KeyTech
LIMITED

Unlocking a World of Connections

KEY SERVICES, KEY PRODUCTS,

KEY PEOPLE

Contents

2005 CHAIRMAN'S REPORT

On behalf of your Board of Directors, I am pleased to report that KeyTech concluded the last fiscal year with a net income of $10M, a return that is similar to the prior year. KeyTech also finalized the sale of its investment in PacketExchange in April 2005, resulting in a gain of $1.7M which will be recognized in the next fiscal year. The combination of increased revenues from operations and other assets within the Group has enabled us to provide this return to our shareholders, even as we made significant investments in improving the infrastructure of our Subsidiaries and Affiliates. The cash dividend for the year was $0.60 per common share and a one for ten bonus common share dividend was issued in January 2005. Earnings per share, fully diluted, were $0.835 as compared to $0.855 in the prior year.

When taking into consideration the many challenges facing our Subsidiaries and Affiliates during the past year, from the restoration of our Cayman WestTel operations, severely impacted by Hurricane Ivan, to the total restructuring of our oldest and largest Subsidiary, The Bermuda Telephone Company Limited, the results are gratifying. We were also very pleased to be able to take advantage of an opportunity to invest in QuoVadis, a provider of Information Security and Digital Certificate Technologies. There are many synergies between us and we look forward to positive results from this partnership.

There is no doubt that we will continue to be challenged by marketplace changes and other forces of nature outside of our control. I am confident however, that the strategic focus of our businesses is solid and will continue to serve us well, this year and into the future.

Board membership has remained stable this past year and I would like to take this opportunity to thank the Directors for their time and continued commitment to providing good corporate governance over the affairs of the Company.

On behalf of the Board I extend sincere thanks to the Management and Staff of our Subsidiaries for all of their contributions toward making it a successful year, and to you our shareholders, our appreciation and thanks for your continued loyalty and support. Your Board has a very positive outlook on the future of the KeyTech Companies and will continue to work to make that a reality.

James A.C. King

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

2005 CHIEF EXECUTIVE OFFICER'S REPORT

Our Results

In a year of great change, the KeyTech Group of Companies has delivered to its shareholders a Net Income of $10M for the fiscal year ended March 31st, 2005. This is a return similar to the prior year's return and yields diluted earnings per share of $0.835. These results do not include a $1.7M gain arising on the sale of KeyTech's interest in PacketExchange as the sale was concluded in April 2005. As at March 31st, 2005 the interest in PacketExchange continues to be carried at a nil value in accordance with generally accepted accounting principles in both Bermuda and Canada.

Overall, KeyTech produced another solid operating performance with revenues increasing by $3.4M for a total of $97.3M. Total expenses increased by $7.8M for a total of $90.2M in the same period. However, included in that total are two unusual and significant items: $3.6M in voluntary separation and retirement payments as part of The Bermuda Telephone Company's restructuring and a one-time amortization adjustment of $1.8M to the carrying value of Mobility's TDMA cellular system due to the successful migration of customers to the GSM cellular system. Excluding these two items, total expenses increased by $2.4M.

Other items of note are as follows. There was an increase in equity losses in the affiliates in the amount of $1.5M. This was due to the inclusion of the first full year of WestTel's start-up operations which were severely affected by the impact of Hurricane Ivan on the Cayman Islands. Investment gains on marketable securities were lower by $2.2M as the prior year's gains included the sale of Bank of Bermuda shares. And lastly, other income increased $5.3M due to a return of surplus assets from The Bermuda Telephone Company's defined benefit pension fund which is in run-off.

All told, these are productive, steady results in an exciting year that was anything but business as usual.

Our Operations

The Telecommunications Industry is one of the most dynamic and competitive industries in the world today, and nowhere is this more acutely the case than in Bermuda. Our challenge this past year was to better position our companies to compete successfully. This meant making some difficult decisions that impacted the bottom line for the short term in order to achieve long term benefits.

