M3 Wireless Ltd.

Bermuda Telephone Company Limited

Bermuda Yellow Pages Limited

Annual Report 2007

WestTel Limited

Logic Communications Ltd.

KeyTech LIMITED

Unlocking a World of Connections

Contents

Chairman's Report

On behalf of your Board of Directors, I am able to report that the KeyTech Group of Companies concluded the last fiscal year with a net income of $9.1M, compared to a net income of $11.7M for the prior year. Earnings for the year compared to prior year were affected by a change in the accounting treatment of WestTel due to our acquisition of a majority interest, management initiatives which are expected to benefit the Company in subsequent periods and by regulatory decisions mandating a decrease in BTC's local access charge. While net income for the year has been impacted by these factors, the Company made significant progress in customer service and laid some critical platforms for future value generation for shareholders. Total cash dividend payments for the year were $0.60 per common share and a one for ten stock dividend was declared in July 2006.

Government regulation has been a key theme this past year due both to the government's proposed regulatory reforms and its announced tender process for one new international cable license. At KeyTech, we believe that both the domestic and international telecommunications market in Bermuda can be – and should be – fully competitive.

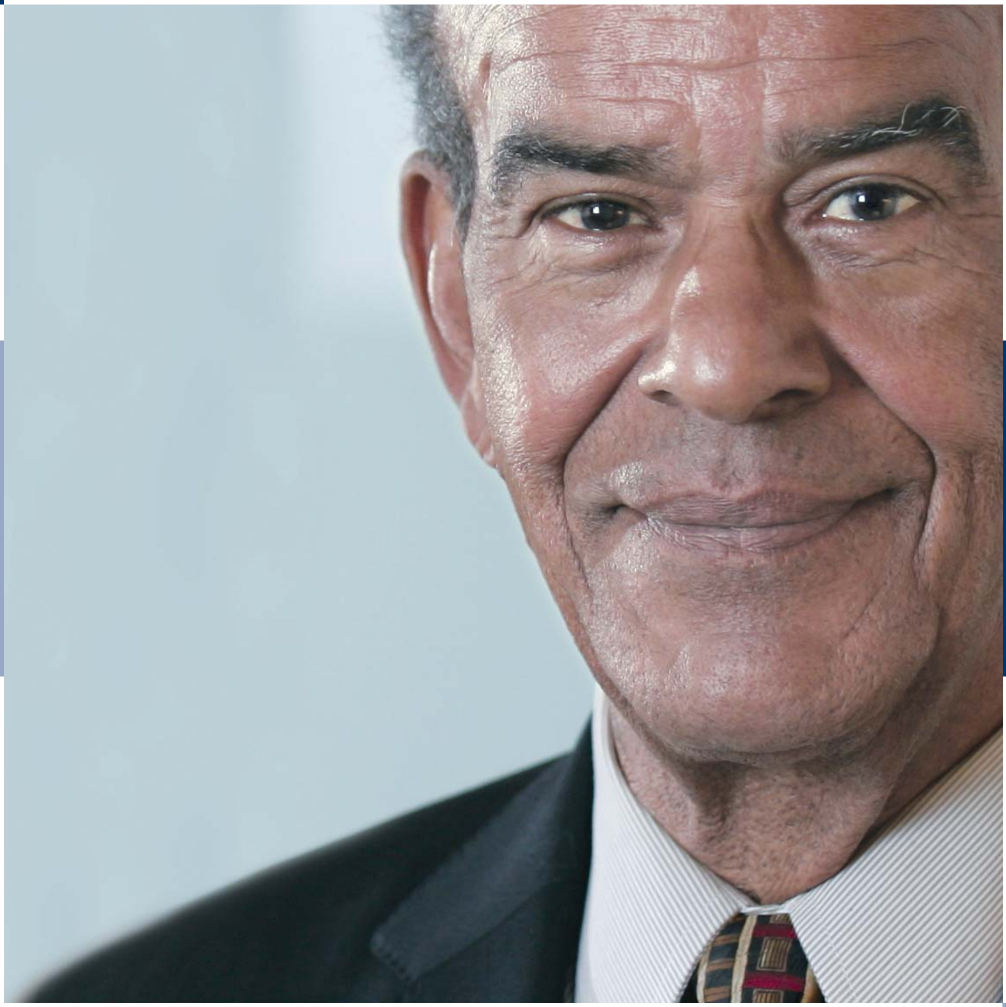
We support the government's initiative to reform the telecommunications regulatory regime in Bermuda by eliminating the "alphabet" licensing of A, B, and C carriers, although we do not agree with all the specifics of the government proposals. While we look forward to participating in the government's cable tender process, we cannot agree with government's plan to continue to manage international markets by restricting entry to those markets or by limiting the scope of international services that local carriers can provide.

Similarly, we disagree with government's proposals to continue to manage competition by handicapping some competitors through dominance regulation. Bermuda enjoys a healthy and well-established group of service providers in wireline and wireless access and in local as well as in international facilities that should all be allowed to compete unfettered. If dominance regulation becomes key to reform, Bermuda's economic development will likely suffer as innovation and market investment in the roll out of new products and services for Bermuda's business and residential customers will be jeopardised. Nonetheless, we will continue to engage in a positive dialogue with the government and with our industry colleagues and competitors on all these important issues.

Although the telecommunications industry in Bermuda is a dynamic one, we believe that our corporate strategy coupled with the assets of the Company will continue to serve us well in meeting customer needs and generating sustainable earnings. While actively engaged in considerations of the future, we will also stay focused on our operating performance as demonstrated by our continued improvements in customer service.

Board membership has remained stable this past year, and I would like to take this opportunity to thank the Directors for their time and attention to the affairs of the Company. We will continue our work, keeping our shareholders best interests always at the forefront of our decision-making.

James A.C. King, MD, FRCS (C), FACS, JP
Chairman of the Board



OUR RESULTS

This past year has been one of operational achievement, investment in the future and regulatory challenges for the KeyTech Group of Companies. For the year ending March 31st, 2007 KeyTech's net income was $9.1M, decreased from $11.7M in the prior year. Three principal factors impacted our 2006/07 earnings.

First, WestTel's revenue has grown significantly since inception and to fund expansion of the network to reach more customers and support further revenue growth, KeyTech subscribed for additional equity in WestTel. The Company's shareholding in WestTel increased to 67% and the Company now appoints a majority of WestTel's Board of Directors – adding WestTel as the fifth subsidiary in the KeyTech Group. However, with the acquisition of a controlling interest, the Company accounts for losses of WestTel in excess of its percentage equity holding. Similarly the Company will report future profits in excess of its percentage equity holding until the minority interest losses not reported are fully offset. The impact of this change in accounting treatment versus the prior year is a $1.3M decrease in net income.

