# KeyTech LIMITED

Unlocking a World of Connections

**Annual Report 2014**

# Contents



# Chairman's Report

I am pleased to report that the KeyTech Group of Companies ended the fiscal year 2013/14 with net income of $5.7 million. Total cash dividend payments for the year were $0.48 per common share.

This past year was a transformational year for the KeyTech Group. At the end of the previous financial year the Company acquired TeleCayman Limited (TeleCayman) and in April 2013 we completed the amalgamation of Logic Communications Ltd. (Logic) with North Rock Communications Ltd. (North Rock).

The strategic acquisition of North Rock was necessary for the Company in advance of the granting of Integrated Communications Operating Licences that were introduced in April 2013 by the Bermuda Regulatory Authority. This acquisition brought two entities together to realise cost savings, better pricing, improved redundant network infrastructure and new product offerings for all customers, both corporate and residential.

The TeleCayman acquisition has solidified our position in Cayman's corporate data market and we continue to build our residential fibre network to support triple-play services of phone, Internet and subscription television.

Shareholders will also be aware that in September 2014 KeyTech sold The Bermuda Telephone Company Limited. At the same time, the Company increased its investment in Cablevision Holding Ltd. and acquired WestStar T.V. Limited (WestStar) in Cayman through the acquisition of BOTCAT Holdings Ltd. This acquisition gave the Company a controlling interest in Bermuda Cablevision Limited and positioned WestTel Limited (Logic Cayman) with the largest market share in the subscription television market.

As has been outlined in previous reports, the economic climate continues to be challenging in both the corporate and residential sectors in Bermuda. Revenue growth opportunities in Bermuda appear to be limited, hence our strategic acquisitions of TeleCayman and WestStar in Cayman, which is signalling indications of economic growth.

The motivation behind our recent transformational transactions is to increase shareholder value; unlocking and maximizing this value remains the focus of management in the current fiscal year.

At the 2014 annual general meeting the Board will be recommending that the number of directors be fixed at seven. We are also presenting a new candidate for appointment, Mr. Douglas Trussler, as a Director. Mr. Trussler is a seasoned investment fund manager with experience in the telecommunications industries in Bermuda and Cayman, having previously served on numerous boards for the WestStar group of companies.

I would like to recognize the Board of Directors, Management and employees across the Company. They should be proud of the work they have done and results achieved, and I thank them for their continued contributions.

The Bermuda economy certainly faces headwinds going forward, but I believe we can tackle any obstacles head-on to continue to offer first class products and services while increasing shareholder value.

**Gary L. Phillips, OBE, J.P., CIArb**
Chairman of the Board

# Chief Executive Officer's Report

**Our Results**

2013/14 was challenging with regards to economic growth, but it was a successful year of strategic positioning for the KeyTech Group.

In Bermuda, The KeyTech Group maintained its relative market share in spite of downward pricing pressures in the telecoms market. The Company focused on managing expenses across its subsidiaries in combination with leveraging the efficiencies and cost savings that were realized through the amalgamation of North Rock Communications Ltd. (North Rock) with Logic Communications Ltd. (Logic) and the acquisition of TeleCayman Limited (TeleCayman).

The Company's growth strategy is geared towards owning data access infrastructures that can meet the demands of future capacity requirements, diversifying earnings across two common jurisdictions, and enhancing shareholder value. Subsequent to this reporting period, the Company completed two major transactions – the sale of The Bermuda Telephone Company Limited (BTC) and the acquisition of BOTCAT Holdings Ltd. (BOTCAT) – which furthered this strategy.

Net income for the year was $5.7 million versus $8.3 million for the prior year.

In total, operating revenues in 2013/14 increased $7.2 million over the prior year. KeyTech was able to grow data revenues and minimize erosion of voice services in a challenging economy through its acquisitions in both Bermuda and Cayman. Bermuda Yellow Pages Limited (BYP) worked to offset declines in traditional print advertising revenues with continued development of digital advertising media products.

Data revenues increased $5.5 million. Residential data revenue growth in Bermuda was due to the acquisition of North Rock, in spite of significant reductions in the price of internet packages post regulatory reform. The acquisition of TeleCayman resulted in corporate data growth and the continuing fiber build increased residential data market share in Cayman.

There was a $0.3 million decline in voice revenues as customers continued to rely more heavily on both cellular and internet based local and long distance voice products. BYP continued to experience the impact of the challenging economy on advertising revenues which resulted in a $0.4 million decline in directory revenues. Other revenues remained flat and consist of non-operating and third party property rental revenues.

The increase in total operating expense of $9.8 million over the prior year is attributed to the Company's acquisition and growth strategy.

Salaries increased $1.0 million with additional headcount required to support Logic post-amalgamation. In addition, the Company paid $0.9 million in one-time redundancy costs across both jurisdictions as part of the realization of cost efficiencies created by both transactions. Depreciation and amortization increased $4.1 million from the amortization of the intangible assets created by both acquisitions and the increased depreciation of assets deployed in WestTel Limited's (Logic Cayman) fiber to the home build. Operations and maintenance expense increased $3.2 million. While expenses were contained in Bermuda, Cayman saw an increase with the need to grow off-island capacity and television content acquisition for its triple play service offering and corporate data growth. In order for Cayman to be able to reach the economies of scale to support the investment in infrastructure being made, the Company acquired the incumbent subscription television company, WestStar T.V. Limited (WestStar), in September 2014.

Government taxes and fees increased $0.7 million as revenues increased in both jurisdictions. In addition, the Bermuda Regulatory Authority increased its fees by 0.8%.

KeyTech's share of income of associates, which includes its investments in Cablevision Holding Ltd., Bermuda Digital Communications Ltd. (CellOne) and QV Holdings Ltd., increased $1.0 million year over year from earnings growth in both Bermuda Cablevision Limited (Cablevision) and CellOne.

Cash generated from operating activities, loan repayments and dividends from associates in 2013/14 totaled $26.0 million of which $18.0 million was invested in our plant and networks. The Company borrowed $27.5 million to fund an acquisition and $7.0 million was paid in dividends. Overall cash increased by $1.8 million.

Total capital expenditure in the current year was $44.8 million compared to $21.6 million in the prior year. $27.1 million was spent to acquire North Rock with the remainder of the funds primarily being used to build out infrastructure to grow DSL speeds in BTC, and to continue the fiber build and IPTV rollout in the Cayman Islands.

## LOGIC Bermuda

The amalgamation of Logic and North Rock has proven to be very successful as we achieved the targeted objectives and synergies. With the issuance of the new licensing regime the market now has seven ISPs. Due to the synergies achieved from the amalgamation, customers have experienced significant reduction in pricing; regardless of heightened competition, we have maintained market share. In February, LogicTV was introduced and we have leveraged BTC's wholesale data services so that Logic now offers bundled internet and access on one bill.

Logic's corporate business continues to be a growth area. We have expanded our international footprint for multi-protocol label switching (MPLS) and completed a point of presence in Halifax. Logic was nominated for a Global Carrier Awards in the Caribbean. Although we experienced aggressive pricing from competition in the business market, the resiliency and redundancy of the network both on island and off island are a key differentiator for Logic which our business customers value. Significant additional diverse international capacity was acquired to meet the ever increasing demands of the market.

Cayman
(WestTel Limited)

## LOGIC Cayman

During the first half of 2013/14 we focused on achieving economies of scale from the TeleCayman acquisition in addition to our residential fiber to the home build. There was growth in corporate data as the Cayman economy showed signs of recovery through multiple government initiatives to encourage international business growth. Residential sales increased in line with the deployment of the fiber build.

The Company continues to view Cayman as an opportunity to diversify its investments across two competing but complimentary markets. The Company further expanded its investment in Cayman with the acquisition of BOTCAT in September 2014. This acquisition, in addition to the TeleCayman acquisition, has enabled Logic Cayman to solidify both its corporate and residential presence in the market by acquiring market share to finance its fiber build.

## THE BERMUDA TELEPHONE COMPANY LIMITED (BTC)

In 2013/14 BTC continued to expand its VDSL2 network to increase internet speeds to residential and SOHO customers. In addition, much effort and time went into developing and implementing wholesale products in compliance with regulatory requirements which were launched in January 2014. Subsequent to the fiscal year end the Company decided to sell BTC in favour of taking a controlling interest in Cablevision and expanding its investments in Cayman.

## CABLE CO. LTD. (Cable Co.)

Challenger cable system was completed in December 2008 and links Bermuda to the United States. Challenger was born of a need to increase competition in the provision of international capacity and an opportunity to enhance the resiliency of communications to and from Bermuda.

In 2013/14 Cable Co. sold an additional IRU and purchased two GigE IRUs from Globenet, which also has a cable system from Bermuda to the US, in order to provide redundant capacity to its customers.

## BERMUDA YELLOW PAGES LIMITED (BYP)

Advertising spend by customers continued to be negatively impacted by the lack of economic growth in 2013/14. However, BYP continues to develop and sell innovative digital advertising and media products to replace traditional print revenues. These products allow customers to enhance their internet presence through website development and presence and, more importantly, in the rapidly expanding social media space.

## Associates

**Cablevision Holding Ltd. ("CHL")**
Prior to September 3, 2014, KeyTech Limited owned 40% of CHL, which owns approximately 83% of Cablevision. This resulted in a 33.2% ownership of Cablevision, which provides entertainment and high speed data services in the Bermuda market. On September 3, 2014, KeyTech acquired a further 40% interest in CHL, resulting in a 66.4% ownership in Cablevision. Combined with shares in Cablevision owned directly by the Company and WestStar, the Company's total interest in Cablevision amounts to approximately 68%.

**CellOne**
In May 2011, KeyTech's subsidiary, M3 Wireless Ltd. was amalgamated with CellularOne resulting in a 42% stake for KeyTech in the amalgamated entity CellOne. This amalgamation allowed KeyTech to remain invested in the cellular market while maximizing shareholder value through the economies of scale realized by the amalgamation.

**QV Holdings Ltd. ("QuoVadis")**
QuoVadis, through its subsidiaries, continues to grow its certificate sales throughout Europe, finding success most recently in Switzerland. In Bermuda, QuoVadis operates a state-of-the art data center which continues to expand its facility as demand grows.

**Lloyd Fray**
Chief Executive Officer

# Board of Directors

Standing left to right:

**Mr. Michael J. Mello, Q.C., J.P., T.E.P.**
Counsel
Appleby

*CHAIRMAN*
**Mr. Gary L. Phillips, OBE, J.P., CIArb**

*DEPUTY CHAIRMAN*
**Ms. Fiona E. Beck**
President & Chief Executive Officer
Southern Cross Cable Network

**Mr. Peter C. Durhager, J.P.**
Executive Vice President,
Chief Administrative Officer
RenaissanceRe Holdings Limited

President
RenaisannceRe Services Limited

Chairman
Ascendant Group Limited

**Mr. Glen C. Smith, J.P., M.P.**
Managing Director
Auto Solutions Limited

Director
LOM Holdings Limited

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

Chairman
Purvis Ltd.

Director
Neptune Ltd.

