KeyTech LIMITED

Annual Report 2011

Unlocking a World of Connections

m3 wireless

Logic

challenger

BERMUDA YELLOW PAGES PRINT • ONLINE • MOBILE

BTC The Bermuda Telephone Company Limited

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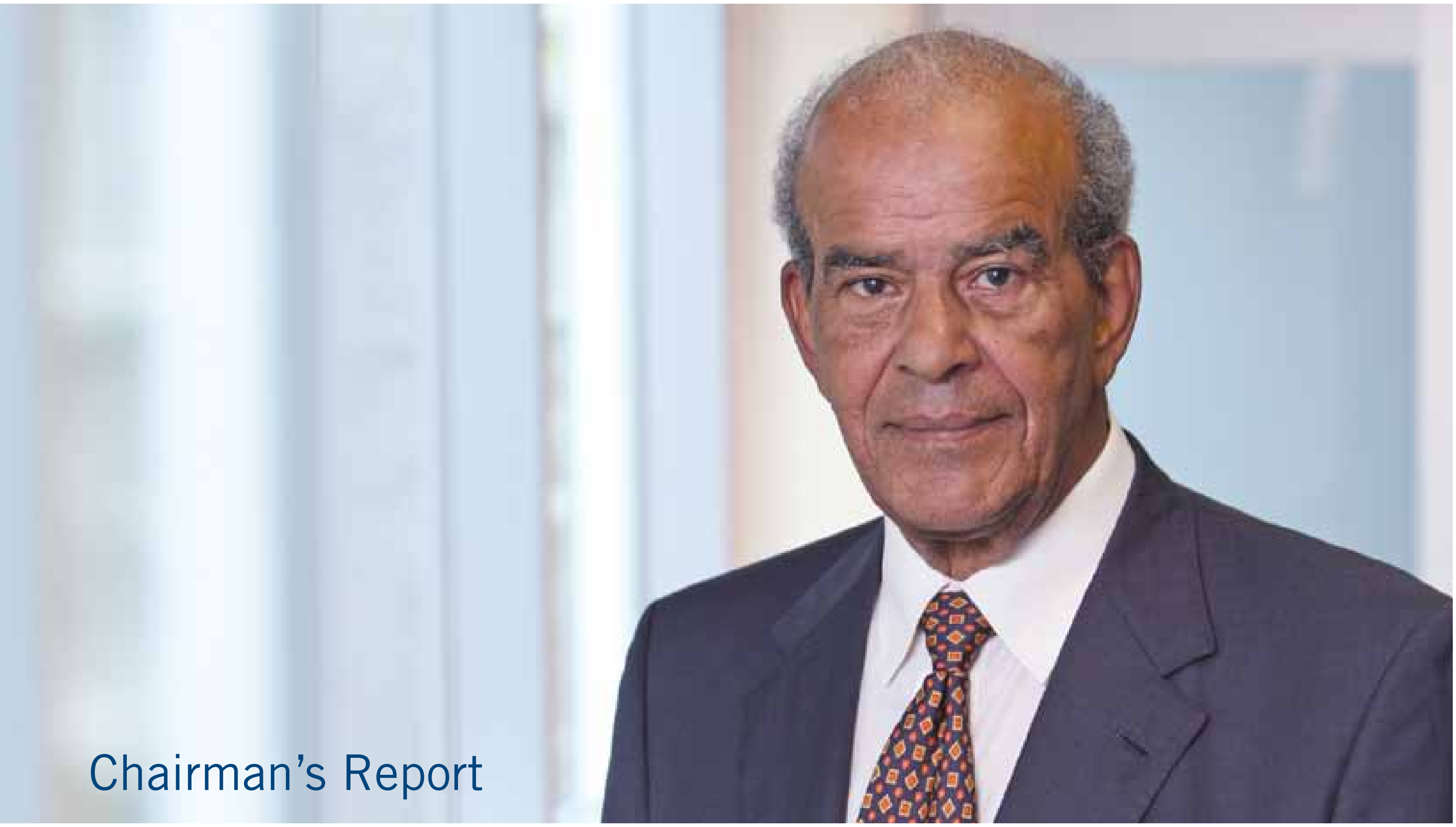

Chairman's Report

The KeyTech Group of Companies concluded fiscal year 2010/11 with a net income of $5.9 million, or $10.3 million excluding early retirement and redundancy costs.

The current year financial results were substantially impacted by early retirement and staff separation expenses of $4.3 million compared to $0.8 million in the prior year. In the prior year, KeyTech also recorded a $2.1 million impairment loss on a holding of Butterfield Bank shares.

Overall we have experienced challenging economic conditions with revenue down $8.6 million, or 8% compared to the prior year. Given the range of communications services KeyTech provides through its subsidiaries to all sectors of the economy we cannot, and did not, expect to be immune from the widely reported and experienced economic activity reduction in Bermuda. We have taken steps to adjust to this environment and, excluding the impact of early retirement and staff separation expenses, total expenses reduced $9.7 million year over year. The CEO's report provides further analysis and commentary on the financial and operating results for the year.

Nevertheless we have seen opportunity in change. In 2010, we secured a full ownership of our subsidiary in the Cayman Islands and this enabled our investment in fiber network facilities in the George Town business district, completed at the end of the year. Based on the investment return on our first fiber network deployment in the Cayman Islands in the prior year, we are optimistic we will achieve new revenue growth in George Town.

In the cellular field, we completed a merger with CellOne in May 2011. Bermuda is a small market to serve with three cellular providers, each duplicating infrastructure investments to compete for share of a finite market. We believe our new affiliate interest in CellOne, resulting from the merger, will result in more sustainable returns for KeyTech shareholders from the cellular sector for a more efficient capital investment rate.

Looking ahead we are commencing a new phase of investment in BTC's fiber network to meet current and future demand for communications services.

Total cash dividend payments for the year were $0.48 per common share, a reduction from $0.60 per common share in the prior year. While we fully recognise the importance of dividends to our shareholders, we took the step of reducing dividends in expectation of general weak economic conditions continuing for 2010/11.

On the subject of regulatory reform, I have no new information to report to shareholders as we have not yet seen further drafts of reform since those received in May 2010. We have been informed that reform will be enacted in the near future.

As well as change to our business models, we are facing change in our Board membership with the retirement of Mr. Colin V. K. Williams at the 2011 annual general meeting. Colin joined the board in 1997, bringing a wealth of experience from his career in international telecommunications, including as the founding CEO of Level3 Communications International. We will miss Colin's experience and passion for the communications industry and thank him for his years of service to KeyTech and its shareholders.