Second, important investments we made in Bermuda in 2006/07 reduced our current net income but will position us positively for future gains. These investments include the launch of M3 Wireless's easyConnect service and the development of technical and business plans to build a new submarine cable in Bermuda.

Third, a government-imposed reduction in BTC's local access charge (the per minute fee paid by international carriers to BTC for originating and terminating long distance calls) from $.05 to $.03 resulted in a reduction in revenue and net income of $1.8M. BTC is preparing an appeal of this reduction.

I am, however, pleased to note that the robustness of the Company's earnings after the impact of these significant factors underlines the diversity and strategic health of our operations. The Company continues to be financially strong and dividend returns for shareholders are secure.

As reported in the 2006 Annual Report, income from continuing operations for the prior year, excluding the one time gain made on the sale of our investment in Packet Exchange and the adjustment made to reflect the cumulative impact of the banking and cashiering irregularities, was $12.9M. Income from continuing operations for the current year on a comparable basis after adjusting for the three factors noted above was $13.7M.

Wireless technology is evolving rapidly, and both business and residential customers increasingly rely on fixed and mobile wireless services to meet their communications requirements. Our investment in new wireless services is essential to the medium and long term competitive positioning of the Company.

We introduced easyConnect, a wireless data network that provides broadband connectivity to subscribers anywhere on the island, in July 2006. Although we launched easyConnect as a data access service, the network can also support other communications services. Because it is the same technological platform used by WestTel in Cayman, it creates opportunities for cross jurisdictional synergies and product development for both companies. I am pleased to report that during the year the number of easyConnect subscribers in Bermuda increased steadily since launch to 2,388, exceeding our targets. As noted above, however, as with any new service launch, expenses tend to be incurred early. In 2006/07, the full impact of launch expenses and depreciation exceeded cumulative revenue by $1.0M.

While we appreciate the significance of wireless technologies in growing and developing our business, we also know that robust and affordable international connectivity is critical to Bermuda's business and residential customers. Increased competition in the provision of international services, therefore, is key to our success in meeting customers' global as well as local communications requirements. Thus, when the government announced a tender process to award licenses to build an additional cable in Bermuda, we pursued, and continue to pursue, that opportunity aggressively.

Chief Executive Officer's Report

We have spent significant time working with international experts from various disciplines to determine the best way forward.

Because an international cable is a significant capital investment, we engaged in talks with other carriers in Bermuda about forming a consortium to build and operate a cable. On April 27th, 2007, KeyTech, North Rock Communications Limited and Transact Limited jointly registered their intent to participate as a consortium in the Ministry of the Environment, Telecommunications and E-Commerce's cable tender process. At the time of writing this report we are awaiting the government's tender documents. We have incurred $0.5M in expenses for this project to date. Because the outcome of the tender process is unknown, these costs have been expensed in the current year rather than capitalised.

The Company's total operating revenues for 2006/07 were up $6.5M over 2005/06 to $105.4M due mainly to our increased ownership of WestTel, which we treat as a subsidiary company this fiscal year. Excluding the impact of WestTel, operating revenues were up $1.1M as a result of growth in wireless and directory revenues. Total expenses grew $11.2M to $97.4M, with the consolidation of WestTel accounting for $8.1M of the growth. In addition to expenses associated with easyConnect and the international cable project, we faced greater operational costs resulting from increased volumes of long distance voice and data traffic on Logic's network and rising maintenance costs tied to higher fuel prices for electricity.

Contribution to net income from our affiliates improved by $1.7M in 2006/07 primarily as WestTel's results are consolidated in the current year and are included as losses from affiliate in the prior year. Bermuda CableVision settled a long-running copyright dispute with the Performing Rights Society which resulted in a one-time charge to earnings from affiliates of $0.3M. Excluding the one-time charge both Bermuda CableVision and QuoVadis results improved significantly compared to the prior year.

OUR OPERATIONS

Because excellent customer service is critical to our ability to retain and grow our customer base and advance our businesses, our companies continued to focus on improving customer service this past year. In the last quarter, BTC's efforts resulted in 90% satisfaction among those customers with a recent service experience, as measured by independent research. M3 Wireless's improvements in on-island coverage and international roaming have also paid off with greater customer satisfaction.

Technological innovation is key to maintaining market leadership in telecommunications, and during this past year we completed a comprehensive review of our network resources. As a result, we developed a plan to migrate BTC's circuit based network to a next generation network platform, which is packet (or Internet protocol) based. Not only will this investment increase our competitive positioning and enable us to offer new and enhanced products and services in the short term, but a more advanced network will also result in simplified network operations and increased cost efficiencies in the medium term.

Our investment in new technology and our willingness to invest in additional international connectivity for Bermuda underlines our continued commitment to technological innovation for the benefit of our customers, shareholders and Bermuda as a whole. Through its subsidiaries KeyTech is, and has always been, the principal investor in Bermuda's communications infrastructure having invested $95M over the last five years alone. This excludes investments by our affiliate Bermuda CableVision.

Bermuda
Telephone
Company
Limited

From left:

Jeanne M. Schaaf, PhD
V.P. Regulatory Affairs

Nigel D. Burgess
V.P. Field Operations

Paul R. Barnes
V.P. Networks & Planning

Catherine M. Mason
V.P. Customer Service

Edgar F. Dill
Chief Operating Officer

Francis R. Mussenden President & CEO

As I reported previously, BTC has been engaged in a multi-year effort to become a flexible, customer-centric and results-oriented organisation. During the early part of the current year BTC streamlined its management structure, eliminating unnecessary layers, and introduced a comprehensive effort to ensure that customer service is foremost. To guarantee service excellence, BTC adopted a family of "Promises Met" performance reports that are the focus of all customer service efforts from the field technician to the CEO. I am very pleased to report that these efforts resulted in significant improvements in customer satisfaction, and I thoroughly congratulate all the BTC staff who worked diligently to realise these objectives. Although we made significant progress in promises met this past year, our aim is to continue to "best" ourselves in meeting customer service targets.

We recognise that BTC made great strides in customer satisfaction among customers who recently interacted with the company on an installation or repair, yet we know that BTC's reputation among customers generally is not as positive. Thus, BTC recently launched a print and radio campaign "Setting new standards, seeing results." to take its good news story to the public.

In addition to service improvements in 2006/07, BTC also expanded its product offerings in broadband. It introduced "Simply DSL," a broadband Internet access product for residential users who want BTC's data access service without the unlimited voice product. And also, to meet competitive demands, BTC introduced 2 Mbps (megabit per second) and 3 Mbps speed DSL packages at no additional cost to the consumer. For business customers, BTC launched its Gigabit Ethernet services for high speed connectivity.

For fiscal year 2006/07, overall revenues for BTC decreased due to the government mandated reduction in the local access charge, from $.05 to $.03 per minute. We strongly disagree with the basis for this decision which BTC appealed and is preparing its case for court action later this year.

