				
Funded status - plan surplus (deficit)	$ 16,666,000	$ 15,325,000	$ (3,027,210)	$ (3,010,210)
Unamortized net actuarial loss on plan liability	—	—	270,000	210,000
Unamortized past service cost	435,000	493,000	—	—
Valuation allowance against accrued benefit asset	(16,666,000)	(15,325,000)	—	—
Accrued benefit asset (liability)	$ 435,000	$ 493,000	$ (2,757,210)	$ (2,800,210)

Notes to Consolidated Financial Statements

31st March 2010

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations as at 31st March are as follows:

	Defined benefit pension plan 2010	Defined benefit pension plan 2009	Post-retirement medical benefits 2010	Post-retirement medical benefits 2009
Discount rate	5.50%	6.50%	5.50%	6.50%
Expected long-term rate of return on plan assets	8.00%	8.50%	N/A	N/A
Rate of compensation increase	3.55%	3.55%	N/A	N/A
Assumed initial health care cost trend rate	N/A	N/A	N/A	9.50%
Assumed ultimate health care cost trend rate	N/A	N/A	N/A	4.75%
Year ultimate rate is reached	N/A	N/A	N/A	2015

The Company's net benefit plan expense is as follows:

	Defined benefit pension plan 2010	Defined benefit pension plan 2009	Post-retirement medical benefits 2010	Post-retirement medical benefits 2009
Amortization of past service cost	$ 58,000	$ 58,000	$ —	$ —
Current service cost	—	—	—	233,000
Interest cost	3,073,000	2,899,000	188,000	438,000
Actual return on plan assets	(4,564,000)	26,077,000	—	—
Actuarial loss on plan liability	150,000	248,000	60,000	—
Termination Benefits	—	—	—	(4,450,000)
Change in valuation allowance against accrued benefit asset	1,341,000	(29,224,000)	—	—
Net benefit plan expense (income)	$ 58,000	$ 58,000	$ 248,000	$ (3,779,000)

Contributions relating to the Company's defined contribution pension plans during the year ended 31st March 2010 amounted to approximately $1,479,729 (2009 - $1,405,000) and were expensed during the year.

The Company classifies the expense relating to the defined contribution pension plan and the post-retirement medical benefits plan as part of operating expenses in the statement of earnings. Income and expense relating to the defined benefit pension plan are included in other expense in the statement of earnings.

10. Long-term debt redemption amounts unclaimed

The Company exercised its right to redeem the 7¾% notes effective 15th December 2002. As at 31st March 2010 and 2009, not all notes redeemed had been presented to the Company in exchange for cash. The notes remaining outstanding valued at $552,004 (2009 - $552,004) are included in long-term debt redemption amounts unclaimed on the balance sheet and do not accrue interest beyond the redemption date.

11. Share capital

	2010	2009
Authorized – 21,546,220 (2009 - 21,546,220) common shares of par value $0.25 each		
Authorized – 2,615,445 (2009 - 2,615,445) preferred shares of par value $1 each		
Issued and outstanding 14,563,633 (2009 - 14,563,633) common shares	$ 3,640,908	$ 3,640,908
Issued and outstanding Nil (2009 - Nil) preferred shares	$ —	$ —

The Company exercised its right to redeem the preferred shares effective 15th November 2003. As a result no preferred shares are now in issue. As at 31st March 2010, not all preferred shares had been presented to the Company in exchange for cash. The preferred shares remaining outstanding valued at $945,132 (2009 - $1,149,122) are included in preferred share redemption amounts unclaimed on the balance sheet and do not accrue dividends beyond the redemption date.

On 24th July 2008, the Company declared a stock dividend to shareholders of record whereby they received one common share for each ten shares held. This dividend resulted in the issuance of 1,323,465 shares on 24th July 2008 and the payment of cash amounting to $8,029 to those shareholders entitled to fractional shares. As a result of this transaction, $19,454,936 was recorded as the stock dividend based on prevailing market values with $19,124,070 being credited to share premium and $330,866 being credited to share capital in the prior year. The balance of $8,029 was charged as a cash dividend.

12. Other expense

	2010	2009
Pension expense defined benefit pension plan (note 9)	$ 58,000	$ 58,000

13. Earnings per share

The following sets forth the computation of basic and diluted earnings per share for the years ended 31st March 2010 and 2009.

	2010			2009		
	Income (numerator)	Average weighted shares (denominator)	Per share amount	Income (numerator)	Average weighted shares (denominator)	Per share amount
Net income	$ 6,313,598			$ 10,551,303		
Basic earnings per share						
Income available to common shares	6,313,598	14,563,633	$ 0.434	10,551,303	14,563,633	$0.724

Average weighted shares have been adjusted to reflect retrospectively the stock dividend declared 24th July 2008 (see note 11).