At the 2011 annual general meeting we are presenting two new candidates to shareholders for appointment as Directors. Ms. Alison Hill, CEO of Argus Insurance, and Mr. Michael Leverock. Alison brings to the Board her international executive experience and a strong background in finance and insurance. Michael is the cofounder and until 2009 served as Chief Operating Officer of Bermuda Digital Communications Ltd. (brand name CellularOne). Michael has experiences with our communications market and a technology skill-set that will benefit in particular our evaluation of continuing infrastructure investments. By happy circumstance the merger of M3 Wireless and CellularOne removed the impediment of conflict to inviting Michael to join the Board.

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 in securing structural changes in the group aligned with our long term strategies. Our goal is to deliver value to shareholders and to ensure the Company is well positioned to do so over the long term. 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

2010/11 proved to be another year of challenging economic conditions in Bermuda and Cayman.

We have seen a substantial drop in residential services demand due to lower levels of economic activity and population. We anticipated these conditions would continue from the prior year and continued to adjust our business model to reduce costs and focus on core products that have strong margin and future viability, specifically in the area of data services. As we start our next year, we have seen a hardening in corporate demand for services and we anticipate the rate of residential demand decline will lessen, however we are not expecting significant recovery in residential demand.

Net income for the year was $5.9 million, or $10.3 million excluding early retirement and redundancy costs of $4.3 million incurred in the year. Prior year net income was $6.3 million, or $9.2 million excluding early retirement and redundancy costs incurred of $0.8 million and a $2.1 million expense from the decline in value of a holding of Butterfield Bank shares.

Overall operating revenues decreased $8.6 million compared to the prior year, or 8%. As in prior years, the largest single revenue line item decline was in local fixed voice of $2.3 million, a decline we had budgeted and anticipated. Local fixed line residential and corporate data revenues also decreased $1.4 million. The Bermuda Telephone Company Limited ("BTC") serves the complete spectrum of our economy, from the largest corporate customers through small business customers to residential customers. Any decline in economic activity in Bermuda must have a corresponding impact on our revenues.

Total operating revenue from cellular also reduced $2 million compared to the prior year. Half of this drop is attributable to the increased cost of handset subsidies with each of the three cellular carriers competing aggressively for subscribers in a market that has reduced in overall size. Revenues on access and airtime also decreased $0.8 million or 4%, in line with or better than our estimates of GDP reduction in Bermuda, indicating M3 Wireless held its customer base firm against competitive pressures.

The final two areas where we experienced significant revenue declines were professional services, $1.2 million, and hardware and software sales and rentals, $1.5 million. These revenue reductions reflect strategic decisions we took to discontinue certain hardware product lines which were low margin after considering all support costs; and also to refocus professional services into a small team of highly skilled professionals, expert in certain products such as Microsoft Exchange and managed services which have direct correlation to our data connectivity products.

In Cayman revenues were flat overall, with growth in corporate services offset by reductions in residential subscribers. Our residential customer base declined 3% in the context of reported Cayman Islands GDP decline for 2010 of 3.5 to 4.5%. Corporate revenues contributed $1.8 million and residential revenues $3 million to our total operating revenue for 2010/11 from the Cayman Islands.

Total expenses declined $6.1 million due to decisions taken in the year and prior years in anticipation of a continued challenging economic environment in Bermuda and Cayman. Excluding the impact of early retirement and staff separation costs in both years, total expenses declined $9.7 million year over year, with reductions in all categories of expense, except government taxes, fees and levies.

Equity earnings in affiliates improved modestly by $0.3 million in the current year due to increases from Bermuda CableVision Limited.

Total capital asset expenditure in the current year was $14 million compared to $11.3 million in the prior year. Significant individual capital items in the year were $5.5 million on network and premises in BTC to improve service and maintain existing assets, $3.8 million in M3 Wireless on additional cellular sites to increase network coverage and capacity and $2 million on construction of a fiber network in the business district of George Town in the Cayman Islands.

Our Operations

Over the course of 2010/11, we have reshaped our businesses by moving out of low margin product lines such as telephone system installations at customer premises and retail sales of computing equipment. We invested in our cellular and wire-line network assets to increase data capacity and improve service, and in the case of Cayman to serve new markets by extending fiber networks further in the corporate business districts.

While current economic conditions necessitate, or accelerate, changes in our human resource organisational structure, we have made these changes in line with our long term data-centric business strategy.

We reported last year on a comprehensive access network strategy review. Our conclusions were that, 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. We based these conclusions on our review, with expert advisers, of the technologies and our own many years of experience with both wireless and wireline networks in the markets we serve. We also believe wireless mobile data services will be increasingly demanded by customers and wireless technology will continue to evolve. As a result, we are comfortable being invested in both wire-line and wireless sectors.

In Cayman we completed the acquisition of full ownership of the WestTel Limited business in mid 2010 and rebranded the company Logic Communications. Following the acquisition, we commenced construction of a fiber network in the downtown business districts and completed the project at the end of our fiscal year. Our results for Cayman, while showing growth in corporate services, do not yet reflect revenue opportunities on the newly constructed network. We also increased the capacity in the fixed wireless network to sustain service to our existing Caymanian residential customer base. Logic, as a brand, now operates in Cayman and Bermuda and, with 100% ownership, we are able to leverage substantial synergies with our existing well established international connectivity business in Logic Bermuda to the benefit of our Cayman enterprise.

Logic Bermuda also increased its network capabilities with additional redundant capacity secured on the Globenet international cable system in 2010 and an additional diverse point of presence established in the United States. Logic Bermuda operates capacity on three cable systems serving Bermuda and has a highly resilient network design. When the Gemini international cable system suffered a service outage during the year, our customers' service continued seamlessly on our other network routes.

In BTC, we have now concluded vendor selection for a substantial investment in our fiber networks. Over the course of the next year we intend to expand our Hamilton fiber network to a complete Metro-Ethernet network capable of delivering higher speed Ethernet corporate data services and also to expand the fiber core of our island-wide network. The investment in the core network is a prerequisite to building higher speed facilities to the home. These are exciting investments for BTC and the customers it serves. In conjunction with the network investments, we continue to change our operating model and skill sets to a data and Internet protocol centric network operator and service provider. The continued evolution of BTC has many aspects. However we are confident these changes position BTC to continue as the leading provider of core infrastructure and services to the communications market, retail and wholesale, in Bermuda.

In the Bermuda cellular market in 2010/11, we invested in data capacity and coverage to meet the increased demand for data usage with the proliferation of tablets and smart-phones. Over the years M3 Wireless has maintained its market share and its strong position in the corporate market.