As is being experienced globally, cellular substitution continues to cause residential and business voice revenue to decline. Growth in BTC's residential DSL and corporate data services helped offset these declines. BTC will continue to increase the data capabilities of its network to capture these growth revenue streams while continuing to provide value for money to minimise the decline in voice revenue.

Logic Communications Ltd.

Alan Richardson Chief Executive Officer

Logic

Making Technology Your Advantage

Logic experienced mixed results in 2006/07. Logic performed well in data and long distance voice services with revenue growth in both lines of business, although it did not meet revenue targets in consulting and hardware sales and services. Logic successfully offset declining margins in the long distance market through increased traffic. Logic has a significant share of Bermuda's long distance voice services market.

An in-depth review of the consulting and hardware lines of business resulted in stronger performance in the second half of the year. Both consulting and hardware sales and service are strategically important and complement our connectivity and communications services, and both generate positive margin for Logic.

I am pleased to announce the appointment on November 7th, 2006 of Alan Richardson to the position of Chief Executive Officer of Logic. Alan, a chartered accountant, has more than 30 years of experience in the financial services industry. He spent 14 years with the Bank of Bermuda holding senior executive positions. Born and raised in Bermuda, Alan is deeply committed to serving our community through public service.

From left:

Wayne Scott
Chief Technical Officer

Garnet Jackson
V.P. Business Development & Marketing

Joe Addison
V.P. Professional Services

Jimmy Lim
V.P. Network Operations

Lloyd Fray Chief Executive Officer

I am very pleased to report that many of M3 Wireless's previous initiatives are coming to fruition. M3 Wireless now provides Corporate BlackBerry® services to numerous customers who represent significant local and international businesses. During 2006/07, M3 Wireless enjoyed considerable growth in the local market and in international roaming revenues thanks to the success of M3 Wireless's team in securing roaming contracts with wireless providers in over 100 countries.

Residential cellular service continues to be a fiercely competitive market. Our competitors, Digicel and CellularOne, are aggressive in the residential market with increased advertising, service and handset promotions. Customer service and M3 Wireless's extensive range of mobile phone handsets will be key differentiators for M3 Wireless in this market.

Overall, M3 Wireless's revenues increased 7% in 2006/7, led by sales of the BlackBerry® service to corporate customers, roaming and easyConnect revenue. The number of cellular subscribers grew 13%. After excluding the financial impact of the launch of the easyConnect network, cellular operations generated $0.9M in profit. M3 Wireless aims to improve profits in 2007/08 by building on its success in the corporate market and by expanding international roaming while also continuing to focus on improving operating efficiencies.

From left:

Michael Beckles
V.P. Network Operations

Stuart Brash
V.P. Corporate Development

Ken Wilson
Senior Manager Operations (A.V.P.)

Karen Pyo
V.P. Marketing and Product Development

Bermuda Yellow Pages Limited

Gary Taylor Management Consultant

From left:

Antoinette Richardson
Sales Team Leader

Anthony Richardson
Operations Manager

Wendy Morris
Senior Administrator

Once again Bermuda Yellow Pages ("BYP") provided outstanding performance for the year compared to both 2006/07 targets and to 2005/06 results. Success at BYP stems from both product innovation and operational excellence. The BYP team is a tightly knit, well led group that is wholly focused on the customer – and it shows.

Product innovation continues to attract new users and encourage expanded usage by existing users. Both the Education and Age Concern sections and the Book of Maps have been well received by the community. The Bermuda Telephone Directory is also one of the few directories in the world that publishes the telephone numbers of all telecommunication service providers who provide the information for publication. In addition, more users are requesting the CD-ROM version of the Directory which they find especially useful when traveling and do not have access to the Internet or in office environments where it is placed on the network as an information resource.

BYP recognised significant growth in both its print and online directory products in 2006/07. During March 2007, www.bermudayp.com registered 460,085 page views, a 34% increase over the prior year. This increased usage bodes well for BYP since online traffic drives online advertising dollars. In 2007/08, BYP plans to develop its online platform as well as its product set to enable it to market its technology to yellow page providers in other jurisdictions.

From left:

Graham Baxter
Manager, Professional Services

Calvin Morton
V.P. Sales

Lewie Hydes
V.P. Networks

Graham Redman
Financial Controller

Mike Edenholm Chief Executive Officer

Despite network capacity constraints – which the equity injection from KeyTech will alleviate by funding a tower expansion program in 2007/08 – WestTel realised significant revenue growth, particularly for residential Internet services. WestTel's annualised sales at March 2007 were $5.7M, a 27% increase over March 2006 at $4.5M. Although growing at a slower rate, sales of corporate voice and data services increased steadily during the year. For the fourth quarter of 2006/07 WestTel reached positive earnings before depreciation, interest expense and fees due to its shareholders – a critical milestone for any start up company.

In association with WestTel's other shareholder, WestStar TV, WestTel offers Cayman subscribers a single source for customer care, billing, and payment services – something we are not permitted to provide to Bermuda's consumers. WestTel also benefits from the Company's experiences in Bermuda. As our Bermuda companies do, WestTel now offers its customers a number of value added services, such as the provision and maintenance of customer premises equipment, which allows it to differentiate itself from the competition in Cayman.

I am very pleased to announce that Mike Edenholm took the helm at WestTel as Chief Executive Officer this year. Mike has been with the Company for over ten years, initially with Logic in Bermuda and subsequently with WestTel as Chief Technology Officer. Based on WestTel's revenue growth to date and the potential for WestTel to capture synergies among our Bermuda-based companies, as well as with WestStar TV, the outlook for WestTel is exciting.

Affiliates

Bermuda CableVision has experienced strong growth in revenue and cash flow through its digital service offering and is continuing to expand its services in order to leverage its infrastructure investment, and continue its financial growth. Most recently Bermuda CableVision launched high definition TV service and high speed data service to its residential customers. Bermuda Cablevision plans to convert all its cable customers to digital, in order to eliminate its analog video service, by the end of 2007.

QuoVadis achieved strong growth during 2006/07 in its international Digital Certificate business in Switzerland and also entered the UK market. In addition, they were among the first providers worldwide to be authorised to issue “Extended Validation” certificates, the new standard for reliable identity verification for websites. Now established as a brand for their sector, QuoVadis is seeking additional capital to further expand their international business. In Bermuda, QuoVadis is also a key provider of Disaster Recovery/Business Continuity infrastructure, serving many of the island's leading institutions and international companies.

Our Community Involvement

The KeyTech Group of Companies is proud of its contributions to the community and to Bermuda’s many charities, all helping to make Bermuda a better place to live and work. Our goal is to support deserving causes whether arts, environment, education, or social services that lift up our people and celebrate their accomplishments.

During 2006/07, we supported The Family Centre, Bermuda End to End, Bermuda International Film Festival, Masterworks Foundation, Age Concern, Ross Blackie Talbot Golf Charity Classic, Whitney Institute Middle School, and St. Baldrick’s Foundation as well as many other deserving causes. We’re delighted to be able to give back to the community that has made us such an integral part of life on the island.