**The Hon. Jeanne J. Atherden, C.A., CPA, J.P., M.P.**
Minister of Health,
Seniors and Environment

Director
Bermuda Commercial Bank Limited

Director
Paragon Brokers (Bermuda) Limited

**Mr. S. Sean Tucker, J.P., B.A. (Hons), LL.B. (Hons), G.D.P.A**
Head of Property & Estates
Terra Law Limited, Barristers and Attorneys

Chairman
Bermuda National Sports Centre

Director
Island Petroleum Limited

**Mr. E. Michael Leverock, B. Eng., P. Eng., MBA**
Cofounder and Director,
Digital Communications Ltd.

**Alison Hill, FCMA**
Chief Executive Officer
Argus Group Holdings Limited

**Charles Jillings** *(not shown)*
Fund Manager
ICM Group

# Five Year Financial and Statistical Summary

As at March 31, 2014

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Revenue & Expense Items** | | | | | |
| ($000's) | | | | | |
| Operating revenues | 81,145 | 73,959 | 80,646 | 85,800 | 92,214 |
| Total expenses excluding depreciation and amortization | 64,843 | 59,098 | 66,114 | 65,130 | 73,504 |
| Depreciation and amortization | 17,381 | 13,288 | 18,702 | 14,027 | 15,332 |
| Profit for the year from continuing operations | 5,747 | 8,324 | 7,203 | 4,936 | 3,493 |
| (Loss) Profit for the year from discontinued operations | - | - | (27) | 1,681 | 2,821 |
| Profit for the year | 5,747 | 8,324 | 7,176 | 6,617 | 6,314 |
| Cash dividends declared on Common shares | 6,554 | 6,991 | 6,991 | 6,991 | 8,738 |
| **Balance Sheet** | | | | | |
| ($000's) | | | | | |
| Total assets | 193,288 | 166,917 | 165,095 | 168,836 | 172,909 |
| Shareholders' equity | 139,500 | 137,626 | 136,711 | 139,995 | 141,518 |
| Number of common shares | 14,564 | 14,564 | 14,564 | 14,564 | 14,564 |
| **Per Common Share** | | | | | |
| ($'s) | | | | | |
| Basic and diluted (discontinued and continuing operations) | 0.39 | 0.57 | 0.49 | 0.45 | 0.43 |
| Basic and diluted (continuing operations) | 0.39 | 0.57 | 0.49 | 0.34 | 0.24 |
| Basic and diluted (discontinued operations) | - | - | (0.002) | 0.12 | 0.19 |
| Cash dividend | 0.45 | 0.48 | 0.48 | 0.48 | 0.60 |
| Net assets - basic | 9.58 | 9.45 | 9.39 | 9.61 | 9.72 |
| **Items of Interest** | | | | | |
| Capital expenditures ($000's) | 17,951 | 17,515 | 11,656 | 14,100 | 11,316 |
| Number of employees (full-time) | 239 | 236 | 260 | 307 | 360 |

# Auditors' Report

pwc

October 31, 2014

**Independent Auditor's 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, 2014 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KeyTech Limited and its subsidiaries as at March 31, 2014 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

**Chartered Professional Accountants**

*PricewaterhouseCoopers Limited, Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda*
*T: +1 (441) 295 2000, F: +1 (441) 295 1242, www.pwc.com/bermuda*

# Consolidated Balance Sheet

As at March 31, 2014

| | Notes | March 31, 2014 | March 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents (excluding bank overdraft) | 12 | $ 5,857,875 | $ 4,152,102 |
| Accounts receivable | 13 | 10,698,980 | 11,155,358 |
| Loan receivable | 27 | - | 1,750,697 |
| Materials | 14 | 1,677,599 | 1,650,331 |
| Prepaid expenses and other current assets | 15 | 6,148,648 | 5,808,981 |
| | | 24,383,102 | 24,517,469 |
| **Non-current assets** | | | |
| Available-for-sale financial assets | 16 | 1,451,833 | 1,142,090 |
| Loan receivable | 27 | - | 2,392,489 |
| Property, plant and equipment | 17 | 98,425,686 | 95,163,440 |
| Investments in associates | 9 | 33,938,579 | 32,725,155 |
| Intangible assets | 18 | 35,089,103 | 10,976,735 |
| **Total assets** | | $ 193,288,303 | $ 166,917,378 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 19 | $ 10,899,135 | $ 11,412,529 |
| Bank overdraft | 20 | 155,921 | 209,891 |
| Foreign tax liabilities | | 174,408 | 172,503 |
| Dividends payable | 21 | 1,310,727 | 1,747,631 |
| Unearned income | | 8,759,555 | 7,859,580 |
| Preferred share redemption amounts unclaimed | 20 | 695,671 | 700,833 |
| Long-term debt redemption amounts unclaimed | 20 | - | 536,179 |
| Pension plan | 22 | 245,649 | 684,149 |
| Loan payable | 20 | 6,302,083 | - |
| | | 28,543,149 | 23,323,295 |
| **Non-current liabilities** | | | |
| Retirement augmentation plan | 22 | 3,065,131 | 3,231,810 |
| Pension plan | 22 | 982,596 | 2,736,596 |
| Loan payable | 20 | 21,197,917 | - |
| **Total liabilities** | | 53,788,793 | 29,291,701 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 23 | 3,640,908 | 3,640,908 |
| Share premium | | 83,413,733 | 83,413,733 |
| Contributed surplus | | 20,920,454 | 20,920,454 |
| Other comprehensive loss | | (2,724,868) | (5,390,215) |
| Retained earnings | | 33,714,417 | 34,521,366 |
| | | 138,964,644 | 137,106,246 |
| **Non-controlling interests** | 24 | 534,866 | 519,431 |
| **Total equity** | | 139,499,510 | 137,625,677 |
| **Total liabilities and equity** | | $ 193,288,303 | $ 166,917,378 |

**Approved by the Board of Directors**

Director

Director

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

# Consolidated Statement of Comprehensive Income

For the year ended March 31, 2014

| | Notes | | 2014 | | 2013 |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Data revenues | | $ | 49,333,813 | $ | 43,849,473 |
| Voice revenues | | | 18,826,164 | | 19,112,448 |
| Directory revenues | | | 4,619,820 | | 4,999,269 |
| Fixed data revenues | | | 2,526,588 | | - |
| Hardware and software revenues | | | 1,416,613 | | 1,588,201 |
| Other revenues | | | 4,421,638 | | 4,409,928 |
| | 5 | | 81,144,636 | | 73,959,319 |
| **OPERATING EXPENSES** | | | | | |
| Salaries and employee benefit expenses | 6 | | 27,672,878 | | 26,663,446 |
| Staff termination costs | 6 | | 911,339 | | 587,913 |
| Operations and maintenance expenses | | | 22,653,551 | | 19,441,261 |
| Depreciation and amortization | 17,18 | | 17,381,450 | | 13,288,144 |
| General and administrative expenses | 7 | | 10,106,746 | | 9,614,507 |
| Government taxes, fees and levies | 8 | | 3,498,008 | | 2,790,472 |
| | | | 82,223,972 | | 72,385,743 |
| Operating (loss) profit | | | (1,079,336) | | 1,573,576 |
| Share of income of associates | 9 | | 7,895,502 | | 6,877,322 |
| Finance income | 10 | | 129,158 | | 163,434 |
| Finance costs | 10 | | (922,405) | | (44,203) |
| Net interest cost on pension plan | 22 | | (138,512) | | (98,768) |
| Net interest cost on retirement augmentation plan | 22 | | (122,302) | | (147,766) |
| Non-controlling interests | | | (15,435) | | - |
| **Profit for the year** | | $ | 5,746,670 | $ | 8,323,595 |
| **Profit attributable to:** | | | | | |
| Equity holders of the company | | $ | 5,731,235 | $ | 8,323,595 |
| Non-controlling interests | | | 15,435 | | - |
| | | $ | 5,746,670 | $ | 8,323,595 |
| Earnings per share: | 11 | $ | 0.39 | $ | 0.57 |

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

# Consolidated Statement of Comprehensive Income (Continued)

For the year ended March 31, 2014

| | Notes | | 2014 | | 2013 |
|---|---|---|---|---|---|
| **Profit for the year** | | $ | 5,746,670 | $ | 8,323,595 |
| **Other comprehensive income (loss) for the year:** | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | |
| Changes in defined benefit pension plan | 22 | | 2,331,012 | | (1,127,101) |
| Actuarial gains and losses on retirement augmentation plan | 22 | | (2,829) | | 34,366 |
| | | | 2,328,183 | | (1,092,735) |
| **Items that may be subsequently reclassified to profit or loss** | | | | | |
| Changes in fair value of available-for-sale investments | 16 | | 337,164 | | 154,519 |
| | | | 2,665,347 | | (938,216) |
| **Total comprehensive income for the year** | | $ | 8,412,017 | $ | 7,385,379 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the company | | $ | 8,396,582 | $ | 7,385,379 |
| Non-controlling interests | | | 15,435 | | - |
| | | $ | 8,412,017 | $ | 7,385,379 |

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

# Consolidated Statement of Changes in Equity

For the year ended March 31, 2014

| | Notes | Share capital | Share premium | Contributed surplus | Other comprehensive income | Retained earnings | Total | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance - April 1, 2012** | | $3,640,908 | $83,413,733 | $20,920,454 | $(4,451,999) | $33,188,293 | $136,711,389 | $ - | $136,711,389 |
| Profit for the period | | - | - | - | - | 8,323,595 | 8,323,595 | - | 8,323,595 |
| Other comprehensive income: | | | | | | | | | |
| Changes in fair value of available-for-sale investments | 16 | - | - | - | 154,519 | - | 154,519 | - | 154,519 |
| Re-measurement of defined benefit pension plan | 22 | - | - | - | (1,127,101) | - | (1,127,101) | - | (1,127,101) |
| Re-measurement of retirement augmentation | 22 | - | - | - | 34,366 | - | 34,366 | - | 34,366 |
| Comprehensive loss for the period | | - | - | - | (938,216) | - | (938,216) | - | (938,216) |
| Non-controlling interest arising on business combination | | - | - | - | - | - | - | 519,431 | 519,431 |
| Dividends | | - | - | - | - | (6,990,522) | (6,990,522) | - | (6,990,522) |
| **Balance - March 31, 2013** | | $3,640,908 | $83,413,733 | $20,920,454 | $(5,390,215) | $34,521,366 | $137,106,246 | $519,431 | $137,625,677 |
| | | | | | | | | | |
| **Balance - April 1, 2013** | | $3,640,908 | $83,413,733 | $20,920,454 | $(5,390,215) | $34,521,366 | $137,106,246 | $519,431 | $137,625,677 |
| Profit for the period | | - | - | - | - | 5,731,235 | 5,731,235 | 15,435 | 5,746,670 |
| Other comprehensive income: | | | | | | | | | |
| Changes in fair value of available-for-sale investments | 16 | - | - | - | 337,164 | - | 337,164 | - | 337,164 |
| Re-measurement of defined benefit pension plan | 22 | - | - | - | 2,331,012 | - | 2,331,012 | - | 2,331,012 |
| Re-measurement of retirement augmentation | 22 | - | - | - | (2,829) | - | (2,829) | - | (2,829) |
| Comprehensive income for the period | | - | - | - | 2,665,347 | - | 2,665,347 | - | 2,665,347 |
| Non-controlling interests | | - | - | - | - | 15,435 | 15,435 | - | 15,435 |
| Dividends | | - | - | - | - | (6,553,619) | (6,553,619) | - | (6,553,619) |
| **Balance - March 31, 2014** | | $3,640,908 | $83,413,733 | $20,920,454 | $(2,724,868) | $33,714,417 | $138,964,644 | $534,866 | $139,499,510 |