Nevertheless, the fundamentals of the cellular business are driving mergers and consolidations in many jurisdictions. The ratio of capital re-investment in cellular technology compared to increased revenue opportunities in highly penetrated markets is challenging. For the same reasons the synergistic gains available on consolidation are attractive. In Bermuda, which achieved high levels of cellular subscriber levels per capita a few years ago, these factors are compelling. As an investor we did not wish to divest of the diversification that cellular participation provides our shareholders. However we realistically assessed the industry trends and the market opportunities available to us to grow revenue and increase value by continuing to operate in a small geographic market served by three established providers.

With the shareholders of CellularOne having a similar long term investment approach as KeyTech, the opportunity for consolidation married with the potential benefits. In looking at each other and the marketplace, we recognised that we could be in a more competitive position and deliver greater value for our customers as a combined business. In May 2011, we completed the merger and the new company rebranded itself as "CellOne" with a new brand image.

The new CellOne is more than 50% owned by Bermudian shareholders. KeyTech's equity interest post merger is 42% and the executive team of CellOne manages operations. Therefore in our next financial year we will report our cellular investment as equity earnings in affiliates and wireless revenues, and costs and assets will be de-consolidated from individual line items in our financial statements.

Regulation

In May 2010, we received draft legislation for regulatory reform and reported to shareholders the basic concepts of the reform and our comments on it in our 2010 Annual Report. At the time of writing this report we have not seen new drafts of legislation, nor has reform legislation been presented to the House of Assembly. Our position is unchanged.

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 subsidiaries to have the opportunity to purchase wholesale services from other carriers. Effective leveraging of capital investments in our industry will enable competition, and innovation, and provide the best pricing to customers.

However, in our last Annual Report we also highlighted to shareholders the issue of the cost of the proposed regulation. Our current effective corporate tax rate to the Bermuda Government for the combination of telecommunication license and spectrum fees and employers' payroll tax is 36% of net income before taxes and totals millions of dollars. This does not include the duty we pay to Government on import of network equipment.

In May 2010, it was proposed that 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 would on that basis increase to 53% of net income before taxes. 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. We are cautiously hopeful that the Government has listened to the concerns of the industry on the issue of additional taxation costs due to regulatory reform.

We also commented on the risk that future regulatory decisions will deter or delay essential network investments. A super fast, reliable communications infrastructure will be one of the underpinnings of Bermuda's future relative competitive position, or lack thereof. In BTC, as reported earlier, we are moving ahead with the first phase of a substantial infrastructure investment in Bermuda. To wait indefinitely for the answers on regulatory reform does not benefit our customers or our businesses. However we will assess continued investment rigorously against the reasonable expectation that our shareholders will receive acceptable risk based returns for the investment made.

Therefore our appetite to outlay large capital sums on behalf of our shareholders on further phases is inextricably linked with the decisions and steps of regulatory reform. We continue to dialogue with Government and keep them informed of our investment plans in a fact based and constructive manner. Undoubtedly we will not always agree, however it is a relationship that must be engaged in with the goal of working effectively to ensure the competitiveness and resilience of Bermuda's communications infrastructure as well as our shareholder interests. Ultimately it is shareholders who supply capital and keep people employed. KeyTech has been for many years the largest investor in Bermuda communications infrastructure with group capital expenditures totaling $117 million in the last five years alone.

The Bermuda Telephone Company Limited

EXECUTIVE TEAM

Lloyd Fray
Chief Executive Officer

Nigel Burgess
Vice President Customer Service

Gina Coddington
Vice President Business Sales, Service and Product Management

Paul Barnes
Vice President, Networks & Planning

At the start of 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 needed to provide the service itself to enable customers to access our carrier voice and data services. We have therefore discontinued sales of such systems and, in line with our commitment to support existing customers through this change, we have continued to support our rental customer base – largely small and medium sized enterprises.

We have explored various options to offer a centrally managed and hosted service for the provision of such services in place of rentals. However we are currently challenged with implementation of those services at a cost acceptable to our customer base. We will continue to seek a cost effective solution. We believe this is ultimately a better product for customers as it enables them to receive the same functionality without the upfront capital investment and ongoing maintenance and upgrade of equipment at their premises.

As we reshape our business to the areas of continuing competitive advantage and relevant and valuable products for customers, we have spent considerable effort to continually improve service quality in our network, including the use of techniques such as copper bonding and shortening copper loops to improve broadband service to customers where service levels had been challenged. Also as a result of these efforts, we intend to offer higher speed products in our 2011/12 year.

In 2011/12, we will be investing an estimated $10 million in the rebuild of our Hamilton network to a full Metro Ethernet network and also the fiber core of our island-wide network. These investments will enable BTC to offer new data services to corporate customers and are a necessary first step to increased data capabilities for our island-wide networks. These projects are a key step in our multi-year strategies at BTC and will be the focus of considerable management time and attention.

I would like to take this opportunity to again thank Mr. Francis Mussenden, President and CEO of BTC for his services to KeyTech. Mr. Mussenden retired 1st September after a long and distinguished career at BTC. We completed a seamless internal succession process with Mr. Lloyd Fray taking the helm at BTC after filling the roles of CEO Logic Communications and M3 Wireless for a number of years.

EXECUTIVE TEAM

Ken Wilson
Vice President Networks

Dianna Winfield
Vice President Sales and Customer Operations

Karen Pyo
Vice President Marketing and Product Development

M3 Wireless' primary focus in a contracting economy was customer retention and the company was successful in these efforts, with subscriber declines slightly less than our estimates of the general population decline over the year.

M3 Wireless made a number of investments in additional cellular towers to improve network service over the course of the year and by the end of the year had completed an upgrade to HSPDA+, the same technology marketed by Digicel as 3G+ and CellOne as 4G. With the proliferation of data usage, cellular networks are all investing heavily in network capacity to meet demand. These investments will be effectively utilised by the new merged CellOne, as CellOne operates equipment from the same network supplier as M3 Wireless. As both networks are consolidated over the course of the next year, customers of the merged company will benefit from the enhanced coverage and service on the combined network.

In November M3 Wireless held an innovative and very popular event, Blackberry Friday, on the traditional "Black Friday" day of retail sales in the United States. The event drew a large response from the public and resulted in new customers and existing customer renewals for M3 Wireless.

M3 Wireless also established a number of new roaming contracts and partners during the year.