In 2007/08 we intend to continue pursuing our business themes of 2006/07 – improve service delivery and customer satisfaction across all companies; invest in Internet protocol, wireless, and international technologies; pursue new opportunities in online yellow pages; expand operations in Cayman; and forcefully advance our interests with respect to Bermuda's regulatory reform initiatives. In 2007/08, we also plan to deploy more sophisticated management information tools to better manage our businesses and analyse our market and investment opportunities. Finally, we aim to focus more closely on our strategic and operational marketing to enhance our brand attractiveness and to position us well to succeed in increasingly competitive markets.

Of course executing our strategic plans effectively and growing our businesses appropriately depends on the skills, talents, and enthusiasm of our people. As we have done in the past, we will continue to review our organisational structures to make certain that we have the right people in the right positions today and that we develop solid, thoughtful managers to lead our businesses tomorrow. As shown on the pages of this report, we have extensive and diverse talent in the KeyTech Group of Companies. Our people, our assets, and our strategic focus form the foundation to enable us to achieve exciting and rewarding results for shareholders as we move forward.

Sheila Lines

Sheila Lines
Chief Executive Officer

Financial Highlights

31st March 2007

	2007	2006
Revenues	$ 105,382,940	$ 98,899,022
Total expenses	(97,449,661)	(86,244,851)
Equity earnings (loss) in affiliates	29,544	(1,651,636)
Investment income and realised gains	739,841	629,355
Other (expense) income	(58,000)	1,677,275
Non-controlling interests	441,789	—
Discontinued operations	—	(1,631,962)
Net Income	9,086,453	11,677,203
Earnings per common share, basic and fully diluted	0.686	0.882
Shareholders' equity per common share, basic and fully diluted	10.39	10.29
Capital expenditures	20,959,977	16,675,139

Revenue & Expense Items

($000'S)

	2007	2006	2005	2004	2003
Operating revenues	**105,383**	98,899	97,292	93,845	87,444
Total expenses excluding amortisation	**77,098**	67,669	68,233	63,071	57,420
Amortisation	**20,351**	18,575	21,983	19,332	18,300
Net earnings	**9,086**	11,677	10,053	10,430	10,162
Cash dividends declared on Common shares	**7,771**	7,222	6,735	6,341	4,415
Balance sheet items					
($000's, except number of shares)					
Total assets	**161,877**	159,068	155,073	153,687	152,388
Shareholders' equity	**137,595**	136,280	131,825	128,507	129,947
Number of common shares	**13,240**	12,037	12,037	10,943	8,574
Number of preferred shares	**0**	0	0	0	1,922
Per common share					
($'s)					
Net Earnings - Basic	**0.686**	0.882	0.759	0.785	0.823
Cash dividend	**0.600**	0.600	0.600	0.590	0.515
Net assets - Basic	**10.39**	10.29	9.95	10.06	11.39
Items of interest					
Capital expenditures ($000's)	**20,960**	16,675	16,171	18,831	25,034
Number of employees (full-time)	**422**	408	423	454	476

PricewaterhouseCoopers
Chartered Accountants
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Hamilton HM 11
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20th June 2007

Auditors' Report To the Shareholders of KeyTech Limited

We have audited the consolidated balance sheet of KeyTech Limited as at 31st March 2007 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31st March 2007 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

Chartered Accountants

	Notes	2007	2006
Assets			
Current assets			
Cash and cash equivalents	17	$ 23,057,112	$ 18,971,583
Accounts receivable	17	8,656,521	9,370,363
Merchandise, materials and supplies		4,002,762	4,616,588
Prepaid expenses and other assets		3,434,499	2,555,199
Total current assets		39,150,894	35,513,733
Marketable securities	17	13,994,663	15,765,617
Investments	5	9,367,755	16,436,879
Capital assets, net	7	89,939,302	84,388,465
Intangible assets, net	8	5,178,173	5,305,351
Goodwill	9	3,637,615	991,412
Deferred pension asset		609,000	667,000
Total assets		$ 161,877,402	$ 159,068,457
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 10,241,110	$ 8,948,884
Long-term debt redemption amounts unclaimed	11	596,496	601,860
Preferred share redemption amounts unclaimed	12	1,270,258	1,299,793
Dividends payable		1,959,603	1,805,543
Deferred income		1,444,645	1,343,537
Liability on acquisition of intangible assets	8	312,500	312,500
Total current liabilities	17	15,824,612	14,312,117
Deferred investment gain	5	1,244,605	1,493,527
Accrued post-retirement medical benefits	10	7,213,210	6,983,210
Total liabilities		24,282,427	22,788,854
Shareholders' equity			
Share capital	12	3,310,042	3,009,238
Share premium	12	64,289,664	45,940,651
Contributed surplus		20,920,454	20,920,454
Retained earnings		49,074,815	66,409,260
Total shareholders' equity		137,594,975	136,279,603
Total liabilities and shareholders' equity		$ 161,877,402	$ 159,068,457

Approved by the Board of Directors Director Director

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

Consolidated Statement of Earnings

For the year ended 31st March 2007

	Notes	2007	2006
Revenues and other income			
Wireline revenues		$ 56,694,548	$ 57,965,941
Wireless revenues		20,605,779	13,800,174
International long distance and network revenues		11,947,053	10,977,159
Other revenues		16,135,560	16,155,748
Total operating revenues	4	$ 105,382,940	$ 98,899,022
Expenses			
Salaries and employee benefit expenses	3	36,671,161	34,735,617
Maintenance expenses		16,096,175	12,373,622
General and administration expenses	3	17,699,944	14,573,117
Government taxes, fees and levies		6,630,958	5,987,113
Amortisation	5, 7, 8, 9	20,351,423	18,575,382
Total expenses		97,449,661	86,244,851
Net income before undernoted items		7,933,279	12,654,171
Equity earnings (loss) in affiliates	5	29,544	(1,651,636)
Investment income and realised gains		739,841	629,355
Other (expense) income	13	(58,000)	1,677,275
Non-controlling interests		441,789	—
Net income before discontinued operations		$ 9,086,453	$ 13,309,165
Discontinued operations	6	—	(1,631,962)
Net income after discontinued operations		$ 9,086,453	$ 11,677,203
Earnings per common share before discontinued operations, basic and fully diluted		$ 0.686	$ 1.005
Loss per common share from discontinued operations, basic and fully diluted		$ —	$ (0.123)
Earnings per common share, basic and fully diluted	14	$ 0.686	$ 0.882

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

	2007	2006
Retained earnings – Beginning of year	$ 66,409,260	$ 61,954,229
Net income	9,086,453	11,677,203
	75,495,713	73,631,432
Dividends declared		
Cash – common shares	(7,771,081)	(7,222,172)
Shares – common shares	(18,649,817)	—
	(26,420,898)	(7,222,172)
Retained earnings – End of year	$ 49,074,815	$ 66,409,260