This past year we embarked on the challenging task of restructuring The Bermuda Telephone Company to achieve operational efficiencies and improved service to its customers. We invested in a new billing system for Mobility and provided additional cell sites for improved signal coverage. We responded to consumers' demand for lower residential Internet costs and lowered our pricing plans at Logic. We invested in QuoVadis (a provider of Information Security and Digital Certificate Technologies) as a synergistic partner to complement our core businesses. And, we continued to invest in WestTel, our affiliate in the Cayman Islands, in the aftermath of Hurricane Ivan.

More importantly, we invested in our most valuable asset, our people. To that end, we offered training, workshops and varied educational opportunities designed to hone skills and cultivate new ones while embracing change. The implementation of our new Performance Management System, has placed a priority and focus on setting and achieving individual goals that tie into the goals of the Company while creating a greater accountability.

We are pleased with the progress made last year and anticipate that our investments will yield favourable long standing results.

The Bermuda Telephone Company Limited (BTC)

BTC underwent a number of structural and organizational changes last year to transform itself into a more responsive and customer-driven company. Francis Mussenden, the Chief Executive Officer, called it "BTC's Transformation" because it aptly described the goal – to transform the Company from the inside out. Departments were restructured, managers were reassigned, trained and refocused on performance accountability. The new Contact Centre, designed to operate on a "single point-first call resolution" system, was established and forty-one employees opted for Early Retirement and Voluntary Separation packages and left the Company to pursue other interests.

This represented a massive amount of change in a short span of time, nevertheless the transition from the old to the new progressed relatively smoothly as a result of thorough planning, teamwork and constant communication with all of the stakeholders. The end result is that the Company has made significant progress in achieving its goals for improved customer service and in streamlining operations for greater efficiency. Total revenues met projections even though the local call volumes declined due to the increasing utilization of cellular phones. Local Data revenues were higher than forecast largely due to the revitalized internal processes and Sales activity.

From left to right:

Eshe Montsho
Retail Center Customer Service Assistant Manager
Logic Communications Ltd.

William Drover
Graphic Design Consultant
Logic Communications Ltd.

From left to right:

Edgar F. Dill
Chief Operating Officer
The Bermuda Telephone Company Limited

Jennifer A. Stultz
Assistant Vice President
Contact Centre
The Bermuda Telephone Company Limited

In October 2004, BTC was issued a directive by the Telecommunications Commission to reduce the charge for originating and terminating calls on BTC's fixed line network by the long distance carriers from 5 cents to 4 cents per minute. The potential impact of this directive would have meant, based on call volumes at the time, a reduction in BTC's operating revenue of approximately $90,000 per month. BTC successfully filed an appeal to the Minister of Telecommunications who has "vacated" the directive and returned the matter to the Commission for further deliberations.

Logic Communications Ltd.

After extensive market research and responding to strong consumer demand, Logic blazed the path for more appealing Internet pricing by announcing bold new Internet pricing plans in December 2004/05. This move allows Logic to remain competitive in the extremely competitive Internet market. The new pricing plans resulted in lower than projected revenues for 2004/5. However, over the long term it is expected that operational efficiencies and the completion of amortization of intangible assets acquired from NexGen will help to offset this.

In the interim, Logic continues to focus on its strong core asset of providing full-service offerings and solutions to clients. Its Long Distance traffic increased significantly last year after securing the Long Distance Voice Contract from the Bermuda Hotel Association.

Mobility Ltd.

As the only majority Bermudian owned cellular company on the island, Mobility has had to work through the disadvantages of not having ready accessibility to the market tested products of its competitors. The focus during 2004/05 was on building an infrastructure to support offerings of the products and services that residential consumers and the corporate market demand.

This past year, city and island wide GSM network coverage was improved with nine new cell sites. A new billing system was installed and implemented and the Company expanded its voice roaming capabilities to 85 countries and data roaming to 13 countries including the United Kingdom, United States, Canada, and France.

Earnings before amortization expense increased 66% to $1.9M due to the reduction in operating expenses for the TDMA and GSM systems as anticipated in the 2004 Annual Report to Shareholders. The reduced future cash flows from the TDMA system, due to the successful migration of customers to the GSM system, resulted in a one-time increase in amortization expense that impacted Net Income for the year. Nevertheless, the early retirement of the TDMA system is expected to have a positive effect going forward with further reductions of operating and amortization expenses anticipated.