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

# Consolidated Statement of Cash Flows

For the year ended March 31, 2014

| | Notes | | 2014 | | 2013 |
|---|---|---|---|---|---|
| **CASH FLOW PROVIDED BY (USED IN)** | | | | | |
| **Operating activities** | | | | | |
| Profit for the period | | $ | 5,746,670 | $ | 8,323,595 |
| Adjustments for: | | | | | |
| Depreciation and amortization | 17,18 | | 17,381,450 | | 13,288,144 |
| Bad debt expenses and impairment allowances | 13 | | 951,074 | | 980,902 |
| Share of income of associates | 9 | | (7,895,502) | | (6,877,322) |
| Net interest cost on pension plan | 22 | | 138,512 | | 98,768 |
| Net interest cost on retirement augmentation plan | 22 | | 122,302 | | 147,766 |
| Expiration of notes payable | 20 | | (536,179) | | - |
| Changes in items of working capital: | | | | | |
| Accounts receivable | | | 52,971 | | (38,321) |
| Materials | | | (27,269) | | 402,379 |
| Prepaid expenses and other current assets | | | 29,909 | | 791,602 |
| Accounts payable and accrued liabilities | | | (1,284,461) | | 408,933 |
| Foreign tax liabilities | | | 1,905 | | 91,486 |
| Unearned income | | | 230,517 | | (1,583,163) |
| Working capital acquired on business combinations | | | 357,661 | | 254,424 |
| **Net cash generated from operating activities** | | $ | 15,269,560 | $ | 16,289,193 |
| **Investing activities** | | | | | |
| Repayments received on loans to associates | | | 6,868,186 | | 5,049,826 |
| Dividends received from associates | | | 3,873,744 | | 801,464 |
| Purchase of available-for-sale financial assets | | | - | | (358,552) |
| Purchase of property, plant and equipment | | | (13,960,875) | | (14,569,576) |
| Purchase of intangible assets | | | (3,974,544) | | (2,945,385) |
| Property, plant and equipment acquired on business combinations | | | (3,056,406) | | (813,404) |
| Intangible assets arising on business combinations | | | (13,708,382) | | (3,242,867) |
| Goodwill arising on business combinations | | | (10,055,856) | | - |
| **Net cash used for investing activities** | | $ | (34,014,133) | $ | (16,078,494) |
| **Financing activities** | | | | | |
| Amount received on borrowing facility | | | 27,500,000 | | - |
| Redemption of preferred shares | 20 | | (5,162) | | (25,121) |
| Redemption of notes payable | 20 | | - | | (3,960) |
| Dividends paid on common shares | 21 | | (6,990,522) | | (6,990,522) |
| **Net cash received (used) for financing activities** | | $ | 20,504,316 | $ | (7,019,603) |
| **Increase (Decrease) in cash and cash equivalents** | | $ | 1,759,743 | $ | (6,808,904) |
| **Cash and cash equivalents and bank overdraft - Beginning of year** | | $ | 3,942,211 | $ | 10,751,115 |
| **Cash and cash equivalents and bank overdraft - End of year** | 12 | $ | 5,701,954 | $ | 3,942,211 |

# Notes to Consolidated Financial Statements

March 31, 2014

## 1. The Company and its regulatory framework

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

The Company is listed on the Bermuda Stock Exchange ("BSX") and operates in Bermuda. The registered office is located at 30 Victoria Street, Hamilton, HM 12, Bermuda.

These financial statements were approved by the Directors on October 27, 2014

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, with the exception of available-for-sale financial assets, and financial assets and financial liabilities (including pension plan liabilities) that which have been prepared at fair value through profit or loss. The financial statements are presented in Bermuda dollars ($), which is the functional currency of the Company.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

#### 2.1.1 Changes in accounting policy and disclosures

*New and amended standards adopted by the Company*

The following standards have been adopted by the Company for the first time for the financial year beginning April 1, 2013 and have an impact on the Company:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments).

IFRS 10, Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

*New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units (CGUs) which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Company until April 1, 2016.

# Notes to Consolidated Financial Statements

March 31, 2014

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The IASB issued the completed version of IFRS 9 in July 2014. IFRS 9 (2014) provides revised guidance on the classification and measurement of financial assets and introduces a new expected credit loss model for calculating impairment. IFRS 9 (2014) also incorporates the final general hedge accounting requirements originally published in IFRS 9 (2013). IFRS 9 (2014) is effective for the reporting period beginning on April 1, 2018.

IFRS 15, 'Revenue from contracts with customers', was issued in May 2014 by the IASB and FASB, a converged standard on revenue recognition. The standard will be effective for the reporting period beginning on April 1, 2017, and will allow early adoption. The standard will improve the financial reporting of revenue and improve comparability of the top line in the financial statements globally. The Company is yet to assess the full impact of IFRS 15 and intends to adopt the standard no later than the accounting period beginning on April 1, 2017.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**2.2 Consolidation**

*(a) Subsidiaries*

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intercompany transactions, balances, income and expenses on transactions between subsidiaries are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries: The Bermuda Telephone Company Limited ("BTC"), Logic Communications Ltd. ("Logic"), WestTel Limited (trading as Logic) ("Logic Cayman"), Bermuda Yellow Pages Limited ("BYP"), Key Management Services Limited ("KMS"), Cable Co. Ltd. ("Cable") and Cedar Cable Ltd. ("Cedar") (Cable and Cedar together "Cable Co."). The consolidated financial statements include the Company's interest in Yabsta (BVI) Limited ("Yabsta"), whereby the Company has a 51% interest.

# Notes to Consolidated Financial Statements

March 31, 2014

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

When the Company ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

*(d) Associates*

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Company's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit / (loss) of associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Company and its associate are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, Chief Financial Officer and members of the Board of Directors, to make decisions about resources to be allocated to the segment and assess its performance. Refer to note 5.

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bermuda dollars (BMD), which is the Company's presentation currency.

# Notes to Consolidated Financial Statements

March 31, 2014

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of those transactions or valuation where items are re-measured. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to BMD at the rates of exchange ruling on that date. Gains and losses arising from fluctuations in exchange rates are recognized in the consolidated statement of comprehensive income. Foreign currency losses for the year ended March 31, 2014 were $46,178 (2013: $56,050).

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value and are translated to BMD at foreign exchange rates ruling at the dates the values were determined.

For the purpose of the statement of cash flows, all foreign currency gains and losses recognized in the consolidated statement of comprehensive income are treated as cash items and included in cash flows from operating or financing activities along with movements in the relevant balances.

**2.5 Property, plant and equipment**

Land and buildings comprise mainly offices and network facilities. Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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 commissioned and amortized over its useful life.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings and fixtures | 5 – 50 years |
| Buildings leased under capital lease | 50 years (or lease term if shorter) |
| Plant and facilities | 4 – 20 years |
| Submarine cable system | 15 years |
| Machinery and equipment | 3 – 14 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other (losses) / gains – net' in the income statement, which is Nil for the fiscal year ended 2014 (2013: Nil).

**2.6 Intangible assets**

*(a) Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over KeyTech Limited's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

# Notes to Consolidated Financial Statements

March 31, 2014

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

*(b) Indefeasible right of use (IRU)*

IRUs are initially recorded at cost and amortized over the useful economic life to the estimated residual value 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. IRUs have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the IRU over the estimated useful life, which is 10 – 15 years.

*(c) Computer software*

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, which does not exceed 15 years.

**2.7 Impairment of non-financial assets**

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

**2.8 Non-current assets (or disposal groups) held for sale**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

# Notes to Consolidated Financial Statements

March 31, 2014

### 2.9 Financial assets

#### 2.9.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'accounts receivable, 'loan receivable' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

*(b) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Company's available-for-sale financial assets comprise marketable securities.

#### 2.9.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for- sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within investment income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated statement of comprehensive income within investment income when the Company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the statement of comprehensive income as 'finance income'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of comprehensive income as part of 'finance income'. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as part of 'finance income' when the Company's right to receive payments is established.

### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### 2.11 Impairment of financial assets

*(a) Assets carried at amortized cost*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

# Notes to Consolidated Financial Statements

March 31, 2014

Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

*(b) Assets classified as available-for-sale*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

**2.12 Deferred costs**

Costs incurred directly relating to the publication of the annual directory are deferred and recognized as expenses at the date of publication. Deferred production costs of $1,606,142 (2013: $1,428,303) are included in prepaid expenses and other current assets in the consolidated balance sheet. Refer to note 15.

**2.13 Materials**

Materials, consisting of items held for resale and parts and consumables, are recorded at lower of average cost and estimated net realizable value.

**2.14 Accounts receivable**

Accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

**2.15 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposit held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown on the face of the consolidated balance sheet in current liabilities.

**2.16 Share capital**

Ordinary shares are classified as equity. Mandatorily redeemable preference shares, which have been redeemed, are classified as liabilities.

# Notes to Consolidated Financial Statements

March 31, 2014

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

Where any company subsidiary purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

**2.17 Accounts payable**

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and other payables are initially measured at fair value and subsequently carried at amortized cost. They are classified as other liabilities at amortized cost.

**2.18 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities.

**2.19 Borrowing costs**

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

**2.20 Employee benefits**

Employee benefits, comprising net pension liabilities included in these financial statements, have been actuarially determined by a qualified independent actuary, appointed by management.

The actuarial valuations are carried out on an annual basis, as at the consolidated balance sheet date.

*(a) Pension obligations*

As described in note 22, employees of companies included in these consolidated financial statements have entitlements under company plans which are defined benefit plans. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in income.

# Notes to Consolidated Financial Statements

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*(b) Other post-employment obligations*

The retirement augmentation obligation is a fixed financial stipend to retirees which will increase with general inflation. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

*(c) Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*(d) Bonus plans and other employee benefits*

The Company recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Employee entitlements to paid leave are recognized when they accrue to employees. An accrual is made for the estimated liability for vacation leave, as a result of services rendered by employees up to the reporting date.

**2.21 Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**2.22 Revenue recognition**

The Company recognizes revenues as it provides services or delivers products to customers. Billings for telecommunications services (including fixed line, broadband and internet access billings) are made on a monthly basis. Unbilled revenues from the billing cycle date to the end of each month are recognized as revenue during the month the service is provided. Revenue is deferred in respect of the portion of fixed monthly charges that have been billed in advance. Revenue from installations and connections are recognized upon completion of the installation or connection. Revenue from equipment sales is recognized upon delivery of equipment to the customer.

Where multiple products or services are bundled together on sale, revenue is allocated to each element in proportion to its fair value and recognized as appropriate for that element. Revenue is recognized to the extent that it is not contingent on the provision or delivery of a future service.

Amounts received in advance of publication of the annual telephone directory for advertising sold are shown as unearned income in the consolidated balance sheet and are recognized as income at the date of publication. Revenues and expenses related to the Internet directory services are recognized on a pro rata basis over the life of the contract.