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

Consolidated Statement of Cash Flows

For the year ended
31st March 2007

		2007		2006
Cash flows from operating activities				
Net income for year	$	9,086,453	$	11,677,203
Items not affecting cash				
Amortisation		20,351,423		18,575,382
Net realised gain on marketable securities		(384,151)		(253,234)
Equity (earnings) loss in affiliates		(29,544)		1,651,636
Provisions for discontinued operations		—		865,644
Post-retirement benefits expense in excess of amounts received		287,790		430,000
Non-controlling interests		(441,789)		—
		28,870,182		32,946,631
Decrease in non-cash working capital		1,459,188		119,015
Cash provided by operating activities		30,329,370		33,065,646
Cash flows from investing activities				
Investments, net		(500,000)		(4,540,504)
Equity contribution from non-controlling interest		530,154		—
Acquisition of cash of subsidiary		182,797		—
Sale of marketable securities, net		2,155,105		325,957
Acquisition of capital assets		(20,959,977)		(16,675,139)
Cash used for investing activities		(18,591,921)		(20,889,686)
Cash flows from financing activities				
Redemption of notes payable		(5,364)		(9,000)
Cash paid on share dividend		(7,462)		—
Redemption of preferred shares		(29,535)		(78,928)
Dividends paid on common shares		(7,609,559)		(7,222,172)
Cash used for financing activities		(7,651,920)		(7,310,100)
Increase in cash and cash equivalents		4,085,529		4,865,860
Cash and cash equivalents – Beginning of year		18,971,583		14,105,723
Cash and cash equivalents – End of year	$	23,057,112	$	18,971,583

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

1. The Company

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

2. Summary of significant accounting policies

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

(a) Consolidation

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

(b) Use of estimates

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

(c) Capital assets

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

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

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

(d) Investments

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

Portfolio investments are accounted for on the cost basis. Declines in fair value below cost are recognised when such declines are considered to be other than temporary.

(e) Marketable securities

Marketable securities represent investments in mutual funds, bonds and equities. Marketable securities classified as current assets are carried at lower of cost and fair value.

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

(f) Deferred costs

Costs incurred directly relating to the publication of the annual directory are deferred and recognised in income at the date of publication. Deferred production costs of $1,852,211 (2006 – $1,681,332) are included in prepaid expenses and other assets in the balance sheet.

(g) Deferred income

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

(h) Merchandise, materials and supplies

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

(i) Goodwill and other intangible assets

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

(j) Foreign currency translation

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

(k) Pension and post-retirement benefits

As described in note 10, some of the Company's subsidiaries maintain defined contribution pension plans for their employees. In addition, the Company has a residual non-contributory defined benefit pension plan and offers post-retirement medical benefits for the benefit of employees and retirees of certain of its subsidiaries. The cost to provide pension benefits under the defined benefit pension plan and post-retirement medical benefits is accrued and charged to earnings so as to reflect the manner in which the service giving rise to the benefits is rendered. The cost of providing benefits under the defined contribution plans is charged to earnings in the year.

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

(l) Earnings per share

Earnings per share is calculated based on the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated on the weighted average number of shares outstanding during the year combined with the weighted average number of shares that would have been issued during the year had all existing dilutive conversion rights been exercised. There existed no dilutive conversion rights in the years ended 31st March 2007 and 31st March 2006.

(m) Cash and cash equivalents

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

(n) Deferred investment gain

Under the corporate restructuring of Bermuda CableVision Limited ("BCL") (see note 5) there was both an amount in excess of the tangible assets acquired and a deferred investment gain that arose. The Company determined that the excess amount over tangible assets acquired was an intangible asset representing BCL's installed customer base. Further, the Company determined that this intangible has a life of ten years being BCL's current license period. Commencing 1st April 2002, the underlying intangible asset and the associated deferred investment gain are being amortised over ten years. Amortisation of these amounts is included as a component of equity earnings in affiliates in the statement of earnings.

(o) Revenue recognition

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

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

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

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

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

3. Expenses

In the current year, BTC has incurred $1,072,785 in early retirement and redundancy expenses as part of a management restructuring. These expenses are included in salaries and employee benefit expenses in the statement of earnings for the current year.

In the prior year BTC discovered financial irregularities within the Banking Administration and Cashiering sections of its Finance Department. As a result of the investigation BTC reduced its reported cash and cash equivalents amount by $1,314,497 being the cumulative impact of the irregularities over a period of years. The adjustment is included in general and administration expenses in the statement of earnings in the prior year.

4. *Segmented information*

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

BTC – provides a wide range of wireline voice and data services, colocation services, and customer premise equipment sales.

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

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

BYP – provides printed and on-line directory services.

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

Segment information

	BTC	M3	Logic	BYP	WestTel	Total
Year ended 31st March 2007						
Revenues from external customers	$ 62,553,662	$ 15,182,168	$ 16,501,462	$ 5,378,657	$ 5,334,450	$ 104,950,399
Revenues from internal customers	2,504,545	509,340	421,424	238,437	—	3,673,746
Amortisation	12,959,341	3,402,110	1,362,787	68,718	2,302,252	20,095,208
Operating expenses	40,671,911	11,892,814	15,145,891	3,692,881	6,121,929	77,525,426
Interest expense	710,430	444,360	—	—	395,122	1,549,912
Segment income (loss)	10,716,525	(47,776)	414,208	1,855,495	(3,484,853)	9,453,599
Segment assets	83,418,114	23,612,492	10,072,990	4,808,899	9,383,608	131,296,103

	BTC	M3	Logic	BYP	WestTel	Total
Year ended 31st March 2006						
Revenues from external customers	$ 63,140,399	$ 14,223,480	$ 16,536,288	$ 4,853,436	$ —	$ 98,753,603
Revenues from internal customers	2,350,136	399,142	534,718	200,165	—	3,484,161
Amortisation	13,485,922	3,461,389	1,391,021	131,566	—	18,469,898
Operating expenses	40,011,672	10,183,186	14,310,151	3,649,157	—	68,154,166
Interest expense	800,730	444,360	—	—	—	1,245,090
Segment income	11,192,211	533,687	1,369,834	1,272,878	—	14,368,610
Segment assets	86,975,781	19,943,374	11,622,037	4,154,768	—	122,695,960

Comparative figures are not shown for WestTel as it was not a subsidiary in the prior year (note 5).