Logic

EXECUTIVE TEAM - BERMUDA

Ben Barlaba
Head of Sales & Business Development

Sam Sena
Head of Professional Services

Jimmy Lim
Vice President, Network Services

Jennifer Mahoney
Head of Marketing & Customer Operations

Logic experienced growth in corporate and residential data revenues over the year, offsetting declines in long distance voice revenues and professional services revenue.

During the year, Logic secured additional redundant capacity for its international network and added 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.

In the corporate market the continuing trend is for customers to renew contracts at current speeds and lower prices, or upgrade speeds at a lower per unit price. Logic is well placed competitively in the corporate market and continues to experience success in a range of corporate data products.

In 2011, Logic introduced new residential price tiers, increasing value for customers, and followed this with a free modem promotion. Both were launched under a “Go Orange” campaign theme and featured in the Burnaby store promotional materials. Consumer response to the campaign has been positive.

Logic has continued to make steady progress throughout the year, building a customer base for IT management services launched by the professional services team. We anticipate adding additional customers in the future. While not a high proportion of Logic’s revenues, it is an important added value product for our customers.

EXECUTIVE TEAM

Gary Taylor
Management Consultant

Anthony Richardson
Operations Manager

Wendy Morris
Office Manger

Antoinette Richardson
Sales Team Leader

Bermuda Yellow Pages continues to face difficult market conditions as customers are, for the most part, small and medium sized local businesses who are looking to reduce expenditures in all areas.

Revenues in BYP declined 3% compared to the prior year, however net income increased modestly through expense management.

Competitively on-line space advertising has a number of players, all seeking to gain revenue for on-line advertising. For a number of years, BYP has promoted on-line advertising via the www.bermudayp.com website and has added new products and enhancements to that site on a continual basis. BYP is now using its extensive knowledge of Internet search and behaviour activity to assist its customers with website development. In 2010/11 BYP launched a proprietary software platform and database to support further development of the functionality of www.bermudayp.com. We intend to use the platform to launch on-line services in other jurisdictions under the brand "Yabsta".

Logic

Cayman
(formerly WestTel Limited)

EXECUTIVE TEAM - CAYMAN

Mike Edenholm
Chief Executive Officer

Lewie Hydes
Chief Operating Officer

Shannon Oberprillar
Financial Accountant

Logic Cayman gained positive ground again in 2010/11.

Losses decreased $0.4 million after decreasing $1.1 million in the prior year. Overall revenue remained flat with corporate revenue growth offsetting residential decline with the Cayman Islands reporting another year of GDP contraction in 2010.

In 2010, KeyTech acquired the remaining minority interest in WestTel Limited and the rebrand to Logic was completed in late 2010. Many customers in the Cayman market recognise the Logic Communications brand as a market leader in the provision of corporate data services due to its long established position in Bermuda and the cross pollination of business interests between Bermuda and Cayman.

Following the minority interest acquisition, we commenced construction of the fiber network in the George Town business district after spending considerable time and energy obtaining the necessary governmental permissions to do so in the prior year. The fiber expansion was completed at the end of the year and we are busy with sales activities on the new route.

With Logic and Logic Cayman now both fully owned subsidiaries of the Company, it is easier to exploit synergies between the two entities on sales, network operations and international network facilities and we anticipate continued growth in corporate sales in the coming year.

EXECUTIVE TEAM

Ray Charlton
Vice President Cable Station Operations

Cable Co. is the subsidiary which has constructed and operates a submarine high capacity international cable system, Challenger.

The system 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.

In 2010/11, Cable Co. had additional wholesale revenues from internal and external customers. Cable Co. also leased redundant international capacity for onward provision to its wholesale customers that increased operating expenses. We do not anticipate a similar increase next year as the recurring costs of operating Challenger vary with inflation rather than utilisation. Included in current year expenses is $125,000 of license fee expenses attributable to the prior year giving rise to a $250,000 variance year over year in operating expenses.

Affiliates

Bermuda CableVision provides entertainment and high speed data services. KeyTech's earnings from Bermuda CableVision increased versus the prior year.

QuoVadis, with its joint venture partner, has completed the construction of a new state-of-the-art data centre in Hamilton. Its digital overseas certificate business does not form part of the joint venture and in the year QuoVadis has substantially increased certificate sales in Switzerland. We anticipate this growth will result in improved performance in earnings from affiliates in our next fiscal year. QuoVadis also has certificate operations in Bermuda, the Netherlands and the United Kingdom.

Our Community Involvement

We continue to contribute to charities in our communities. During 2010/11, in addition to many other deserving causes, we supported the Catlin Bermuda End to End, The Bermuda Underwater Exploration Institute, YouthNet, The Bermuda International Film Festival, The Outstanding Teen Awards, and the Ross Blackie Talbot Golf Charity Classic in Bermuda. In Cayman, we contributed to the Cayman Islands Little Leagues Association, Cayman Rugby Football Club, and Kings Sponsorships Soccer and Hockey programs.

Our Outlook for 2010/11

We anticipate that the economic environment will continue to be difficult for residential revenues, while we are seeing improved demand for communication services from corporate customers. We will continue to seek efficiencies in our businesses; however we do not anticipate the same level of early retirements and redundancy expenses next year as in this year. We believe these painful but necessary decisions enable us to weather difficult economic times and remain focused on our services and products, and to invest where necessary in network capacity.

As a group, KeyTech now has three affiliate interests, Bermuda CableVision, QuoVadis and CellOne, and five subsidiaries. Our subsidiaries, BTC, Logic, Logic Cayman and Cable Co., have a related product set of local and international voice and data services. We are operationally focused on further developing those capabilities both in terms of skill-set and network capacity to continue to deliver relevant and valuable communications products to corporate and residential customers.

Our subsidiary Bermuda Yellow Pages operates in a more differentiated market of media and advertising, though still with a strong technology bias as the world moves on-line.

The structural group changes in 2010/11 (merging in wireless and acquiring 100% of Logic Cayman) enable us to focus on the opportunities for these companies. Our fiber network investments in the current year, and those planned for 2010/11, deploy our available capital in the areas of our group with the most attractive competitive position as future demand for service and bandwidth use continues to grow.

In closing, I would like to take this opportunity to thank the staff again for all their hard work and commitment this year. We have a strong and talented team in all business disciplines that are united with a common vision. While economic conditions may continue to challenge us, we have achieved a number of structural and operational changes this year that pave the way to continuing focus on our long term data-centric strategies while retaining for our shareholders a diversified set of business assets.