Bermuda Yellow Pages Limited

The Bermuda Yellow Pages completed its third year as a wholly-owned Subsidiary of Keytech Limited with very positive results. Sales targets were achieved, total operating revenue increased by 18% and the quality of the publication remains very high. Meaningful product innovation designed to assist consumers and support advertisers continued to be an important hallmark of the business. In 2004, among the many improved features was the inclusion of a Pull-Out Map which was so successful that it is now being supplied to a local retail outlet. In addition, a CD-ROM version of the directory was introduced and has proven to be very popular with local businesses.

Refinement of the BERMUDAYP.COM website continued in 2004. Page Views have increased from 169,000 in August 2004 to 273,000 in January 2005. The site also won the Gold Award for Marketing Innovation – Electronics Products at the 2004 Yellow Pages Integrated Media Association (YPIMA) Industry Awards. YPIMA members produce Yellow Pages in more than 20 countries and account for more than 90 percent of the Yellow Pages revenue generated in the U.S. and Canada.

The key to the success of this company is its people. Focus on their development and careful cultivation of a working environment that stresses teamwork and accountability has netted great results and Bermuda Yellow Pages is proud of the fact that there has been zero staff turnover since July 2002.

Affiliates

The damage sustained during Hurricane Ivan in September 2004 disrupted the WestTel operations in the Cayman Islands and increased its funding requirements. However, operations returned to the pre-hurricane status within a short period thereafter. We are very appreciative of the WestTel staff who remained on site and assisted with the rapid recovery.

WestTel's service offerings have expanded to include Corporate Data and Consumer Internet, with encouraging sales growth in both areas. Local and long distance voice services are to be launched shortly. The prospects for this business continue to look positive.

CableVision has completed its roll-out of digital services in Bermuda and continues to explore ways to expand the use of its digital network to leverage its investment in plant and facilities. Earnings for 2004/05 include further costs for damage sustained to the network during Hurricane Fabian, decreasing the Company's earnings from CableVision by approximately $0.3M.

QuoVadis continues to pursue increased sales of managed security services and in February 2005 established an affiliated company in Switzerland, serving the growing demand for electronic signatures and strong identity protection in European e-commerce.

Our community involvement

During 2004, the KeyTech Group of Companies continued its commitment to the Community through a wide range of sponsorships and monetary and service-in-kind donations in support of organizations and individuals in the fields of Sports, Education, the Arts, Social Services and the Environment.

The first recipient of the newly reactivated Sir John Cox Career Development Fund was Justin D. Robinson. Justin has an outstanding academic record and is currently a graduate student in Business Administration at Guelph University in Canada. Additionally, a BTC Bursary of $5,000 was awarded to Jokita Henry to assist her in her studies at the New England Institute of Technology where she is studying Information Systems.

Our outlook for 2005/06

The Telecommunications Industry continues to be one of change and challenge. Technologies are converging and in some instances, regulatory boundaries are being stretched, yet we look forward to the continued success of the KeyTech Group of Companies.

We have spent the last year reevaluating our operations and restructuring to better align and utilize the resources available to us. In some cases we have added additional resources to maximize our opportunities to successfully compete in this marketplace for the long-term. I believe that we have an effective strategy and a "winning" team in place who will remain focused on our initiatives for enhancing shareholder value, growing revenues and providing high levels of customer service.

In the coming year we will continue to improve the performance of our existing core businesses and look for opportunities to grow and diversify within the context of our expertise in areas that complement products and services provided by the Group. We will continue to assess the technologies and make changes as needed to satisfy our customers and attract new ones while recognizing that our sustainability in this marketplace is directly related to the skills and abilities of our people.

We have the pieces of the puzzle: diverse technologies, diverse people, diverse talents. Our challenge this year is to capitalize on those assets to achieve our goals and I am confident that we will meet that challenge.