Revenues by service	2007	2006
Wireline services	$ 54,245,943	$ 53,700,259
International long distance and network services	11,947,053	10,977,159
Cellular services	14,762,885	13,800,174
Fixed wireless services	5,842,894	—
International interconnection fees	2,448,605	4,265,682
Hardware and software sales and rental	4,387,132	4,567,765
Directory services	5,378,657	4,853,436
Consulting services	4,063,183	4,549,302
Other services	2,306,588	2,185,245
	$ 105,382,940	$ 98,899,022

Hardware and software sales and rental revenues are shown net of the related cost of goods sold. Amortisation of assets rented is included in amortisation expense in the statement of earnings. Cost of goods sold for the current year were $3,855,986 (2006 – $4,639,487).

Reconciliations	2007	2006
Revenues from external customers		
Total segment revenues from external customers	$ 104,950,399	$ 98,753,603
Non-segment other revenue	432,541	145,419
	$ 105,382,940	$ 98,899,022

	2007	2006
Amortisation		
Total segment amortisation	$ 20,095,208	$ 18,469,898
Non-segment amortisation	256,215	105,484
	$ 20,351,423	$ 18,575,382

	2007	2006
Operating expenses		
Total segment operating expenses	$ 77,525,426	$ 68,154,166
Non-segment operating expenses	3,924,244	2,848,580
Elimination of inter-company amounts	(4,351,432)	(3,333,277)
	$ 77,098,238	$ 67,669,469

	2007	2006
Interest expense		
Total segment interest expense	$ 1,549,912	$ 1,245,090
Elimination of inter-company amounts	(1,549,912)	(1,245,090)
	$ —	$ —

	2007	2006
Net income		
Total income for reportable segments	$ 9,453,599	$ 14,368,610
Non-segment other income	2,977,016	3,697,139
Equity earnings (loss) in affiliates	29,544	(1,651,636)
Non-segment administrative expenses	(3,497,057)	(2,848,580)
Non-segment amortisation	(256,214)	(105,484)
Loss from discontinued operations	—	(1,631,962)
Elimination of inter-company amounts	(62,224)	(150,884)
Non-controlling interest	441,789	—
	$ 9,086,453	$ 11,677,203

	2007	2006
Total assets		
Total assets for reportable segments	$ 131,296,103	$ 122,695,960
Goodwill	3,637,615	991,412
Non-segment assets	46,443,389	60,607,445
Discontinued operations assets	87,726	88,970
Elimination of inter-company amounts	(19,587,431)	(25,315,330)
	$ 161,877,402	$ 159,068,457

5. *Investments*

	2007	2006
Investment in CableVision Holdings Ltd.		
Promissory notes and accrued interest thereon	$ 7,929,119	$ 7,473,119
Interest in equity	(2,316,791)	(2,092,496)
	5,612,328	5,380,623
Investment in WestTel Ltd.		
Loan and promissory note	—	6,908,329
Interest in equity	—	441,418
	—	7,349,747
Investment in QuoVadis Holdings Ltd.		
Loan and accrued interest thereon	1,046,781	507,329
Interest in equity	2,708,646	3,199,180
	3,755,427	3,706,509
	$ 9,367,755	$ 16,436,879

Bermuda CableVision Limited

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

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

After the completion of the Bermuda CableVision audit Bermuda CableVision entered into an agreement with the Performing Rights Society to settle a copyright dispute. As a result of that agreement the Company's earnings in affiliate from Bermuda CableVision have been reduced by a one time charge of $300,000.

WestTel Limited

WestTel, a company registered in the Cayman Islands, is licensed to provide data and voice services in the Cayman Islands. During the year ended 31st March 2004, the Company purchased a 40% equity interest in WestTel for $1,041,909 resulting in the acquisition of intangible assets which the Company is amortising over periods of five to fifteen years. During the year ended 31st March 2006 the Company subscribed $2,217,845 for additional shares in WestTel. Other shareholders of WestTel also subscribed for further equity. The Company's proportionate interest after issuance of these shares increased to 48% at 31st March 2006.

The Company provided a loan facility of $3,621,515 to WestTel which was fully utilised during the year to 31st March 2005. Advances under the loan facility bear interest at US Libor plus 150 basis points and are secured on the fixed and floating assets of WestTel. Advances under the loan facility will be converted to a term loan repayable over five years after WestTel has reported positive operating cashflow for three consecutive months.

During the year ended 31st March 2005, the Company provided a further loan facility of $2,400,000 under a promissory note which is secured and bears interest of 6% per annum. The balance outstanding under the promissory note at 31st March 2007 is $2,400,000.

During the year ended 31st March 2007 the Company subscribed $7,569,935 for additional shares in WestTel. Other shareholders of WestTel also subscribed for further equity. The Company's proportionate interest after issuance of these shares increased to 67% at 31st March 2007. On 15th February 2007 the Company and the other shareholders of WestTel entered into an agreement under which other shareholders of WestTel have the option in the year 2012 to purchase from the Company, at the higher of original subscription and an agreed market valuation, sufficient shares in WestTel to reduce the Company's proportionate shareholding to 50%. Under the agreement, unless and until the option is exercised and all indebtedness to the Company is retired, the Company has the right to appoint the majority of the WestTel Board of Directors. As a result of these changes, and the expiry during the current year of prior options to repurchase shares in WestTel from the Company, WestTel is consolidated as a subsidiary of the Company in the current year in these consolidated financial statements as at 31st March 2007 and is no longer included in investments.

The Company has also entered into a five year agreement to provide technical and advisory consulting services to WestTel in return for a fee based on a percentage of WestTel's gross revenues ranging from 4% to 6%. Amortisation of the intangible assets acquired, interest on the loan facility and promissory note and revenues for consulting services provided to WestTel are included as a component of equity loss in affiliates in the statement of earnings in the prior year. In the current year WestTel is consolidated as a subsidiary and inter-company transactions with the Company are eliminated on consolidation.

Of WestTel's current year loss, $1,751,533 accrues to the minority shareholders. However, as majority shareholder, the Company recognised all the losses except those that were funded by contributions during the year from the minority shareholders of $441,789. At such time as WestTel becomes profitable, the Company will accrue all the profit until the losses accruing to the minority shareholders have been recovered.

QuoVadis Holdings Limited

During the year ended 31st March 2005, the Company purchased a 20% equity interest in QuoVadis Holdings Limited ("QuoVadis"), a company registered in Bermuda, for $1,009,513. QuoVadis is a provider of managed security services. The Company is amortising 78% of the intangible assets acquired on purchase of this equity interest over a period of five years and 22% over a period of sixteen years. Immediately subsequent to the purchase of the equity interest in QuoVadis, the Company subscribed $3,028,538 for additional shares. The Company's proportionate interest after the issuance of these additional shares increased to 30%. The Company has provided a loan facility of $1,000,000 to QuoVadis. During the year ended 31st March 2007 $500,000 (2006 – $500,000) was advanced under this facility and as a result the loan facility is fully drawn. Advances under the loan facility bear interest at 5% and are secured on the fixed and floating assets of QuoVadis. Advances under the loan facility will be converted to a term loan repayable over five years after QuoVadis has reported positive operating cashflow for three consecutive months. Amortisation of the intangible assets acquired and interest on the loan are included as a component of equity earnings in affiliates in the statement of earnings.