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

# Notes to Consolidated Financial Statements

March 31, 2014

### 2.23 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

### 2.24 Dividend income

Dividend income is recognized when the right to receive payment is established.

### 2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### 2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the company's Board of Director's.

### 2.27 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

## 3. Financial risk management

### 3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Senior management has responsibility for managing the Company's risk and reports to the Board of Directors any significant issues.

*(a) Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on assets.

(i) Foreign currency risk

The Company incurs foreign currency risk primarily on purchases and borrowings that are denominated in a currency other than the Bermuda and Cayman dollars. However, foreign currency risk is minimal, due to the fact that the Bermuda dollar is pegged to the US Dollar at a 1:1 rate and the Cayman dollar is pegged to the US Dollar at an exchange rate of 1 to 1.227.

# Notes to Consolidated Financial Statements

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(ii) Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the consolidated balance sheet as available-for-sale. The fair value of available-for-sale investments is determined by reference to their quoted market prices. The Company intends to hold these investments for a period longer than one year.

The Company has reviewed all available-for-sale investments held at March 31, 2014 and 2013 for evidence of impairment and has determined that there is no impairment as at March 31, 2014 (2013: Nil) and there are no indicators of significant or prolonged decline in the value of the assets.

Assessment by the Company of evidence of impairment involves the use of estimates as disclosed in note 4. If impairment is determined, the amount of such impairment is removed from accumulated other comprehensive income and recorded in net income for the reporting period.

A 10% movement in fair values of the available-for-sale investments would impact other comprehensive income as follows:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| 10% increase in fair values | $ | 109,790 | $ | 76,074 |
| 10% decrease in fair values | $ | (109,790) | $ | (76,074) |

10% was estimated by management as an appropriate threshold for sensitivity testing based on average price movements on the Bermuda Stock Exchange over a 12 month period.

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2014, the Company's borrowings at variable rate were denominated in USD (2013: Nil).

On April 25, 2013 the Company entered into a lending agreement with its Lender to finance the amalgamation of North Rock Communications Ltd. ("North Rock") with Logic. The Company was required to develop an interest rate hedging strategy as part of the lending agreement. The Company hedged 30% of its total loan amount, $8,250,000, through a floating-to-fixed interest rate swap ("Swap"). The Swap was purchased on April 30, 2014 and will expire on April 30, 2018 from the Lender. No premium or fee was charged to enter the Swap.

Settlement of the Swap is linked to the interest charging period on the underlying debt, three months. The Libor rate was fixed at 1.966% at the beginning of the charging period and for settlement, at the end of the period. If the Libor rate for that period is higher than the fixed rate of interest under the swap, then the Lender pays the net difference. Equally, if the Libor rate is lower than the agreed fixed rate of interest under the swap, then the Company will compensate the lender for the difference.

*(b) Credit risk*

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of their new and existing clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions, as well as loans receivable from associates. Management deems the credit risk associated with the loan to be minimal. For banks and financial institutions, counterparties who have minimal risk of credit default and are rated by Standard & Poor's with credit ratings of between A- and A are used. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, senior management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

Management does not expect any losses from non-performance by these counterparties.

# Notes to Consolidated Financial Statements

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*(c) Liquidity risk*

Liquidity risk, also referred to as funding risk, is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at or close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed credit facilities. The Company aims at maintaining flexibility in funding by keeping lines of funding available with relevant suppliers, bankers and related parties, sourcing appropriate currency holdings to match liabilities and pursuing prompt payment policies.

As at March 31, 2014 and 2013 the carrying amount of the bank overdraft facility, accounts payable, accrued liabilities, foreign tax liabilities and amounts due to related companies are equal to the contractual cash flows of the same. All are short-term in nature and due within a period of 12 months.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**2014**

| | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|---|
| Borrowings | $ - | $ 5,156,250 | $ 6,875,000 | $ 15,468,750 | $ - |
| Accounts payable and other liabilities | 9,870,246 | 2,669,945 | - | - | - |
| | $ 9,870,246 | $ 7,826,195 | $ 6,875,000 | $ 15,468,750 | $ - |

**2013**

| | Less than 3 months | Between 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|---|
| Borrowings | $ - | $ - | $ - | $ - | $ - |
| Accounts payable and other liabilities | 10,913,690 | 2,628,863 | - | - | - |
| | $ 10,913,690 | $ 2,628,863 | $ - | $ - | $ - |

### 3.2 Capital management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the Company's approach to capital management during the year.

# Notes to Consolidated Financial Statements

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**3.3 Fair value estimation:**

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been identified as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's financial assets and liabilities that are measured at fair value at March 31, 2014.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | $ 1,109,777 | $ - | $ 342,056 | $ 1,451,833 |

The following table presents the Company's financial assets and liabilities that are measured at fair value at March 31, 2013.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | $ 800,034 | $ - | $ 342,056 | $ 1,142,090 |

There were no transfers between levels 1 and 2 during the year.

*(a) Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily BSX equity investments classified as trading securities or available-for-sale.

*(b) Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

# Notes to Consolidated Financial Statements

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*(c) Financial instruments in level 3*

During the year ended March 31, 2013 the Company purchased 27,000 shares of an unlisted local company for $342,056. The inputs for the asset are not based on observable market data and are therefore, classified as level 3.

There were no changes to the financial instruments in level 3 during the fiscal year ended March 31, 2014.

## 4. Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(a) Pension benefits*

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 22.

*(b) Allowance for impairment losses on receivables*

In determining amounts recorded for impairment losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individually significant receivables with similar characteristics, such as credit risks.

*(c) Net realizable value of materials*

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the materials are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period, to the extent that such events confirm conditions existing at the end of the period.

Estimates of net realizable value also take into consideration the purpose for which the materials are held.

*(d) Residual value and expected useful life of property, plant and equipment*

The residual value and the expected useful life of an asset are reviewed at each financial year-end, and, if expectations differ from previous estimates, the change is accounted for. The useful life of an asset is defined in terms of the asset's expected utility to the company and its subsidiaries. The recoverable amount of property, plant and equipment is dependent upon management's internal assessment of future cash flows from the individual asset or from the cash generating units to which the asset belongs. In addition, the estimate of the amount recoverable from future use of those units is sensitive to the discount rate used.

# Notes to Consolidated Financial Statements

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*(e) Impairment of investments in associates*

The carrying value of investments in associates is assessed for impairment using benchmark multiples of earnings before interest, depreciation and amortization ("EBIDA") and discounted cash flows of the Company, based on actual and forecasted results over a period of up to five years. The discount rate and benchmark multiples are assessed individually for each investment depending on the nature of its business, maturity of the business and expected future revenue growth rates. If the recoverable value is less than the carrying value of the investment in associate, an impairment expense is recognized in the period to reduce carrying value to its recoverable value. The following are key assumptions used in the impairment assessment calculations:

| | |
|---|---|
| Benchmark multiples of EBIDA | 7 - 12 |
| Discount rate applied in cash flow projections | 8% |

*(f) Impairment of goodwill and intangible assets*

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable value using value in use, of the cash-generating units to which the goodwill and intangible assets have been allocated. The cash generating unit fair value is assessed using the discounted cash flows of the cash generating unit, based on financial budgets approved by management over a period of up to five years with a terminal value at the end of the five year period. Tangible assets are deducted from the estimated enterprise value and the residual value is compared to the carrying value of goodwill and intangible assets. If the residual value is less than the book carrying value of goodwill and intangible assets, an impairment expense is recognized in the period to reduce the carrying value to its recoverable amount. The following are key assumptions used in the impairment assessment calculations:

| | |
|---|---|
| Benchmark multiples of EBIDA | 5.0 - 6.5 |
| Discount rate applied in cash flow projections | 8% |

## 5. Segment information

Reportable segments correspond to the Company's internal organizational structure. 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 rentals.

Logic – provides a wide range of data 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 and subscription television services in the Cayman Islands.

BYP – provides print, on-line directory and digital marketing services.

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

Yabsta – provides on-line search capabilities, specializing in digital advertising.

# Notes to Consolidated Financial Statements

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**Segment information**

| | BTC | Logic | Logic Cayman | BYP | Cable Co. | Yabsta | Total |
|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2014** | | | | | | | |
| Revenues from external customers | $ 42,001,015 | $ 25,450,662 | $ 8,439,646 | $ 4,599,047 | $ 486,076 | $ 21,000 | $ 80,997,446 |
| Revenues from internal customers | 3,445,621 | 1,322,210 | 53,520 | 207,230 | 2,783,922 | 15,000 | 7,827,503 |
| Depreciation and amortization | 9,354,395 | 3,576,083 | 2,752,369 | 33,166 | 2,052,807 | - | 17,768,820 |
| Operating expenses | 31,029,068 | 20,454,641 | 11,306,197 | 3,296,844 | 3,721,704 | 4,500 | 69,812,954 |
| Interest expense | - | - | - | - | - | - | - |
| Segment income (loss) | $ 5,063,173 | $ 2,742,148 | $ (5,565,400) | $ 1,476,267 | $ (2,504,513) | $ 31,500 | $ 1,243,175 |
| Segment assets | $ 69,552,903 | $ 37,883,568 | $ 22,161,277 | $ 4,444,847 | $ 20,832,668 | $ 1,258,667 | $ 156,133,930 |

| | BTC | Logic | Logic Cayman | BYP | Cable Co. | Yabsta | Total |
|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2013** | | | | | | | |
| Revenues from external customers | $ 44,850,540 | $ 17,362,033 | $ 5,558,534 | $ 4,999,806 | $ 1,104,660 | $ - | $ 73,875,573 |
| Revenues from internal customers | 2,819,305 | 1,383,573 | 68,195 | 293,385 | 1,933,333 | - | 6,497,791 |
| Depreciation and amortization | 9,320,066 | 1,489,498 | 982,118 | 30,296 | 1,815,656 | - | 13,637,634 |
| Operating expenses | 33,041,813 | 13,874,642 | 8,566,591 | 3,690,806 | 3,454,876 | - | 62,628,728 |
| Interest expense | 41,696 | - | - | - | - | - | 41,696 |
| Segment income (loss) | $ 5,266,270 | $ 3,381,466 | $ (3,921,980) | $ 1,572,089 | $ (2,232,539) | $ - | $ 4,065,306 |
| Segment assets | $ 75,690,100 | $ 12,708,576 | $ 11,279,738 | $ 3,437,357 | $ 19,890,088 | $ 1,095,765 | $ 124,101,624 |

**Reconciliations**

| | 2014 | 2013 |
|---|---|---|
| **Revenues from external customers** | | |
| Total segment revenues from external customers | $ 80,997,446 | $ 73,875,573 |
| Non-segment other revenue | 147,190 | 83,746 |
| | $ 81,144,636 | $ 73,959,319 |

| | 2014 | 2013 |
|---|---|---|
| **Depreciation and amortization** | | |
| Total segment depreciation and amortization | $ 17,768,820 | $ 13,637,634 |
| Non-segment depreciation and amortization | 470,031 | 427,273 |
| Elimination of inter-company amounts | (857,401) | (776,763) |
| | $ 17,381,450 | $ 13,288,144 |

| | 2014 | 2013 |
|---|---|---|
| **Operating expenses** | | |
| Total segment operating expenses | $ 69,812,954 | $ 62,628,728 |
| Non-segment operating expenses | 2,822,176 | 2,542,845 |
| Elimination of inter-company amounts | (7,792,608) | (6,073,974) |
| | $ 64,842,522 | $ 59,097,599 |