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
Bermuda Container Line Limited
Director since 1988

Mr. Gary L. Phillips, 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
BELCO Holdings Limited
Director since 2000

Five Year Financial and Statistical Summary

As at 31st March 2011

	2011	2010	2009	2008	2007
Revenue & Expense Items					
($000's)					
Operating revenues	98,411	107,037	105,483	108,478	105,383
Total expenses excluding depreciation and amortization	77,512	80,775	77,426	76,414	77,015
Depreciation and amortization	17,196	20,062	18,718	19,063	20,351
Net earnings	5,891	6,314	10,551	14,596	9,170
Cash dividends declared					
on Common shares	6,991	8,738	8,547	7,944	7,771
Balance sheet items					
($000's)					
Total assets	160,742	164,656	173,088	174,886	161,904
Shareholders' equity	140,458	142,712	143,765	145,054	136,431
Number of common shares	14,564	14,564	14,564	13,240	13,240
Per common share					
($'s)					
Net Earning - Basic	0.405	0.434	0.724	1.002	0.630
Cash dividend	0.480	0.600	0.600	0.600	0.600
Net assets - Basic	9.64	9.80	9.87	9.96	9.37
Items of interest					
Capital expenditures ($000's)	14,100	11,316	46,324	24,849	20,960
Number of employees (full time)	307	360	432	433	422

Auditors' Report

28th June 2011
Independent Auditors' Report
To the Shareholders of KeyTech Limited

We have audited the accompanying consolidated financial statements of KeyTech Limited and its subsidiaries, which comprise the Consolidated Balance Sheet as at March 31, 2011, and the Consolidated Statement of Earnings, Consolidated Statement of Retained Earnings, Consolidated Statement of Accumulated Other Comprehensive Income (Loss) and Consolidated Statement of Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of these financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate 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 KeyTech Limited and its subsidiaries as at March 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountant

"PwC" refers to PricewaterhouseCoopers (a Bermuda partnership), which is a member of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Consolidated Balance Sheet

As at 31st March 2011

	Notes	2011	2010
Assets			
Current assets			
Cash and cash equivalents	15	$ 6,848,305	$ 7,139,706
Accounts receivable	15	9,614,157	8,824,993
Merchandise, materials and supplies	17	3,792,027	5,049,060
Prepaid expenses and other assets		4,925,277	5,679,684
Total current assets		25,179,766	26,693,443
Marketable securities	15	774,889	575,295
Investments in affiliates	5	12,873,441	12,319,538
Capital assets, net	6	109,784,064	112,808,843
Intangible assets, net	7	11,752,387	11,823,805
Deferred pension asset	8	377,000	435,000
Total assets		$ 160,741,547	$ 164,655,924
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 12,709,401	$ 14,199,454
Long-term debt redemption amounts unclaimed	9	541,579	552,004
Preferred share redemption amounts unclaimed	10	873,061	945,132
Dividends payable		1,747,631	2,184,538
Deferred income		1,475,485	1,794,706
Total current liabilities	15	17,347,157	19,675,834
Deferred investment gain	5	248,917	497,839
Accrued post-retirement medical benefits	8	2,687,180	2,757,210
Total liabilities		20,283,254	22,930,883
Equity attributable to owners of the parent			
Share capital	10	3,640,908	3,640,908
Share premium	10	83,413,733	83,413,733
Contributed surplus		20,920,454	20,920,454
Retained earnings		32,484,286	34,687,616
Accumulated other comprehensive (loss) income		(1,088)	48,889
Total equity		140,458,293	142,711,600
Non-controlling interest		—	(986,559)
Total liabilities and shareholders' equity		$ 160,741,547	$ 164,655,924

Approved by the Board of Directors James A C King Director Director

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

Consolidated Statement of Earnings

For the year ended 31st March 2011

	Notes	2011	2010
Revenues and other income			
Wireline revenues		$ 46,850,839	$ 50,993,619
Wireless revenues		23,885,831	26,161,902
International long distance and network revenues		16,668,144	16,218,021
Other revenues		11,006,083	13,663,128
Total operating revenues	4	$ 98,410,897	$ 107,036,670
Expenses			
Salaries and employee benefit expenses		36,131,275	41,838,014
Staff termination costs		4,373,449	811,966
Maintenance expenses		22,341,304	22,613,225
General and administration expenses		10,343,553	11,542,731
Government taxes, fees and levies		4,322,604	3,969,250
Depreciation and amortization	6, 7	17,196,178	20,061,896
Total expenses		94,708,363	100,837,082
Net income before undernoted items		3,702,534	6,199,588
Equity in earnings of affiliates	5	2,141,670	1,884,235
Investment income		9,695	110,451
Realized gain (loss) on investments		7,614	(2,349,635)
Other expense	11	(58,000)	(58,000)
Profit attributable to owners of the parent		$ 5,803,513	$ 5,786,639
Profit attributable to non-controlling interest		87,548	526,959
Profit for the year		$ 5,891,061	$ 6,313,598
Earnings per common share, basic and fully diluted	12	$ 0.405	$ 0.434

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

Consolidated Statement of Retained Earnings

For the year ended 31st March 2011

	Notes	2011	2010
Retained earnings - Beginning of year		$ 34,687,616	$ 37,112,177
Net income		5,891,061	6,313,598
		40,578,677	43,425,775
Transaction between equity holders of the Company	3	(1,103,869)	—
Dividends declared			
Cash		(6,990,522)	(8,738,159)
Retained earnings - End of year		$ 32,484,286	$ 34,687,616

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 2011

	2011	2010
Accumulated other comprehensive income (loss)		
– Beginning of year	$ 48,889	$ (1,322,211)
Change in investments during the year		
Unrealized depreciation on investments	(42,363)	(978,535)
Realized (gain) loss on investments	(7,614)	2,349,635
Net change in investments during the year	(49,977)	1,371,100
Accumulated other comprehensive (loss) income – End of year	$ (1,088)	$ 48,889

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

Consolidated Statement of Cash Flows

For the year ended 31st March 2011

	2011	2010
Cash flows from operating activities		
Net income for year	$ 5,891,061	$ 6,313,598
Items not affecting cash		
Depreciation and amortization	17,196,178	20,061,896
Net realized (gain) loss on marketable securities	(17,309)	2,239,184
Equity in earnings of affiliates	(2,141,670)	(1,884,235)
Post-retirement benefits expense in excess of amounts paid	(12,546)	75,000
Non-controlling interests	(87,548)	(526,959)
	20,828,166	26,278,484
Increase (Decrease) in non-cash working capital	732,255	(5,068,616)
Cash provided by operating activities	21,560,421	21,209,868
Cash flows from investing activities		
Repayment of borrowings from third parties	(1,654,291)	—
Promissory note and interest repayment	1,674,400	—
Acquisition of remaining shares of subsidiary	(29,762)	—
Sale of marketable securities	114,812	1,919,970
Purchase of marketable securities	(347,074)	—
Acquisition of capital assets	(14,099,981)	(11,316,178)
Cash used for investing activities	(14,341,896)	(9,396,208)
Cash flows from financing activities		
Redemption of notes payable	(10,425)	—
Redemption of preferred shares	(72,071)	(203,990)
Dividends paid on common shares	(7,427,430)	(8,729,231)
Cash used for financing activities	(7,509,926)	(8,933,221)
(Decrease) Increase in cash and cash equivalents	(291,401)	2,880,439
Cash and cash equivalents - Beginning of year	7,139,706	4,259,267
Cash and cash equivalents - End of year	$ 6,848,305	$ 7,139,706