PacketExchange (Ireland) Limited

The Company sold its investment in PacketExchange (Ireland) Limited ("PacketExchange") for net proceeds of $1,735,275 during the year ended 31st March 2006. Proceeds from the sale of the investment are included in other income in the statement of earnings in the prior year.

6. Discontinued operations

Due to the inability to obtain work permits for key members of Bahamas Data & Media ("BD&M") staff and the negative impact on the sales campaign during the year ended 31st March 2006 the Company decided to discontinue funding BD&M. Results for BD&M for the year ended 31st March 2006 and the provision in full against the $865,644 loan to BD&M included in investments at 31st March 2005 are classified as discontinued operations in the consolidated statement of earnings for the prior year.

7. *Capital assets*

	Range of amortisation rates	2007	2006
Capital assets, at cost			
Land		$ 3,752,442	$ 3,752,442
Land leased under capital lease		1,000,000	1,000,000
Buildings and fixtures		39,221,907	37,094,650
Buildings leased under capital lease		831,398	831,398
Plant and facilities		218,896,233	204,114,943
Machinery and equipment		35,086,290	25,625,576
Total		298,788,270	272,419,009
Less: Accumulated amortisation			
Buildings and fixtures	2% – 10%	21,658,819	19,437,471
Buildings leased under capital lease	2%	58,209	41,577
Plant and facilities	6% – 25%	168,288,110	155,592,983
Machinery and equipment	20% – 33%	27,857,134	21,105,387
		217,862,272	196,177,418
Net capital assets in service		80,925,998	76,241,591
Plant under construction		9,013,304	8,146,874
Capital assets, net		$ 89,939,302	$ 84,388,465

Amortisation on capital assets for the current year was $19,524,801 (2006 – $17,686,604).

8. *Intangible assets*

	Amortisation rates	2007	2006
Intangible assets, at cost			
Leased telecommunications capacity		$ 10,114,763	$ 10,114,763
Other intangibles		2,394,235	1,660,630
Total		12,508,998	11,775,393
Less: Accumulated amortisation			
Leased telecommunications capacity	7%	5,649,122	4,962,110
Other intangibles	7% – 33%	1,681,703	1,507,932
		7,330,825	6,470,042
Intangible assets, net		$ 5,178,173	$ 5,305,351

Amortisation on intangible assets for the current year was $ 826,622 (2006 – $ 888,778).

During the year ended 31st March 2004 the Company acquired further leased telecommunications capacity and as part of this transaction acquired an option to purchase additional leased telecommunications capacity in the future. If the Company does not exercise its option a fee of $312,500 is payable and is shown as a liability on acquisition of intangible assets in the balance sheet.

9. *Goodwill*

The goodwill arising on the Logic acquisition in 1998 and the acquisition of a majority interest in WestTel in the current year is evaluated for potential impairment on an annual basis using estimates of future net cash flows. The unamortised goodwill of $3,637,615 (2006 – $991,412) did not require an impairment provision in the fiscal years ended 31st March 2007 and 2006.

10. *Pensions and post-retirement medical benefits*

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

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

Subsidiaries of the Company offer post-retirement medical benefits for substantially all retired employees. The Company adjusted its accounting policy for post-retirement medical benefits for employees as required under generally accepted accounting principles (see note 2(k)).

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

	Defined benefit pension plan		Post-retirement medical benefits	
	2007	**2006**	**2007**	**2006**
Accrued benefit obligation				
Balance – Beginning of year	$ (50,894,000)	$ (55,560,000)	$ (6,710,210)	$ (6,991,210)
Current service cost	—	—	(203,000)	(206,000)
Interest cost	(2,940,000)	(3,094,000)	(394,000)	(371,000)
Net actuarial (loss) gain on plan liability	(1,583,000)	4,266,000	(470,000)	653,000
Benefits paid, net	3,795,000	3,494,000	367,000	205,000
Balance – End of year	(51,622,000)	(50,894,000)	(7,410,210)	(6,710,210)
Plan assets				
Fair value – Beginning of year	$ 87,592,000	$ 74,687,000	$ —	$ —
Actual return on plan assets	16,040,000	16,399,000	—	—
Return excess employer contributions	—	—	—	—
Benefits paid, net	(3,795,000)	(3,494,000)	—	—
Fair value – End of year	$ 99,837,000	$ 87,592,000	$ —	$ —

Defined benefit pension plan assets consist of:

Equity securities	73%	76%
Debt securities	21%	22%
Other	6%	2%
	100%	100%

On 31st March 2007 11% (2006 – 10%) of plan assets were invested in common shares of the Company.

	Defined benefit pension plan		Post-retirement medical benefits	
	2007	**2006**	**2007**	**2006**
Status of plan				
Funded status – plan surplus (deficit)	$ 48,215,000	$ 36,698,000	$ (7,410,210)	$ (6,710,210)
Unamortised net actuarial loss on plan liability	—	—	197,000	(273,000)
Unamortised past service cost	609,000	667,000	—	—
Valuation allowance against accrued benefit asset	(48,215,000)	(36,698,000)	— —	—
Accrued benefit asset (liability)	$ 609,000	$ 667,000	$ (7,213,210)	$ (6,983,210)

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

	Defined benefit pension plan		Post-retirement medical benefits	
	2007	**2006**	**2007**	**2006**
Discount rate	6.00%	6.00%	6.00%	6.00%
Expected long-term rate of return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	3.55%	3.55%	N/A	N/A
Assumed initial health care cost trend rate	N/A	N/A	9.00%	9.00%
Assumed ultimate health care cost trend rate	N/A	N/A	4.75%	4.75%
Year ultimate rate is reached	N/A	N/A	2015	2012
Remaining service life (in years)	N/A	N/A	10	6

For the year ended 31st March, 2007, the effect of a one percentage point increase or decrease in the assumed ultimate health care cost trend rate on the aggregate of service and interest costs is a $108,000 increase and $87,000 decrease, respectively, and on the benefit obligation a $923,000 increase and a $769,000 decrease, respectively.

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

	Defined benefit pension plan		Post-retirement medical benefits	
	2007	**2006**	**2007**	**2006**
Amortisation of past service cost	$ 58,000	$ 58,000	$ —	$ —
Current service cost	—	—	203,000	206,000
Interest cost	2,940,000	3,094,000	394,000	371,000
Actual return on plan assets	(16,040,000)	(16,399,000)	—	—
Actuarial (gain) loss on plan liability	1,583,000	(4,266,000)	—	—
Change in valuation allowance against accrued benefit asset	11,517,000	17,571,000	—	—
Net benefit plan expense	$ 58,000	$ 58,000	$ 597,000	$ 577,000

Contributions relating to the Company's defined contribution pension plans during the year ended 31st March 2007 amounted to approximately $2,057,000 (2006 – $1,456,000) and were expensed during the year.