# Notes to Consolidated Financial Statements

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| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Interest expense** | | | | |
| Total segment interest expense | $ | - | $ | 41,696 |
| Elimination of inter-company amounts | | - | | (41,696) |
| | $ | - | $ | - |

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Profit for the year** | | | | |
| Total income (loss) for reportable segments | $ | 1,243,175 | $ | 4,065,306 |
| Share of income of associates | | 7,895,502 | | 6,877,322 |
| Finance costs | | (922,405) | | (44,203) |
| Non-segment other income | | 276,245 | | 285,450 |
| Non-controlling interests | | (15,435) | | - |
| Net interest cost on pension plan | | (138,512) | | (98,768) |
| Net interest cost on retirement augmentation plan | | (122,302) | | (147,766) |
| Non-segment administrative expenses | | (2,822,176) | | (2,542,845) |
| Non-segment amortization | | (470,031) | | (427,273) |
| Elimination of inter-company amounts | | 822,609 | | 356,372 |
| | $ | 5,746,670 | $ | 8,323,595 |

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Total assets** | | | | |
| Total assets for reportable segments | $ | 156,133,930 | $ | 124,101,624 |
| Goodwill | | 11,047,268 | | 4,234,279 |
| Non-segment assets | | 104,720,167 | | 69,175,291 |
| Elimination of inter-company amounts | | (78,613,062) | | (30,593,816) |
| | $ | 193,288,303 | $ | 166,917,378 |

**Entity-wide information**

The breakdown of revenue from all services is disclosed on the face of the consolidated statement of comprehensive income.

The Company is domiciled in Bermuda and revenue from external customers in Bermuda is $72,557,799 (2013: $68,317,039). Total revenue from other countries is $8,439,647 (2013: $5,558,534) which is derived from the Logic Cayman operations in the Cayman Islands.

The total of non-current assets located in Bermuda is $150,295,233 (2013: $133,423,897) and the total of such non-current assets in other countries is $19,657,136 (2013: $8,976,012).

## 6. Salaries and employee benefit expenses and staff termination costs

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Gross salaries | $ | 22,961,101 | $ | 22,013,096 |
| Gross staff termination costs | | 739,936 | | 472,398 |
| Employer pension contributions | | 1,185,052 | | 1,124,275 |
| Incentive compensation, other benefits and allowances | | 3,698,128 | | 3,641,590 |
| | $ | 28,584,217 | $ | 27,251,359 |

# Notes to Consolidated Financial Statements

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| | | 2014 | | 2013 |
|---|---|---|---|---|
| Salaries and employee benefit expenses per consolidated statement of comprehensive income | $ | 27,672,878 | $ | 26,663,446 |
| Staff termination costs per consolidated statement of comprehensive income | | 911,339 | | 587,913 |
| | $ | 28,584,217 | $ | 27,251,359 |

## 7. General and administrative expenses

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Administrative | $ | 3,176,032 | $ | 2,821,589 |
| Consultants and professional fees | | 3,230,479 | | 2,669,687 |
| Marketing and selling | | 1,945,134 | | 2,312,048 |
| Bad debt expense (note 13) | | 951,074 | | 980,902 |
| Insurance | | 804,027 | | 830,281 |
| | $ | 10,106,746 | $ | 9,614,507 |

## 8. 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 ‘Government Authorization Fee’ (GAF) of 2.05% and a ‘Regulatory Authority Fee’ (RAF) of 1.75% of total gross revenue, less certain allowable deductions specified in its license. 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 March 31, 2014 were approximately $2,536,797 (2013: $2,061,721), which is included within government taxes, fees and levies in the consolidated statement of comprehensive income.

Cedar 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 $217,675 (2013: $212,750) in FCC fees.

## 9. Investments in associates

| | | 2014 | | 2013 |
|---|---|---|---|---|
| At April 1 | $ | 32,725,155 | $ | 31,114,826 |
| Share of operating profit | | 7,973,373 | | 6,532,201 |
| Interest charged | | 287,904 | | 710,896 |
| Amortization of intangibles | | (365,775) | | (365,775) |
| Net share of income of associates | | 7,895,502 | | 6,877,322 |
| Loan repayments and interest received | | (2,808,333) | | (3,931,220) |
| Dividends received | | (3,873,745) | | (1,335,773) |
| At March 31 | $ | 33,938,579 | $ | 32,725,155 |

The results of all three principal associates, and the aggregated assets (including goodwill) and liabilities are as follows:

| | Countries of incorporation | Assets $ | Liabilities $ | Revenues $ | Net Profit $ |
|---|---|---|---|---|---|
| March 31, 2013 | | | | | |
| | Bermuda | 123,214,584 | 54,536,379 | 92,940,606 | 16,054,554 |
| March 31, 2014 | | | | | |
| | Bermuda | 122,512,916 | 45,664,683 | 94,973,264 | 18,808,176 |

# Notes to Consolidated Financial Statements

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Set out below are the associates of the Company as at March 31, 2014 which, in the opinion of the directors, are material to the Company. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Company; the country of incorporation or registration is also their principal place of business.

**CellOne**
On May 2, 2011, M3 Wireless Ltd. ("M3") amalgamated with Bermuda Digital Communications Ltd. ("BDC") and continued operations under the brand name "CellOne". Upon amalgamation, the 1,012,000 common shares of $1.00 par value in the capital of M3 in issue on the date of the amalgamation were converted into 2,671,548 issued and fully paid common shares, $0.05 par value per share, in the capital of the amalgamated company, which is registered in Bermuda.

Immediately after amalgamation, the Company held approximately 42% of the common shares of the amalgamated company. Effective May 2, 2011 the Company accounts for its investment in the amalgamated company as an investment in associate, whereby the investment is recorded at cost, adjusted to recognize the Company's share of earnings or losses of the amalgamated company and reduced by dividends received.

**Cablevision Holding Ltd. ("CHL")**
During the year ended March 31, 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 exchanging its shares of BCL for 40% of the outstanding shares of 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. During the year ended March 31, 2014 CHL paid the Company total principal of $2,450,169 (2013: $869,368) and total accrued interest of $274,831 (2013: $2,730,632). The 40% holding in CHL results in a 33.2% interest in BCL.

**QV Holdings Ltd. ("QuoVadis")**
During the year ended March 31, 2005, the Company purchased a 20% equity interest in QuoVadis, a company registered in Bermuda, for $1,009,513. QuoVadis, through its subsidiaries, 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. The intangible assets acquired include customer contracts, root certificates, security process methodology, accreditations, and trademarks. 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 assets of QuoVadis. During the year ended March 31, 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 March 31, 2010 the Company committed to contribute $1,000,000 to purchase preference shares and common share warrants. As at March 31, 2011 the full contribution of $1,000,000 was 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 QuoVadis will reduce to 22%.

## 10. Finance income and costs

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Finance income:** | | | | |
| - interest income on short-term bank deposits | $ | 249 | $ | 147 |
| - interest income on available-for-sale financial assets | | 629 | | 219 |
| - dividend income on available-for-sale financial assets | | 128,280 | | 163,068 |
| | | 129,158 | | 163,434 |
| **Finance costs:** | | | | |
| - interest paid - long-term loan | | (900,783) | | - |
| - interest paid - overdraft facility | | (16,222) | | (40,778) |
| - investment fees on available-for-sale financial assets | | (5,400) | | (3,425) |
| | | (922,405) | | (44,203) |
| **Net finance (costs) income** | $ | (793,247) | $ | 119,231 |

# Notes to Consolidated Financial Statements

March 31, 2014

## 11. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares. There are no dilutive or potentially dilutive instruments outstanding that which may affect earnings per share.

| | 2014 | 2013 |
|---|---|---|
| Profit from operations attributable to owners of the parent | $ 5,746,670 | $ 8,323,595 |
| Weighted average number of ordinary shares in issue | 14,563,588 | 14,563,588 |
| Earnings per share | $ 0.39 | $ 0.57 |

## 12. Cash and cash equivalents

| | March 31, 2014 | April 1, 2013 |
|---|---|---|
| Cash at bank and in hand (excluding bank overdraft) | $ 5,785,271 | $ 4,036,753 |
| Short term deposits | 72,604 | 115,349 |
| | $ 5,857,875 | $ 4,152,102 |

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

| | March 31, 2014 | April 1, 2013 |
|---|---|---|
| Cash and cash equivalents | $ 5,857,875 | $ 4,152,102 |
| Bank overdraft (note 20) | (155,921) | (209,891) |
| | $ 5,701,954 | $ 3,942,211 |

## 13. Accounts receivable

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Trade receivables | $11,875,492 | $11,401,791 |
| Less: provision for impairment of trade receivables | (2,865,082) | (2,742,026) |
| Trade receivables – net | 9,010,410 | 8,659,765 |
| Receivables from related parties | 1,085,373 | 970,740 |
| Other receivables | 603,197 | 1,524,853 |
| | $10,698,980 | $11,155,358 |

# Notes to Consolidated Financial Statements

March 31, 2014

The aging of trade receivables at the reporting date was:

| | March 31, 2014 | | March 31, 2013 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| Not past due | $ 6,014,307 | $ 69,612 | $ 5,720,619 | $ 65,768 |
| Past due 31 – 60 days | 1,663,527 | 166,353 | 1,641,552 | 164,155 |
| Past due 61 – 90 days | 761,599 | 265,798 | 692,286 | 241,608 |
| More than 90 days | 3,436,059 | 2,363,319 | 3,347,334 | 2,270,495 |
| | $ 11,875,492 | $ 2,865,082 | $ 11,401,791 | $ 2,742,026 |

The movement in allowance for doubtful debts in respect of trade receivables during the year was as follows:

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Balance at beginning of year | $ 2,742,026 | $ 2,787,042 |
| Provision for receivables impairment | 476,403 | 806,734 |
| Receivables written off during the year as uncollectible | (494,109) | (851,750) |
| Provision for receivables impairment upon business combinations | 140,762 | - |
| Balance at end of year | $ 2,865,082 | $ 2,742,026 |

The creation and release of provision for impaired receivables have been included in ‘general and administrative expenses’ in the consolidated statement of comprehensive income (note 7). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security.

## 14. Materials

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Voice equipment and accessories | $ 2,367,262 | $ 2,293,504 |
| Cable and other plant spares | 619,544 | 445,544 |
| Computer equipment | 926 | 15,567 |
| | 2,987,732 | 2,754,615 |
| Allowance | (1,310,133) | (1,104,284) |
| | $ 1,677,599 | $ 1,650,331 |

The cost of materials recognized as an expense and included in ‘operations and maintenance expenses’ was $550,067 (2013: $457,631).