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

Notes to Consolidated Financial Statements

31st March 2011

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.") and Logic Communications Limited – Cayman ("Logic Cayman"), formerly known as WestTel Limited. 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. On June 25, 2010 the Company acquired the remaining 33% of the common shares of WestTel, raising its equity interest to 100%, for cash consideration of $29,762. Under Section 1602 of the CICA Handbook, this has resulted in a charge to retained earnings of $1,103,869, representing the non-controlling interest in the consolidated balance sheet on date of acquisition of $1,074,107 and total cash consideration of $29,762 for the remaining common shares.

(b) Use of estimates

The preparation of financial statements in accordance 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 $1,632,159 (2010 - $1,670,740) 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 $566,866 (2010 - $704,993) 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. Deferred income also comprises revenue that is deferred in respect of fixed monthly telecommunication charges that have been billed in advance.

(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 8, 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 2011 and 2010.

(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 5) 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.

Revenue from sale of prepaid cellular minutes is initially deferred, with recognition occurring when the minutes are used by the customer.

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.

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 2011 fiscal year. The new accounting standard is as follows:

Non-controlling Interests

Section 1602 of the CICA Handbook applies to interim and annual financial statements relating to fiscal years beginning on or after 1st January 2011, with the option for early adoption. The Company has elected to early adopt. The Company has included the requirements of this new standard in note 2 (a) of these financial statements. Under Section 1602, non-controlling interests of $87,548 in the consolidated statement of earnings for the fiscal year ended 31st March 2011 are presented as a recovery of the subsidiary net loss for the period. Non-controlling interest of Nil at 31st March 2011 (2010 – ($986,559)) in the consolidated balance sheet are classified as equity but are presented separately from the parent shareholder's equity. The movement in non-controlling interest is as follows:

	2011
Balance as at 1st April 2010	$ (986,559)
Transaction between equity holders of the entities	1,103,869
Share of earnings for the year	(87,548)
Acquisition of remaining shares in non-controlling interest	(29,762)
Balance as at 31st March 2011	**$ —**

4. 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.

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

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

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

BYP - provides printed and on-line directory services.

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

Notes to Consolidated Financial Statements

31st March 2011

Segment information

	BTC	M3	Logic	BYP	Logic Cayman	Cable Co.	Total
Year ended 31st March 2011							
Revenues from external customers	$ 49,748,911	$ 17,952,423	$ 18,097,447	$ 5,714,970	$ 5,676,816	$ 1,096,266	$ 98,286,833
Revenues from internal customers	5,701,396	554,386	1,457,470	311,579	88,742	1,436,937	9,550,510
Amortization	9,609,636	3,168,702	1,587,720	54,568	1,110,300	1,789,531	17,320,457
Operating expenses	41,640,053	13,212,484	14,889,188	3,629,980	7,116,152	3,220,741	83,708,598
Interest expense	289,982	444,360	—	—	—	—	734,342
Segment income (loss)	3,910,636	1,681,263	3,078,009	2,342,001	(2,460,894)	(2,477,069)	6,073,946
Segment assets	79,131,390	17,049,730	13,303,376	2,970,450	6,822,616	23,480,919	142,758,481

	BTC	M3	Logic	BYP	Logic Cayman	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

Revenues by service

	2011	2010
Wireline services	$ 45,038,810	$ 48,901,039
International long distance and network services	16,668,144	16,218,023
Cellular services	16,463,204	18,492,755
Fixed wireless services	7,422,627	7,669,147
International interconnection fees	1,812,028	2,092,579
Hardware and software sales and rental	1,476,103	2,873,188
Directory services	5,752,718	6,015,355
Consulting services	1,755,361	2,922,226
International data services	1,096,266	889,921
Other services	925,636	962,437
	$ 98,410,897	$ 107,036,670

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 $4,653,765 (2010 - $4,427,630).

Reconciliations

	2011	2010
Revenues from external customers		
Total segment revenues from external customers	$ 98,286,833	$ 106,600,718
Non-segment other revenue	124,064	435,952
	$ 98,410,897	$ 107,036,670

	2011	2010
Depreciation and amortization		
Total segment depreciation and amortization	$ 17,320,457	$ 20,376,529
Non-segment depreciation and amortization	444,793	236,572
Elimination of inter-company amounts	(569,072)	(551,205)
	$ 17,196,178	$ 20,061,896

	2011	2010
Operating expenses		
Total segment operating expenses	$ 83,708,598	$ 85,206,878
Non-segment operating expenses	2,785,025	2,927,758
Elimination of inter-company amounts	(8,981,438)	(7,359,450)
	$ 77,512,185	$ 80,775,186

	2011	2010
Interest expense		
Total segment interest expense	$ 734,342	$ 849,070
Elimination of inter-company amounts	(734,342)	(849,070)
	$ —	$ —

	2011	2010
Net income		
Total income for reportable segments	$ 6,073,946	$ 8,063,148
Non-segment other income	875,715	(954,160)
Equity earnings in affiliates	2,141,670	1,884,235
Non-segment administrative expenses	(2,784,176)	(2,927,758)
Non-segment depreciation and amortization	(444,793)	(236,572)
Elimination of inter-company amounts	(58,849)	(42,254)
Non-controlling interest	87,548	526,959
	$ 5,891,061	$ 6,313,598

Notes to Consolidated Financial Statements

31st March 2011

	2011	2010
Total assets		
Total assets for reportable segments	$ 142,758,481	$ 147,490,736
Goodwill	3,701,460	3,701,460
Non-segment assets	52,163,328	53,277,046
Elimination of inter-company amounts	(37,881,722)	(39,813,318)
	$ 160,741,547	$ 164,655,924

5. Investments in affiliates

	2011	2010
Investment in CableVision Holdings Ltd.		
Promissory notes and accrued interest thereon	$ 8,046,719	$ 9,297,119
Interest in equity	3,151,529	1,151,472
	11,198,248	10,448,591
Investment in QuoVadis Holdings Ltd.		
Loan and accrued interest thereon	649,891	624,891
Interest in equity	25,302	581,610
Interest in preferred shares and warrants	1,000,000	664,446
	1,675,193	1,870,947
	$ 12,873,441	$ 12,319,538

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. During the year ended 31st March 2011 BCL paid the Company in full for the promissory note of $1,200,000. In addition to this amount, BCL paid total accrued interest of $474,400. The promissory note from CHL was unsecured and accrued 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 2011 $1,000,000 (2010 – $664,446) of the committed contribution has been made. 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%.