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

11. Long-term debt redemption amounts unclaimed

During the year ended 31st March 2003, the Company offered the holders of the 7-3/4% notes the option to receive three 8% cumulative redeemable convertible preferred shares of the Company in exchange for every two $15 notes held. The Company subsequently exercised its right to redeem the remaining notes effective 15th December 2002, extinguishing the Company's long-term debt. As at 31st March 2007 and 2006, not all notes redeemed had been presented to the Company in exchange for cash. The notes remaining outstanding valued at $596,496 (2006 – $601,860) are included in long-term debt redemption amounts unclaimed on the balance sheet and do not accrue interest beyond the redemption date.

12. Share capital

	2007	2006
Authorised – 21,546,220 (2006 – 21,546,220) common shares of par value $0.25 each		
Authorised – 2,615,445 (2006 – 2,615,445) preferred shares of par value $1 each		
Issued and outstanding 13,240,168 (2006 – 12,036,954) common shares	$ 3,310,042	$ 3,009,238
Issued and outstanding nil (2006 – nil) preferred shares	$ —	$ —

The Company issued 1,923,833 preferred shares during the year to 31st March 2003 in exchange for 7-3/4% notes of the Company. The Company exercised its right to redeem the preferred shares effective 15th November 2003. As a result no preferred shares are now in issue. As at 31st March 2007, not all preferred shares had been presented to the Company in exchange for cash. The preferred shares remaining outstanding valued at $1,270,258 (2006 – $1,299,793) are included in preferred share redemption amounts unclaimed on the balance sheet and do not accrue dividends beyond the redemption date.

On 24th July 2006, the Company declared a stock dividend to shareholders of record whereby they received one common share for each ten shares held. This dividend resulted in the issuance of 1,203,214 shares on 24th July 2006 and the payment of cash amounting to $7,462 to those shareholders entitled to fractional shares. As a result of this transaction, $18,649,817 was recorded as the stock dividend with $18,349,013 being credited to share premium and $300,804 being credited to share capital. The balance of $7,462 was charged as a cash dividend.

13. Other income

	2007	2006
Pension expense defined benefit pension plan (note 10)	$ (58,000)	$ (58,000)
Proceeds from the sale of PacketExchange (note 5)	—	1,735,275
	$ (58,000)	$ 1,677,275

14. *Earnings per share*

The following sets forth the computation of basic and diluted earnings per share for the years ended 31st March 2007 and 2006.

	2007			2006		
	Income (numerator)	Average weighted shares (denominator)	Per share amount	Income (numerator)	Average weighted shares (denominator)	Per share amount
Net income	$ 9,086,453			$ 11,677,203		
Basic earnings per share						
Income available to common shares	9,086,453	13,240,168	0.686	11,677,203	13,240,168	0.882

15. *Government license fee*

Certain subsidiaries of the Company are required to pay to the Government of Bermuda a license fee based on 3% of certain revenues. The license fee for the year ended 31st March 2007 was approximately $2,572,000 (2006 – $2,739,000).

16. *Commitments*

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

	$
2008	1,437,820
2009	1,257,491
2010	753,652
2011	475,318
2012	457,318
2013	863,636

17. *Financial assets and liabilities*

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

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 23,057,112	$ 23,057,000	$ 18,971,583	$ 18,971,000
Accounts receivable	8,656,521	8,657,000	9,370,363	9,370,000
Marketable securities:				
Mutual funds	3,435,073	4,232,000	5,829,740	6,593,000
Bonds	6,571,839	6,484,000	5,942,111	5,654,000
Equities	3,987,751	6,283,000	3,993,766	5,544,000
	13,994,663	16,999,000	15,765,617	17,791,000
Current liabilities	15,824,822	15,825,000	14,312,117	14,312,000

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

(a) Cash and cash equivalents
Cash and cash equivalents included deposits held by one United States bank and one Bermuda bank and a Bermuda subsidiary of an international bank as well as money market funds. The fair value of deposits with banks approximates their carrying value. The fair value of Money Market Funds approximate carrying value as they are readily realisable at this amount.

(b) Accounts receivable
The fair value of accounts receivable approximates carrying value, which is net of an allowance for doubtful accounts. The allowance for doubtful accounts is established based on the judgment of management after consideration of historical trends and expectations of future developments. As the allowance is an estimate, there is the risk that actual results may differ from the estimate.

(c) Marketable securities
The fair value of marketable securities is determined by reference to their quoted market prices. Approximately 36% (2006 – 37%) of marketable securities represent Bermuda incorporated international bond and equity mutual funds. It is the Company's opinion that there are no unusual interest rate or credit risks associated with marketable securities.

(d) Current liabilities
The fair value of current liabilities approximates carrying value due to their relatively short-term nature.

18. Rate regulated entities

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

19. Comparative figures

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

BOARD OF DIRECTORS

Chairman

James A.C. King, M.D., F.R.C.S.(C.), F.A.C.S., J.P.
Chairman
Argus Insurance Company Limited
Director since 1979

Deputy Chairman

Mrs. Jeanne J. Atherden, C.A., J.P.
Director since 1988

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

Mr. Peter C. Durhager
Chief Administrative Officer
RenaissanceRe Holdings Ltd.
President
RenaissanceRe Services Ltd.
Director
BELCO Holdings Ltd.
Director since 2000

Mr. Roderick A. Ferguson III, MBA, J.P.
Chairman
Gorham's Ltd.
Chairman
Purvis Ltd.
Director since 1988

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

Mr. Gary L. Phillips
Director since 2000

Mr. Glen C. Smith, J.P.
Consultant
International Bonded Couriers of Bermuda Ltd.
Director
LOM Holdings Limited
Director since 2004

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

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

COMPANY OFFICERS

Mr. John C. R. Collis
Secretary
Barrister & Attorney
Partner
Conyers Dill & Pearman

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

KEYTECH GROUP EXECUTIVES

Ms. Sheila A. Lines
Chief Executive Officer

Ms. Darlene Davis
Vice President Financial Reporting

Ms. Lorianne Gilbert
Legal Counsel

Mr. Philip S. Harris
Director of Human Resources

Mr. Richard Lau
Director of Information Technology

Ms. Leslie Rans
Vice President Financial Planning and Analysis

Common shares held by Directors – 423,030.

Common shares held by KeyTech Executive Management – 8,141.

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.

During the financial year the Company entered into a service contract with Mr. Colin V. K. Williams, a Director of the Company, under which fees of $12,466 were paid for services provided.

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.

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PRINCIPAL SUBSIDIARIES

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

Logic Communications Ltd.
Richmond House, 12 Par-la-Ville Road, Hamilton HM 08, Bermuda
www.logic.bm

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

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

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

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