14. Government license fee

Certain subsidiaries of the Company are required to pay a license fee to the Governments of Bermuda or the Cayman Islands. The Government of Bermuda is paid a license fee based on 6% or 3% of certain revenues, and the Government of the Cayman Islands is paid a license fee based on 6% of revenues less certain allowable deductions specified in its license. The license fees for the year ended 31st March 2010 were approximately $3,179,956 (2009 - $3,128,104).

15. Commitments

The Company has entered into operating lease agreements for its premises and telecommunications capacity and contracts to construct certain assets. Minimum commitments pursuant to these leases and contracts are as follows:

	$
2011	5,883,872
2012	3,653,068
2013	2,550,503
2014	2,224,564
2015	2,221,727
2016 and beyond	8,620,601

16. Financial assets and liabilities

Fair values approximate amounts at which financial assets and liabilities could be exchanged between willing parties and are determined using judgment and after consideration of uncertainties. Therefore, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

	2010		2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 7,199,456	$ 7,199,456	$ 7,480,047	$ 7,480,047
Accounts receivable	8,824,993	8,824,993	8,407,625	8,407,625
Marketable securities:				
Mutual funds	168,721	168,721	122,581	122,581
Bonds	—	—	1,786,900	1,786,900
Equities	406,574	406,574	1,453,867	1,453,867
	575,295	575,295	3,363,348	3,363,348
Bank overdraft	59,750	59,750	3,220,780	3,220,780
Other current liabilities	18,689,275	18,689,275	22,554,909	22,554,909

The following are the significant financial risks associated with each significant class of financial assets and liabilities and the methods and assumptions used to estimate fair value.

Management of Financial Risk: The Company evaluates foreign exchange, interest rate, credit risk, liquidity risk, market and establishes risk management practices where the risk is deemed greater than immaterial:

(a) Cash and cash equivalents

Cash and cash equivalents includes deposits held by one United States bank and one Bermuda bank and a Bermuda subsidiary of an international bank as well as money market funds. The fair value of deposits with banks approximates their carrying value. The fair value of money market funds approximates carrying value as they are readily realizable at this amount. Interest income on cash and cash equivalents is included in other revenues in the consolidated statement of earnings. No significant interest rate risk is associated with cash and cash equivalents. There is a concentration of credit risk as substantially all cash is held with a Bermuda bank and a Bermuda subsidiary of an international bank. To manage cash flows on an annual basis the Company holds cash and cash equivalent balances, marketable securities and at 31st March 2010 has an unsecured overdraft facility of $7,500,000.

(b) Accounts receivable

The fair value of accounts receivable approximates carrying value, which is net of an allowance for doubtful accounts. There is a credit risk that the Company may not be able to collect all of its customer accounts receivable, however this does not represent a concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. To manage credit risk the Company executed a credit and collections policy and establishes allowances for doubtful debts.

The allowance for doubtful accounts is established based on the judgment of management after consideration of historical trends and expectations of future developments. As the allowance is an estimate, there is the risk that actual results may differ from the estimate.

Analysis of accounts receivable by age is as follows:

	2010	2009
Current	$ 4,448,164	$ 4,186,758
30 days	3,357,310	2,512,715
60 days	826,797	630,720
90 days and over	4,892,674	4,822,709
	13,524,945	12,152,902
Allowance for doubtful accounts	(4,699,952)	(3,745,277)
Accounts receivable balance	$ 8,824,993	$ 8,407,625

Notes to Consolidated Financial Statements

31st March 2010

(c) Marketable securities

The fair value of marketable securities is determined by reference to their quoted market prices. Where quoted prices are not available for an unquoted fund, net asset values for the fund are used for fair value. It is the Company's opinion that there are no unusual interest rate or credit risks associated with marketable securities. The marketable securities are subject to market risk and general economic conditions which can affect the fair value of these financial assets. The Company has not acquired marketable securities in the year to 31st March 2010 and intends to divest remaining security positions if prices improve. To identify market risk the Company reviews individual investment holdings for existence of evidence of impairment. Total interest income from marketable securities was $72,161 for the year ended 31st March 2010 (2009 – $232,859). Total fee expense relating to the management of marketable securities was $36,937 for the year ended 31st March 2010 (2009 – $141,355). Interest income, dividend income realized and unrealized gains and losses on marketable securities, net of related management fees are included in investment income (loss) and realized loss on investments in the consolidated statement of earnings. Transaction costs related to the acquisition of marketable securities are added to the recorded cost of the marketable securities, however carrying value of marketable securities is at fair value excluding any additional transaction costs to acquire or dispose of such financial assets.

The Company has reviewed all marketable securities held at 31st March 2010 and 31st March 2009 for evidence of impairment. The Company has determined that an investment in common shares of a Bermuda bank originally acquired at a cost of $2,500,000 is impaired and the Company has recorded an impairment charge at $2,152,083 in relation to this investment in the current year. The remaining estimated fair value of this investment at 31st March 2010 is $347,917.