Notes to Consolidated Financial Statements

31st March 2011

6. Capital assets

	Range of depreciation rates	2011	2010
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		56,421,662	54,753,966
Buildings leased under capital lease		831,398	831,398
Plant and facilities		246,305,558	252,417,728
Submarine cable system		26,685,611	26,677,227
Machinery and equipment		30,538,624	30,531,185
Total		365,535,295	369,963,946
Less: Accumulated depreciation			
Buildings and fixtures	2% - 10%	31,720,226	29,299,354
Buildings leased under capital lease	2%	124,737	108,105
Plant and facilities	6% - 25%	197,372,856	202,471,153
Submarine cable system	6.7%	4,102,450	2,312,919
Machinery and equipment	20% - 33%	27,228,481	26,251,369
		260,548,750	260,442,900
Net capital assets in service		104,986,545	109,521,046
Plant under construction		4,797,519	3,287,797
Capital assets, net		$ 109,784,064	$ 112,808,843

Depreciation on capital assets for the current year was $15,610,108 (2010 - $17,527,171).

7. Intangible assets

	Leased Telecommunications capacity $	Other intangibles $	Goodwill $	Total value $
Year ended 31st March 2011				
Opening net book amount	2,628,515	5,493,830	3,701,460	11,823,805
Acquisitions	—	1,514,652	—	1,514,652
Disposals	—	—	—	—
Amortization	(721,944)	(864,126)	—	(1,586,070)
Closing net book amount	1,906,571	6,144,356	3,701,460	11,752,387
At 31st March 2011				
Cost	11,282,521	17,378,676	3,701,460	32,362,657
Accumulated amortization	(9,375,950)	(11,234,320)	—	(20,610,270)
Net book amount	1,906,571	6,144,356	3,701,460	11,752,387
Year ended 31st March 2010				
Opening net book amount	4,150,461	1,981,038	3,701,460	9,832,959
Acquisitions	—	4,525,571	—	4,525,571
Disposals	—	—	—	—
Amortization	(1,521,946)	(1,012,779)	—	(2,534,725)
Closing net book amount	2,628,515	5,493,830	3,701,460	11,823,805
At 31st March 2010				
Cost	11,282,521	15,864,025	3,701,460	30,848,006
Accumulated amortization	(8,654,006)	(10,370,195)	—	(19,024,201)
Net book amount	2,628,515	5,493,830	3,701,460	11,823,805

Amortization on intangible assets for the current year was $1,586,070 (2010 - $2,534,725). Included in amortization on intangible assets for the prior year is a $700,000 impairment charge on leased telecommunications 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 Logic Cayman is evaluated for potential impairment on an annual basis using estimates of future discounted net cash flows. The unamortized goodwill of $3,701,460 (2010 - $3,701,460) did not require an impairment provision in the fiscal years ended 31st March 2011 and 2010.

8. 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 re-measured 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)). Effective 31st March 2010, 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 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.

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	
	2011	**2010**	**2011**	**2010**
Accrued benefit obligation				
Balance - Beginning of year	$ (48,464,000)	$ (49,324,000)	$ (3,027,210)	$ (3,010,210)
Current service cost	—	—	—	—
Interest cost	(2,556,000)	(3,073,000)	(160,000)	(188,000)
Net actuarial loss on plan liability	(1,414,000)	(150,000)	(66,000)	(60,000)
Settlements	—	—	—	—
Benefits paid, net	3,985,000	4,083,000	231,000	231,000
Balance - End of year	**(48,449,000)**	**(48,464,000)**	**(3,022,210)**	**(3,027,210)**
Plan assets				
Fair value - Beginning of year	$ 65,130,000	$ 64,649,000	$ —	$ —
Actual return on plan assets	876,000	4,564,000	—	—
Benefits paid, net	(3,985,000)	(4,083,000)	—	—
Fair value - End of year	$ 62,021,000	$ 65,130,000	$ —	$ —
Defined benefit pension plan assets consist of:				
Equity securities	65%	66%		
Debt securities	34%	32%		
Other	1%	1%		
	100%	100%		

On 31st March 2011 6.2% (2010 - 9.69%) of plan assets were invested in common shares of the Company.

	Defined benefit pension plan		Post-retirement medical benefits	
	2011	**2010**	**2011**	**2010**
Status of plan				
Funded status - plan surplus (deficit)	$ 13,572,000	$ 16,666,000	$ (3,023,180)	$ (3,027,210)
Unamortized net actuarial loss on plan liability	—	—	336,000	270,000
Unamortized past service cost	377,000	435,000	—	—
Valuation allowance against accrued benefit asset	(13,572,000)	(16,666,000)	—	—
Accrued benefit asset (liability)	$ 377,000	$ 435,000	$ (2,687,180)	$ (2,757,210)

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

	Defined benefit pension plan 2011	Defined benefit pension plan 2010	Post-retirement medical benefits 2011	Post-retirement medical benefits 2010
Discount rate	5.25%	5.50%	5.25%	5.50%
Expected long-term rate of return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	3.55%	N/A	N/A
Assumed initial health care cost trend rate	N/A	N/A	N/A	N/A
Assumed ultimate health care cost trend rate	N/A	N/A	N/A	N/A
Year ultimate rate is reached	N/A	N/A	N/A	N/A

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

	Defined benefit pension plan 2011	Defined benefit pension plan 2010	Post-retirement medical benefits 2011	Post-retirement medical benefits 2010
Amortization of past service cost	$ 58,000	$ 58,000	$ —	$ —
Current service cost	—	—	—	—
Interest cost	2,556,000	3,073,000	160,000	188,000
Actual return on plan assets	(876,000)	(4,564,000)	—	—
Actuarial loss on plan liability	1,414,000	150,000	66,000	60,000
Termination Benefits	—	—	—	—
Change in valuation allowance against accrued benefit asset	(3,094,000)	(1,341,000)	—	—
Net benefit plan expense (income)	$ 58,000	$ 58,000	$ 226,000	$ 248,000

Contributions relating to the Company's defined contribution pension plans during the year ended 31st March 2011 amounted to approximately $1,405,244 (2010 - $1,479,729) 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.