# Notes to Consolidated Financial Statements

March 31, 2014

### 15. Prepaid expenses and other current assets

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Maintenance | $ 2,720,664 | $ 2,704,666 |
| Deferred production costs (note 2.12) | 1,606,142 | 1,428,303 |
| Deposits for capital projects* | 722,439 | 722,439 |
| Insurance | 296,664 | 265,673 |
| Government taxes | 256,757 | 247,760 |
| Other prepaid expenses and current assets | 545,982 | 440,140 |
| | $ 6,148,648 | $ 5,808,981 |

*Logic Cayman has placed a deposit of KYD $606,849 (2013: KYD $606,849) with a contractor for installation of fibre optic cables. The deposit is repayable in full to Logic Cayman within 30 days of the contractual minimum of $1,398,000 having been reached. As at March 31, 2014 Logic Cayman has incurred $1,061,898 (2013: $757,000) since the contract commencement date of July 19, 2012 and fully intends to reach the contractual minimum as stated above. If the contractor defaults or neglects to carry out the work in accordance with the contract, Logic Cayman can take possession of the work and withhold further payment to the contractor and charge the contractor the full cost of finishing the work.

### 16. Available-for-sale financial assets

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | $ 1,142,090 | $ 629,019 |
| Additions | - | 358,552 |
| Disposals | (27,421) | - |
| Fair value movements | 337,164 | 154,519 |
| | $ 1,451,833 | $ 1,142,090 |

Available-for-sale financial assets include equity securities of companies in Bermuda which are engaged in telecommunications and banking and are denominated in Bermuda dollars.

# Notes to Consolidated Financial Statements

March 31, 2014

## 17. Property, plant and equipment

| | Land | Land Leased Under Capital Lease | Buildings and Fixtures | Buildings Leased Under Capital Lease | Plant and Facilities | Submarine Cable System | Machinery and Equipment | Plant under construction | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| March 31, 2013 | $ 3,752,442 | $ 1,000,000 | $ 50,046,439 | $ 831,398 | $ 150,463,692 | $ 27,074,696 | $ 34,825,875 | $ 6,236,718 | $ 274,231,260 |
| Additions | - | - | 1,380,952 | - | 2,527,796 | - | 4,695,329 | 4,960,355 | 13,564,432 |
| Transfers | - | - | 57,444 | - | - | - | (57,277) | (167) | - |
| Disposals / retirements | - | - | (1,577,031) | - | (6,799,914) | - | (6,750,790) | (149,851) | (15,277,586) |
| Business combinations | - | - | 734,289 | - | 554,238 | - | 1,762,589 | (9,995) | 3,041,121 |
| March 31, 2014 | $ 3,752,442 | $ 1,000,000 | $ 50,642,093 | $ 831,398 | $ 146,745,812 | $ 27,074,696 | $ 34,475,726 | $ 11,037,060 | $ 275,559,227 |
| **Depreciation / Impairment:** | | | | | | | | | |
| March 31, 2013 | $ - | $ - | $ 27,658,241 | $ 158,001 | $ 120,089,312 | $ 7,717,699 | $ 23,444,567 | $ - | $ 179,067,820 |
| Charge for the year | - | - | 2,851,694 | 9,704 | 5,654,848 | 1,886,468 | 3,352,321 | - | 13,755,035 |
| Transfers | - | - | 46,272 | - | (21,593) | - | (24,679) | - | - |
| Eliminated on disposals / retirements | - | - | (1,467,120) | - | (6,819,563) | - | (7,402,631) | - | (15,689,314) |
| March 31, 2014 | $ - | $ - | $ 29,089,087 | $ 167,705 | $ 118,903,004 | $ 9,604,167 | $ 19,369,578 | $ - | $ 177,133,541 |
| **Net book values:** | | | | | | | | | |
| March 31, 2014 | $ 3,752,442 | $ 1,000,000 | $ 21,553,006 | $ 663,693 | $ 27,842,808 | $ 17,470,529 | $ 15,106,148 | $ 11,037,060 | $ 98,425,686 |
| March 31, 2013 | $ 3,752,442 | $ 1,000,000 | $ 22,388,198 | $ 673,397 | $ 30,374,380 | $ 19,356,997 | $ 11,381,308 | $ 6,236,718 | $ 95,163,440 |

During the year ended March 31, 2014 management has determined that no impairment charges against property, plant and equipment are required, (2013: Nil).

## 18. Intangible assets

| | Indefeasible right of use (IRU's) | Computer software and other intangible assets | Goodwill | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| March 31, 2013 | $ 10,582,521 | $ 13,468,518 | $ 4,234,278 | $ 28,285,317 |
| Additions | 2,780,096 | 14,877,018 | 10,055,856 | 27,712,970 |
| Transfers | - | 3,242,867 | (3,242,867) | - |
| Impairments | - | (2,958,232) | - | (2,958,232) |
| Business combinations | - | 15,285 | - | 15,285 |
| March 31, 2014 | $ 13,362,617 | $ 28,645,456 | $11,047,267 | $ 53,055,340 |
| **Amortization:** | | | | |
| March 31, 2013 | $ 10,119,840 | $ 7,188,742 | $ - | $ 17,308,582 |
| Charge for the year | 629,018 | 2,997,397 | - | 3,626,415 |
| Impairments | - | (2,968,760) | - | (2,968,760) |
| March 31, 2014 | $ 10,748,857 | $ 7,217,380 | $ - | $ 17,966,237 |
| **Net book values:** | | | | |
| March 31, 2014 | $ 2,613,760 | $ 21,428,076 | $11,047,267 | $ 35,089,103 |
| March 31, 2013 | $ 462,681 | $ 6,279,776 | $ 4,234,278 | $ 10,976,735 |

# Notes to Consolidated Financial Statements

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**Indefeasible right of use (IRUs)**

IRUs include capacity provisioned over optical undersea cable systems. The capacity is provided between Bermuda and New York, NY, USA and Bermuda and Miami, FL, USA. The IRUs expire on September 1, 2021, June 7, 2023 and June 17, 2023 and are amortized over a period of 10 – 15 years. Recurring operations and maintenance fees paid by the Company on a monthly basis total $19,727.

**Computer software and other intangible assets**

Included in the intangible assets addition in the current year is the portion of the purchase price attributable to the customer base associated with the North Rock transaction, as disclosed in note 26. The acquired customer base is being amortized over a period of 12 years.

During the fiscal year it was determined that the $3,242,867 arising on the TeleCayman Limited acquisition in March 2013 is 100% attributable to the acquired customer base and therefore, has been transferred from ‘goodwill’ to ‘other intangible assets’. This intangible asset is being amortized over a period of 3 years.

Impairment charges relate to computer software that which has been deemed obsolete or are no longer in use by the Company.

**Goodwill**

The goodwill addition in the current year of $10,055,856 reflects the goodwill associated with the North Rock transaction, as disclosed in note 26. The goodwill arising on the Logic acquisition in 1998 is evaluated for potential impairment at the end of each reporting period using estimates of future discounted net cash flows. The unamortized goodwill attributable to Logic did not require an impairment adjustment for the fiscal year ended March 31, 2014.

Amortization charge for the year is included in ‘depreciation and amortization’ in the consolidated statement of comprehensive income.

## 19. Accounts payable and accrued liabilities

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Trade payables | $ 2,033,765 | $ 2,445,641 |
| Amounts due to related parties | 32,092 | 28,787 |
| Accrued liabilities | 4,852,778 | 5,598,855 |
| Accrued payroll liabilities | 3,980,500 | 3,339,246 |
| | $ 10,899,135 | $ 11,412,529 |

## 20. Borrowings

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Current | | |
| Bank overdraft | $ 155,921 | $ 209,891 |
| Bank borrowings | 6,302,083 | - |
| Preferred share redemption amounts unclaimed | 695,671 | 700,833 |
| Long-term debt redemption amounts unclaimed | - | 536,179 |
| | 7,153,675 | 1,446,903 |
| Non-current | | |
| Bank borrowings | 21,197,917 | - |
| Total borrowings | $ 28,351,592 | $ 1,446,903 |

# Notes to Consolidated Financial Statements

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*(a) Bank borrowings*

The bank overdraft is subject to a $5,000,000 limit, incurs interest expense at a rate equal to three month Libor plus 3% on amounts drawn and is secured by a Fixed and Floating Charge, as well as a Joint & Several Guarantee from BTC, Logic, Cable and Cedar. Total interest expense in relation to the overdraft facilities was $16,222 for the year ended March 31, 2014 (2013 – $40,778) and is included in finance costs in the consolidated statement of comprehensive income. The bank overdraft facility expires April 25, 2015.

Bank borrowings mature in 2018, have set terms of repayment and bear interest at the Libor rate plus 3.25% per annum (2013: Nil). Total interest expense in relation to bank borrowings was $900,783 for the year ended March 31, 2014 (2013: Nil) and is included in finance costs in the consolidated statement of comprehensive income. During the first year of the term, repayments will be interest only and there will be no required payments of principal. During the second through fifth year of the term, the Company shall make annual principal repayments of $6,875,000 per year, payable quarterly in equal amounts of $1,718,750 commencing July 31, 2014.

Total borrowings include secured liabilities of USD $27,500,000 (2013: Nil). Bank borrowings are secured by the property and assets of the following companies: KeyTech, BTC, Logic, Cable and Cedar. See note 26.

*(b) Preferred share redemption amounts unclaimed*

The Company exercised its right to redeem the preferred shares effective November 15, 2003. Total number of preferred shares originally on offer was 2,613,445. As a result no preferred shares are now in issue. As at March 31, 2014, not all preferred shares had been presented to the Company in exchange for cash. The preferred shares do not accrue dividends beyond the redemption date.

*(c) Long-term debt redemption amounts unclaimed*

BTC exercised its right to redeem the 7¾% notes effective December 15, 2002. As at March 31, 2013 the notes that remained outstanding were valued at $536,179 and are included in current debt redemption amounts unclaimed on the consolidated balance sheet. The right to payment became forfeited and void 6 years from the date when the principal and interest became due and payable. Management has determined that a reasonable amount of time has passed since the right to payment became forfeited and void in December 2008 and has released the liability back into income during the fiscal year ended March 31, 2014. $536,179 has been recognized in other revenues in the consolidated statement of comprehensive income.

## 21. Dividends per share

The dividends paid in 2014 and 2013 were $6,990,522 (0.48 per share) in each year ($0.12 per share per quarter). At the Board meeting held in March 2014, it was resolved that the dividend declared to be paid April 15, 2014, would be reduced to $0.09 per share for the quarter.

## 22. Pension and retirement augmentation plan

During the year ended March 31, 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 March 31, 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. All contributions to the former plan were made by the Company and the Company is the residual beneficiary of the plan after all benefits are paid. The Company's right as residual beneficiary to refund on surplus funds (fair value of plan assets less present value of the defined benefit

# Notes to Consolidated Financial Statements

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obligation) prior to the end of the life of the former plan life is restricted to amounts approved by the Trustees who consider the effects of adverse changes in the actuarial assumptions and any other factors considered relevant in their sole discretion. As such, the Company has determined that it does not have an unconditional right to any plan surpluses and accordingly has not recognized a net defined benefit asset on its balance sheet. Any such surplus is reduced to the estimated realization amount by way of a valuation allowance to comply with the requirements of IFRIC 14.

The Company recognizes a liability in full, any deficit of funds (present value of the defined benefit obligation less fair value of plan assets), as the Company is the sponsor of the defined benefit plan and has an obligation to fund any such deficit. The Company transfers additional funding to the former plan to amortize the deficit over five years from the date of the actuarial valuation. On each fiscal year end reporting date, the Company's actuaries prepare an actuarial valuation of the plan which identifies if the former plan has a surplus or deficit of funds. The Company classifies any deficit of funds in the former plan as a liability in the consolidated balance sheet. For the fiscal year ended March 31, 2014 the defined benefit plan experienced a deficit of funds and therefore, the Company is carrying a liability of $1,228,245 (2013: $3,420,745).