Assessment by the Company of evidence of impairment involves the use of estimates as disclosed in note 2(b). The Company holds its marketable securities on an available for sales basis and therefore records the difference between carrying value and fair value as a component of accumulated other comprehensive income within shareholders' equity on the consolidated balance sheet. If impairment is determined, the amount of such impairment is removed from accumulated other comprehensive income and is recorded in the consolidated statement of earnings for the reporting period.

(d) Fair value

The fair value of short term bank overdraft facilities approximates their carrying value as the facilities are short-tem in nature and can be repaid at any time without incurring penalties. Total interest expense in relation to these facilities was $219,478 for the year ended 31st March 2010 (2009 – $97,602) and is included in general and administrative expenses in the consolidated statement of earnings.

(e) Bank overdraft and other current liabilities

The fair value of the bank overdraft and current liabilities approximates their carrying value due to their relatively short-term nature. The bank overdraft is subject to a $7,500,000 limit, incurs interest expense at the Bermuda Dollar Rate plus 1% on amounts drawn and is unsecured. The bank overdraft facility expires in October 2010.

The Company's financial position could be adversely affected if it fails to maintain sufficient liquid financial assets and credit facilities to meet obligations incurred in the normal course of business as they fall due. The Company forecasts operating cash flow and capital requirements and on an on-going basis monitors its actual liquidity position. To assist in the management of short term liquidity risk the Company has an unsecured bank overdraft facility of $7,500,000. The Company has no long term funding obligations that require refinancing or repayment.

17. Rate regulated entities

BTC, a principal operating subsidiary of the Company, and BCL an affiliate of the Company, are subject to rate regulation. Changes to BTC's rates for telecommunications services and BCL's rates for services require the approval of the Bermuda Telecommunications Commission.

18. Merchandise, materials and supplies

During the year the Company expensed merchandise, materials and supplies totalling $8,230,705 (2009 - $6,930,651). Merchandise, materials and supplies written off during the year totalled $111,083 (2009 - $577,552).

Carrying amounts of merchandise, materials and supplies in classifications appropriate to the entity is as follows:

	2010	2009
Voice equipment	$ 5,019,523	$ 5,051,569
Computer equipment	204,983	150,026
Cable and other plant spares	477,012	538,091
Allowance for obsolescence	(652,458)	(788,045)
	$ 5,049,060	$ 4,951,641

19. Capital management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company measures capital by reference to total shareholders' equity as included on the consolidated balance sheet. The Company has met its objective in managing capital for both the current and the prior year. The Company seeks to generate sufficient cash from operations to meet capital asset expenditure and dividend payments to shareholders over the long term with capital requirements in particular varying on an annual basis.

20. Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

21. Subsequent events

Subsequent to the year end, the Company has received regulatory permission to acquire the remaining minority interest in WestTel. The Company expects to complete this transaction in the next fiscal year.
Also subsequent to the year end, the Company incurred $1,116,926 in redundancy expenses.

Officers and Executives

Company Officers

Mr. John C.R. Collis
Secretary
Barrister & Attorney

Partner
Conyers Dill & Pearman

Ms. Dawna L. Ferguson
Assistant Secretary
Conyers Dill & Pearman

KeyTech Group Executives

Ms. Sheila A. Lines
Chief Executive Officer

Ms. Leslie Rans
Chief Financial Officer

Mr. Graham Simmons
General Counsel

Mr. Philip S. Harris
Director of Human Resources,
Corporate Communications and Premises Management

Mr. Richard Lau
Director of Information Technology

Common shares held by Directors - 578,431.

Commons shares held by Executive Management - 9,709

No rights to subscribe to shares or debt securities in the Company have been granted to, or exercised by, any Director, Officer or member of the KeyTech Executive Management.

There are no contracts of significance subsisting during or at the end of the financial year in which a Director was materially interested either directly or indirectly.

PRINCIPLE SUBSIDIARIES

The Bermuda Telephone Company Limited
30 Victoria Street, Hamilton HM 12, Bermuda
www.btc.bm

Logic Communications Ltd.
30 Victoria Street, Hamilton HM 12, Bermuda
www.logic.bm

M3 Wireless Ltd.
30 Victoria Street, Hamilton HM 12, Bermuda
www.m3wireless.bm

Bermuda Yellow Pages Limited
Swan Building, 26 Victoria Street,
Hamilton HM 12, Bermuda
www.bermudayp.com

WestTel Limited
2nd Floor, Block 2, Governors Square,
23 Lime Tree Bay Road, Grand Cayman
www.westtel.ky

Cable Co. Ltd.
30 Victoria Street,
Hamilton HM 12, Bermuda
www.challenger.bm

KeyTech Limited
P.O. Box HM 1021, Hamilton HM DX, Bermuda

Tel: +1 441 295 5009
Fax: +1 441 292 4984
www.keytech.bm