9. Long-term debt redemption amounts unclaimed

The Company exercised its right to redeem the 7¾% notes effective 15th December 2002. As at 31st March 2011 and 2010, not all notes redeemed had been presented to the Company in exchange for cash. The notes remaining outstanding valued at $541,579 (2010 - $552,004) are included in long-term debt redemption amounts unclaimed on the balance sheet and do not accrue interest beyond the redemption date.

10. Share capital

	2011	2010
Authorized – 21,546,220 (2010 - 21,546,220) common shares of par value $0.25 each		
Authorized – 2,615,445 (2010 - 2,615,445) preferred shares of par value $1 each		
Issued and outstanding 14,563,633 (2010 - 14,563,633) common shares	$ 3,640,908	$ 3,640,908

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 2011, not all preferred shares had been presented to the Company in exchange for cash. The preferred shares remaining outstanding valued at $873,061 (2010 - $945,132) are included in preferred share redemption amounts unclaimed on the balance sheet and do not accrue dividends beyond the redemption date.

11. Other expense

	2011	2010
Pension expense defined benefit pension plan (note 8)	$ 58,000	$ 58,000

12. 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.

	2011			2010		
	Average Income (numerator)	Weighted Shares (denominator)	Per share amount	Average Income (numerator)	Weighted Shares (denominator)	Per share amount
Net income	$ 5,891,061			$ 6,313,598		
Basic earnings per share						
Income available to common shares	5,891,061	14,563,633	$ 0.405	6,313,598	14,563,633	$ 0.4344

13. 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 2011 were approximately $2,934,365 (2010 - $3,043,341).

Cable Co. is required to pay annual regulatory fees to the Federal Communications Commission (“FCC”) in the United States for the submarine cable. Fees are calculated on a calendar year. In the current year, the Company incurred $395,611 (2010 - $136,625) in FCC fees.

14. 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:

	$
2012	5,428,113
2013	4,705,192
2014	3,217,506
2015	2,858,838
2016	1,453,627
2017 and beyond	9,323,097

15. 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.

		2011		**2010**
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 6,848,305	$ 6,848,305	$ 7,139,706	$ 7,139,706
Accounts receivable	9,614,157	9,614,157	8,824,993	8,824,993
Marketable securities:				
Mutual funds	61,171	61,171	168,721	168,721
Equities	713,718	713,718	406,574	406,574
	774,889	774,889	575,295	575,295
Other current liabilities	17,347,157	17,347,157	19,675,834	19,675,834

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 2011 has an unsecured overdraft facility of $5,000,000.

(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 executes 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:

	2011	2010
Current	$ 3,215,082	$ 2,595,965
30 days	2,981,865	2,946,117
60 days	968,884	826,797
90 days and over	7,725,367	7,156,066
	14,891,198	13,524,945
Allowance for doubtful accounts	(5,277,041)	(4,699,952)
Accounts receivable balance	$ 9,614,157	$ 8,824,993

(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. During the year ended 31st March 2011, the Company exercised a Rights Share issue, resulting in 286,838 rights exercised at an offer price of $1.21 for a total cost of $347,074, (2010 – Nil). The Company intends to hold these investments for short to medium term gains. To identify market risk the Company reviews individual investment holdings for existence of evidence of impairment. Total interest income from marketable securities was $19,211 for the year ended 31st March 2011 (2010 – $72,161). Total fee expense relating to the management of marketable securities was $3,235 for the year ended 31st March 2011 (2010 – $36,937). Interest income, dividend income and realized gains and losses on marketable securities, net of related management fees are included in investment income and realized (losses) gains 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 2011 and 2010 for evidence of impairment. The Company has determined that the marketable securities held at 31st March 2011 are not impaired. For the year ended 31st March 2010, the Company determined that an investment in common shares of a Bermuda bank originally acquired at a cost of $2,500,000 was impaired and the Company recorded an impairment charge of $2,152,083 in relation to this investment in the prior year. The remaining estimated fair value of this investment at 31st March 2010 was $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 recorded in the consolidated statement of earnings for the reporting period.

(d) Bank overdraft and other current liabilities

The fair value of the bank overdraft and current liabilities approximates their carrying value as they are short-tem in nature and can be repaid at any time without incurring penalties. The bank overdraft is subject to a $5,000,000 limit, incurs interest expense at the Bermuda Dollar Rate plus 1% on amounts drawn and is unsecured. Total interest expense in relation to the overdraft facilities was $85,414 for the year ended 31st March 2011 (2010 – $219,478) and is included in general and administrative expenses in the consolidated statement of earnings. The bank overdraft facility expires in October 2011.

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 ongoing 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 $5,000,000. The Company has no long term funding obligations that require refinancing or repayment.

16. 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 and Cable Co.'s rates for telecommunications services and BCL's rates for services, require the approval of the Bermuda Telecommunications Commission.

17. Merchandise, materials and supplies

During the year the Company expensed merchandise, materials and supplies totalling $8,797,813 (2010 - $8,230,705). Merchandise, materials and supplies written off during the year totalled $500,253 (2010 - $111,083).

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

	2011	2010
Voice equipment	$ 3,488,927	$ 5,019,523
Computer equipment	142,558	204,983
Cable and other plant spares	396,731	477,012
	4,028,216	5,701,518
Allowance for obsolescence	(236,189)	(652,458)
	$ 3,792,027	$ 5,049,060

18. 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.

19. Comparative figures

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

20. Subsequent events

Subsequent to the year end, the Company announced the merger of M3 Wireless and CellularOne. The companies agreed to merge their wireless businesses to create a new, majority Bermudian-owned business that will use the CellOne brand and be operated by the current CellularOne executive team.

Officers and Executives

Company Officers

Mr. Graham Simmons
General Counsel
Secretary

KeyTech Group Executives

Ms. Sheila A. Lines
Chief Executive Officer

Ms. Leslie Rans
Chief Financial Officer

Mr. Philip S. Harris
Chief Administrative Officer

Mr. Richard Lau
Vice President Technical Operations and Management

Common shares held by Directors - 671,290.

Commons shares held by KeyTech Executive Management - 9,902

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 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.

PRINCIPAL 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.bm

WestTel Limited (*trading as* **Logic Communications Ltd. Cayman)**
2nd Floor, Block 2, Governors Square,
23 LimeTree Bay Road, Grand Cayman, Cayman Islands
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

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