Effective March 31, 2010, the Company determined to continue to provide a retirement augmentation plan benefit only to existing retiree recipients and to those employees aged 60 at April 1, 2009. These benefits are fully vested and accrued at March 31. 2009 and therefore no benefits for future service will be accrued in future periods. From April 1, 2009, the retirement augmentation plan benefit is a fixed monthly financial contribution to assist the retirees with medical costs.

The following table provides summaries of the retirement augmentation plan and the defined benefit pension plans' estimated financial position as of March 31:

| | Pension Plan | | Retirement Augmentation Plan | |
|---|---|---|---|---|
| | **March 31, 2014** | **March 31, 2013** | **March 31, 2014** | **March 31, 2013** |
| **Change in Benefit Obligation** | | | | |
| Present value of obligations at beginning of year | $ 48,620,232 | $ 49,889,833 | $ 3,242,733 | $ 3,346,680 |
| Interest cost | 1,804,780 | 2,201,868 | 122,302 | 147,766 |
| Actuarial (gain) loss | (898,729) | 395,768 | (8,094) | (23,443) |
| Benefit paid | (3,820,196) | (3,867,237) | (291,810) | (228,270) |
| Present value of obligations at end of year | $ 45,706,087 | $ 48,620,232 | $ 3,065,131 | $ 3,242,733 |
| **Change in Plan Assets** | | | | |
| Fair value of plan assets at beginning of year | $ 45,199,487 | $ 47,694,957 | $ - | $ - |
| Interest income | 1,666,268 | 2,103,100 | - | - |
| Actuarial gain (loss) | 1,432,283 | (731,333) | - | - |
| Employer contributions | - | - | 291,810 | 228,270 |
| Benefits paid | (3,820,196) | (3,867,237) | (291,810) | (228,270) |
| Fair value of plan assets at end of year | $ 44,477,842 | $ 45,199,487 | $ - | $ - |

# Notes to Consolidated Financial Statements

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| | Pension Plan | | Retirement Augmentation Plan | |
|---|---|---|---|---|
| | March 31, 2014 | March 31, 2013 | March 31, 2014 | March 31, 2013 |
| **Funded Status** | | | | |
| Present value of obligation at end of year | $ (45,706,087) | $ (48,620,232) | $ (3,065,131) | $ (3,242,733) |
| Fair value or plan assets at end of year | 44,477,842 | 45,199,487 | - | - |
| (Liability) asset end of year before asset ceiling | $ (1,228,245) | $ (3,420,745) | $ (3,065,131) | $ (3,242,733) |
| Adjustment for asset ceiling | - | - | N/A | N/A |
| (Liability) asset end of year after asset ceiling | $ (1,228,245) | $ (3,420,745) | $ (3,065,131) | $ (3,342,733) |
| **Expense** | | | | |
| Net interest cost | $ 138,512 | $ 98,768 | $ 122,302 | $ 147,766 |
| Re-measurement (gain) loss | $ (2,507,989) | $ (1,127,101) | $ (8,094) | $ (23,443) |
| **Balance Sheet** | | | | |
| Opening asset (liability) | (3,597,722) | (2,194,876) | (3,242,733) | (3,346,680) |
| Net interest income (expense) | (138,512) | (98,768) | (122,302) | (147,766) |
| (Expense) income before asset ceiling | 2,507,989 | (1,127,101) | 8,094 | 23,443 |
| Employer's contributions | - | - | 291,810 | 228,270 |
| Closing asset (liability) before asset ceiling | $ (1,228,245) | $ (3,420,745) | $ (3,065,131) | $ (3,242,733) |
| Adjustment for asset ceiling | $ - | $ - | $ N/A | $ N/A |
| Closing asset (liability) after asset ceiling | $ (1,228,245) | $ (3,420,745) | $ (3,065,131) | $ (3,242,733) |
| **Actuarial Assumptions: Weighted-average assumptions at End of Year:** | | | | |
| Discount rate | 3.90% | 3.85% | 3.90% | 3.85% |
| Rate of compensation increase | 2.00% | 2.35% | N/A | N/A |
| Rate of inflation | 2.00% | 2.35% | 2.00% | 2.35% |
| Cost of living adjustments | 1.50% | 1.7625% | 1.50% | 1.7625% |

# Notes to Consolidated Financial Statements

March 31, 2014

| | Pension Plan | | Retirement Augmentation Plan | |
|---|---|---|---|---|
| | March 31, 2014 | March 31, 2013 | March 31, 2014 | March 31, 2013 |
| **Weighted-average assumptions for Current Year Expense:** | | | | |
| Discount rate | 3.85% | 4.50% | 3.85% | 4.50% |
| Rate of compensation increase | 2.35% | 2.75% | N/A | N/A |
| Rate of inflation | 2.35% | 2.75% | 2.35% | 2.75% |
| Cost of living adjustments | 1.7625% | 2.0625% | 1.7625% | 2.0625% |
| **Estimated Future Benefit Payments and Duration:** | | | | |
| 2015 / 2014 | 3,840,225 | 3,843,798 | 273,670 | 268,454 |
| 2016 / 2015 | 3,791,909 | 3,810,069 | 270,799 | 271,812 |
| 2017 / 2016 | 3,728,682 | 3,766,765 | 264,416 | 266,825 |
| 2018 / 2017 | 3,655,900 | 3,711,994 | 257,443 | 261,224 |
| 2019 / 2018 | 3,568,815 | 3,829,784 | 249,894 | 255,015 |
| 2020 – 2024 / 2019 – 2023 | 16,236,717 | 16,914,849 | 1,117,613 | 1,161,491 |
| Estimated duration | 8.7 | 8.9 | 8.1 | 8.3 |
| **Breakdown of Re-measurement from (Gain) Loss** | | | | |
| Effect of change in financial / economic assumptions | $ (1,024,675) | $ 1,121,924 | $ (74,647) | $ 79,861 |
| Effect of change in demographic assumptions | - | 351 | - | - |
| Effect of asset (gain) loss | (1,432,283) | 731,333 | - | - |
| Other experience | 125,946 | (726,507) | 66,553 | (103,304) |
| Total re-measurement from loss before effect of asset ceiling adjustment | $ (2,331,012) | $ 1,127,101 | $ (8,094) | $ (23,443) |

**Sensitivity Analysis, Postretirement Benefits**

| | | | | |
|---|---|---|---|---|
| Effect on benefit obligations as of end of year of change in discount rate: | | | | |
| +1% | $ (3,589,513) | $ (4,006,759) | $ (224,878) | $ (249,476) |
| -1% | $ 4,168,521 | $ 4,678,876 | $ 258,102 | $ 287,888 |
| Effect on benefit obligations as of end of year of change in cost of living adjustment (COLA): | | | | |
| +1% | $ 3,999,874 | $ 4,473,333 | $ 247,804 | $ 276,242 |
| -1% | $ (3,507,561) | $ (3,902,539) | $ (219,843) | $ (243,831) |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the consolidated balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Income and expense relating to the defined benefit pension plan are included in comprehensive income in the consolidated statement of comprehensive income, other than net interest income on the defined benefit pension plan which is shown on the face of the consolidated statement of comprehensive income.

# Notes to Consolidated Financial Statements

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| Fiscal Year | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Beginning of year:** | | | | | |
| Defined benefit obligation | 48,620,232 | 49,889,833 | 48,449,302 | 48,464,165 | 49,324,033 |
| Fair value of plan assets | 45,199,487 | 47,694,957 | 62,020,766 | 65,130,459 | 64,648,534 |
| Discount rate | 3.85% | 4.50% | 5.25% | 5.50% | 6.50% |
| **End of year:** | | | | | |
| Defined benefit obligation | 45,706,087 | 48,620,232 | 49,889,833 | 48,449,302 | 48,464,165 |
| Fair value of plan assets | 44,477,842 | 45,199,487 | 47,694,957 | 62,020,766 | 65,130,459 |
| Deficit | 1,228,245 | 3,420,745 | 2,194,876 | - | - |
| Discount rate | 3.90% | 3.85% | 4.50% | 5.25% | 5.50% |
| **Actuarial (gain) / loss on the defined benefit obligation:** | | | | | |
| From changes in assumptions | (1,024,675) | 1,121,924 | 4,388,516 | 997,874 | 1,913,854 |
| Experience adjustments (gain) / loss | 125,946 | (726,507) | (1,469,302) | 415,874 | (1,764,375) |
| Total | (898,729) | 395,768 | 2,919,214 | 1,413,748 | 149,479 |
| **Actuarial (gain) / loss from assets:** | | | | | |
| Return based on discount rate | 1,666,268 | 2,103,100 | 3,153,206 | 3,472,600 | 4,069,466 |
| Actual return | 3,098,551 | 1,371,767 | (10,406,422) | 874,872 | 4,564,646 |
| Total | (1,432,283) | 731,333 | 13,559,628 | 2,597,728 | (495,180) |
| Rate of return for fiscal year | 3.85% | 4.5% | 5.25% | 5.50% | 6.50% |

The plan assets are catagorized as follows:

| | 2014 | 2013 |
|---|---|---|
| Debt instruments | $ 9,051,260 | $ 7,689,105 |
| Equity instruments | 10,976,679 | 10,617,434 |
| Mutual funds | 14,847,741 | 16,094,533 |
| Cash | 9,602,162 | 10,798,415 |
| | $ 44,477,842 | $ 45,199,487 |

Debt instruments mainly comprise high quality corporate or government bonds with a credit rating of “A-“ or higher.

Equity instruments comprise Level 1 listed shares of companies in Bermuda and North America which are engaged in retail, information technology, oil and gas, utilities and banking.

The plan assets exposure to currency and its relative geographical segments is as follows:

| | 2014 | 2013 |
|---|---|---|
| Bermuda Dollars | $ 10,234,574 | $ 10,165,718 |
| US Dollars | 34,243,268 | 35,033,769 |
| | $ 44,477,842 | $ 45,199,487 |

# Notes to Consolidated Financial Statements

March 31, 2014

**Asset / Liability Matching Strategy**

The Company seeks to manage the funded status volatility using a growth portfolio and a liability hedging portfolio. 30% of the plan assets are in a liability hedging portfolio invested in intermediate term bonds.

Through its defined benefit pension plan and retirement augmentation plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility:
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

Changes in bond yields:
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk:
Some of the Company pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). Given the mix of the investment portfolio, increases in inflation are likely to lead to increases in the deficit.

Life expectancy:
The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

## 23. Share capital

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Authorized – 21,546,220 (2013 - 21,546,220) common shares of par value $0.25 each | | |
| Authorized – 2,615,445 (2013 - 2,615,445) preferred shares of par value $1 each | | |
| Issued and outstanding 14,563,588 (2013 - 14,563,588) common shares | $ 3,640,908 | $ 3,640,908 |

All shares issued by the Company were fully paid.

## 24. Non-controlling interests

On February 21, 2007 Yabsta was incorporated, which is an on-line search platform, specializing in digital advertising. Yabsta was incorporated with the Company owning a 51% controlling interest. During the year ended March 31, 2013 Yabsta had transitioned from a development company, to a company in beta testing and further transitioned to a company in alpha testing during the year ended March 31, 2014.

# Notes to Consolidated Financial Statements

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Non-controlling interests of $534,866 at March 31, 2014 (2013 – $519,431) in the consolidated balance sheet are classified as equity but are presented separately from the parent shareholder's equity. The movement in non-controlling interests is as follows:

| | 2014 | 2013 |
|---|---|---|
| At April 1 | $ 519,431 | $ - |
| Net income attributable to minority shareholder | 15,435 | - |
| Fair value of consideration paid by minority shareholder | - | 519,431 |
| Balance as at March 31 | $ 534,866 | $ 519,431 |

### 25. Commitments and contingencies

a) Capital commitments:

There are no commitments for capital expenditure, for which no provision has been made in these financial statements, for the fiscal years ended March 31, 2014 and 2013.

b) Lease commitments:

Unexpired commitments under operating lease agreements for the Company's premises, telecommunications capacity and equipment are payable as follows:

| | 2014 | 2013 |
|---|---|---|
| Within 1 year | $ 6,822,045 | $ 6,547,220 |
| From 1 – 2 years | 5,594,261 | 4,142,933 |
| From 2 – 3 years | 4,080,142 | 2,877,499 |
| From 3 – 4 years | 2,771,767 | 1,779,424 |
| From 4 – 5 years | 1,795,926 | 1,340,734 |
| Over 5 years | 4,071,268 | 1,837,704 |
| | $ 25,135,409 | $ 18,525,514 |

Lease payments under these operating leases recognized within 'operations and maintenance expenses' in the consolidated statement of comprehensive income for the year aggregated approximately $6,547,220 (2013: $5,010,507).

c) Contingent liabilities:

There are no contingent liabilities to disclose relating to the fiscal years ended March 31, 2014 and 2013.

### 26. Business combinations

***During the year ended March 31, 2014:***

On April 25, 2013 Logic and North Rock were amalgamated pursuant to the provisions of the Bermuda Companies Act 1981, as amended and continue as a local company carrying on business in Bermuda under section 114 of the Act. Through the amalgamation, Logic acquired 100% of the share capital for total cash consideration of $27,067,119.

On the same day the Company entered into a term loan facility agreement with a local bank for payment of the amalgamation consideration and to acquire increased capacity for operations. The term loan facility agreement is secured by the assets of BTC, Logic, Cable and Cedar, has set terms of repayment and bears interest at the Libor rate plus 3.25% per annum. Refer to note 20 (a).

# Notes to Consolidated Financial Statements

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The amalgamation of these entities presents the opportunity to leverage the size of the combined customer base to achieve economies of scale in operations. Logic and North Rock both sell the same residential and corporate data services to their customers. These services are operationally supported by similar network architectures, off-island data capacity requirements, billing systems, and customer care support.

The following table summarizes the consideration paid for North Rock, the fair value of assets acquired and liabilities assumed.

| | |
|---|---|
| **Total cash consideration** | **$ 27,067,119** |
| Recognized amounts of identifiable assets acquired and liabilities assumed | |
| Cash and cash equivalents | $ 604,137 |
| Property, plant and equipment | 3,056,406 |
| Trade and other receivables | 547,667 |
| Prepaid expenses | 342,152 |
| Trade and other payables | (578,023) |
| Unearned revenue | (669,458) |
| **Total identifiable net assets** | **$ 3,302,881** |
| Customer base | 13,708,382 |
| Goodwill | 10,055,856 |
| **Total** | **$ 27,067,119** |

Acquisition-related costs of $859,376 have been charged to ‘general and administrative expenses’ in the consolidated statement of comprehensive income for the year ended March 31, 2014.

The fair value of trade and other receivables is $547,667 and consists solely of trade receivables. The gross contractual amount for trade receivables due is $675,684, which is deemed to be collectible.

***During the year ended March 31, 2013:***

In March 2013 the Company acquired 100% of the share capital of TeleCayman Limited through the Company’s wholly owned subsidiary Logic Cayman, for $4,009,656. TeleCayman Limited is a telecommunications company providing voice and data services to businesses and residents of the Cayman Islands.

As allowed under IFRS 3, the Company finalized the accounting for the business combination during the fiscal year ended March 31, 2014.

As a result of the acquisition, the Company is expected to increase its presence in the Cayman Islands and leverage operational synergies. The intangible asset of $3,242,867 arising from the acquisition is attributable to the acquired customer base and economies of scale expected from combining the operations of Logic Cayman and TeleCayman Limited.

The following table summarizes the consideration paid for TeleCayman Limited, the fair value of assets acquired and liabilities

# Notes to Consolidated Financial Statements

March 31, 2014

assumed.

| | | |
|---|---|---|
| **Total cash consideration** | **$** | **4,009,656** |
| Recognized amounts of identifiable assets acquired and liabilities assumed | | |
| Cash and cash equivalents | $ | 207,809 |
| Property, plant and equipment | | 813,404 |
| Trade and other receivables | | 228,975 |
| Prepaid expenses | | 57,804 |
| Trade and other payables | | (541,203) |
| **Total identifiable net assets** | **$** | **766,789** |
| Customer base | | 3,242,867 |
| **Total** | **$** | **4,009,656** |

Acquisition-related costs of $52,007 have been charged to 'general and administrative expenses' in the consolidated statement of comprehensive income for the year ended March 31, 2013.

The fair value of trade and other receivables is $228,975 and includes trade receivables with a fair value of $182,891 and customer deposits with a fair value of $46,084. The gross contractual amount for trade receivables due and customer deposits is $182,891 and $46,084, respectively, of which is deemed to be collectible.

The revenue included in the consolidated statement of comprehensive income since March 8, 2013 contributed by TeleCayman Limited was $192,858. TeleCayman also contributed a net loss of $6,339 over the same period.

## 27. Related parties

The following transactions were carried out with related parties:

*(a) Year-end balances arising from sales / purchases of goods / services*

| | 2014 | 2013 |
|---|---|---|
| Receivables from related parties: | | |
| - Associates | $ 1,085,373 | $ 970,740 |
| Payables to related parties: | | |
| - Associates | $ 32,092 | $ 28,787 |
| Sales to related parties: | | |
| - Associates | $ 1,575,541 | $ 2,738,761 |
| Purchases from related parties: | | |
| - Associates | $ 494,825 | $ 587,223 |

The receivables from related parties arise mainly from sale transactions and are due one month after the date of sale. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2013: Nil).

Goods are sold based on the price lists in force and terms that would be available to third parties.

# Notes to Consolidated Financial Statements

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*(b) Key management compensation*

Key management includes Directors (executive and non-executive) and members of Senior Management. The compensation paid or payable to key management for employee services is shown below:

| | 2014 | 2013 |
|---|---|---|
| Salaries and other short-term employee benefits | $ 4,220,072 | $ 3,620,193 |

*(c) Loans to related parties*

| | 2014 | 2013 |
|---|---|---|
| Loans to associates: | | |
| At April 1 | $ 8,065,301 | $ 12,474,928 |
| Loan repayments received | (6,951,519) | (5,120,523) |
| Interest charged | 287,903 | 710,896 |
| At March 31 | $ 1,401,685 | $ 8,065,301 |

Included within the balance of $1,401,685 at March 31, 2014 (2013: $8,065,301) is a balance due from BDC of Nil (2013: $4,042,820), which is disclosed on the face of the consolidated balance sheet. The other loans of $1,401,685 (2013: $4,022,481) were considered capital contributions to the associates and are included as 'investments in associates' on the face of the consolidated balance sheet.

The promissory note to CHL is unsecured, has no set terms of repayment and bears interest at 9% per annum. Advances under the loan facility to QuoVadis bear interest at 5% and are secured on the fixed and floating assets of QuoVadis. The loan to BDC was repaid in full during the fiscal year ended March 31, 2014. The loan was unsecured, was due in full March 31, 2015 and bore interest at 7% per annum. Interest relating to all associates loans is included as a component of equity earnings in associates in the consolidated statement of comprehensive income.

No provision was required in 2014 (2013: Nil) for the loans made to associates.

## 28. Events after the reporting period

On September 3, 2014 Logic Cayman, doing business in Cayman, acquired BOTCAT Holdings Ltd. ("BOTCAT"), a company incorporated in Cayman, for a total purchase price of $66,294,750, plus 2,424,242 common shares of the Company issued out of the authorized share capital.  Of these shares, 661,157 were issued September 3, 2014. The remaining shares will be issued 18 months from closing at the prevailing market rate, provided there are no claims made against the transaction indemnifications.

BOTCAT owns WestStar T.V. Limited (WestStar) in Cayman, which in turn owns an interest in CHL in Bermuda. Following completion of the acquisition, the Company has a controlling interest of 68% in BCL  and a 100% interest in WestStar.

The acquisition of BOTCAT was financed through debt and equity. The Company entered into a term loan facility agreement with a local bank for a total of $45,000,000 (Tranche A and Tranche B).  The term loan facility agreement is secured by the assets of Logic, Cable, Cedar, Chancery Holdings Limited, KeyTech Holdings Limited ("KHL"), Wansunt Company Limited, WestStar and Logic Cayman. The term loan facility has set terms of repayment and bears interest at the Libor rate plus 3.25% per annum. In the case of the Tranche A Loan, annual principal repayments of $4,375,725 are payable quarterly on each quarter end in equal amounts of $1,093,931 commencing December 31, 2014. In the case of the Tranche B loan, annual principal repayments of $2,052,846 are payable quarterly on each quarter end in equal amounts of $513,212 per quarter commencing December 31, 2014. The maturity date of the loan is September 2021.

# Notes to Consolidated Financial Statements

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The remaining $24,700,000 in debt financing was in the form of subordinated debt. The notes have a term of 3 years and may be repaid in part or in full at any time within the term without penalty or prior approval.

Management has not yet completed the provisional analysis to determine an allocation of the purchase price.

On this same date, the Company simultaneously sold 100% of its interest in BTC to Barrie OpCo Limited, for $30 million, $25 million in cash and $5 million of debt with elements of deferred repayment. The cash proceeds were used to retire the Company's existing debt relating to the North Rock transaction, as described in note 26. As at September 3, 2014, the book value of BTC was $52.9 million. After the transfer of certain BTC assets, including some real estate, to KHL with an approximate book value of $8.5 million, the Company is anticipating a loss on disposal of approximately $14.4 million.

# Executives and Officers

**Mr. Lloyd Fray**
Chief Executive Officer

**Ms. Leslie Rans, CPA**
Chief Financial Officer

**Mr. Philip S. Harris**
Chief Administrative Officer

**Mr. Michael Tanglao**
General Counsel
Secretary

Common shares held by Directors – 608,403.

Commons shares held by KeyTech Executive Management – 3,680

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

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

**WestTel Limited**
*(trading as Logic)*
43 Eclipse Dr
Grand Cayman
Cayman Islands
**www.logic.ky**

**Cable Co. Ltd.**
30 Victoria Street
Hamilton HM 12
Bermuda

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

**Bermuda Yellow Pages Limited**
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