I would like to take this opportunity to thank the managers and employees of all of our Subsidiaries for their support and their commitment to helping us build for the future. We look forward to a successful 2005/06.

Sheila Manderson

Sheila Manderson
Chief Executive Officer

Michelle Burrows
Acting Marketing Director
Mobility Ltd.

From left to right:

Gordon Brown
Sales Team Leader
Bermuda Yellow Pages Limited

Anthony Richardson
Operations Manager
Bermuda Yellow Pages Limited

FINANCIAL HIGHLIGHTS 2005

	2005	2004
Revenues	$ 97,292,392	$ 93,845,513
Total expenses	(90,217,058)	(82,403,082)
Excess storm damage expense	0	(1,950,180)
Equity (loss) earnings in affiliates	(1,335,602)	165,814
Investment gains	489,699	2,740,217
Other income (expense)	4,096,903	(1,165,000)
Discontinued operations	(273,057)	(803,017)
Net Income	10,053,277	10,430,265
Earnings per common share:		
Basic	0.835	0.863
Fully diluted	0.835	0.855
Shareholders' equity		
Per common share:		
Basic	10.95	11.07
Fully diluted	10.95	10.54
Capital expenditures	16,171,299	18,830,937

FIVE YEAR FINANCIAL AND STATISTICAL SUMMARY

	2005	2004	2003	2002	2001
Revenue and Expense Items					
($000's)					
Operating revenues	97,292	93,845	87,444	89,529	86,643
Operating expenses	68,233	63,071	57,420	55,705	50,148
Amortization	21,984	19,332	18,300	24,167	21,925
Interest on long-term debt	0	0	1,298	2,049	2,184
Net earnings	10,053	10,430	10,162	15,098	12,852
Cash dividends declared on common shares	6,735	6,341	4,415	4,289	4,121
Balance Sheet Items					
($000's, except number of shares)					
Total assets	155,073	153,687	152,388	151,418	148,111
Long-term debt	0	0	0	26,134	27,054
Shareholders' equity	131,825	128,507	129,947	106,227	95,676
Number of common shares	12,036	10,943	8,574	8,572	8,597
Number of preferred shares	0	0	1,922	0	0
Per Common Share					
($'s)					
Net earnings – Basic	0.835	0.863	0.905	1.455	1.235
Cash dividend	0.600	0.590	0.515	0.500	0.500
Net assets – Basic	10.95	11.07	12.53	10.25	9.20
Items of Interest					
Capital expenditures ($000's)	16,171	18,831	25,034	15,489	28,595
Number of employees (full-time)	423	454	476	456	457

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants
Dorchester House
7 Church Street
Hamilton
Bermuda HM 11
Telephone +1 (441) 295 2000
Facsimile +1 (441) 295 1242

15th June, 2005

Auditors' Report

To the Shareholders of KeyTech Limited

We have audited the consolidated balance sheet of **KeyTech Limited** as at 31st March 2005 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 2005 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at 31st March 2005

	Notes	2005	2004
Assets			
Current assets			
Cash and cash equivalents	18	$ 14,105,723	$ 12,518,698
Restricted cash in escrow	9	-	250,000
Accounts receivable	18	9,252,778	8,383,736
Merchandise, materials and supplies		4,509,624	4,809,420
Prepaid expenses and other assets		3,393,057	2,899,716
Total current assets		31,261,182	28,861,570
Marketable securities	18	15,838,340	16,918,304
Investments	6	14,662,577	7,741,994
Capital assets, net	8	85,570,734	90,462,116
Intangible assets, net	9	6,023,324	7,206,944
Goodwill	10	991,412	991,412
Deferred pension asset	11	725,000	1,505,000
Total assets		$ 155,072,569	$ 153,687,340
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 9,798,298	$ 10,461,160
Long-term debt redemption amounts unclaimed	12	610,860	753,329
Preferred share redemption amounts unclaimed	13	1,378,721	1,753,704
Dividends payable		1,805,543	1,641,469
Deferred income		988,416	1,449,009
Liability on acquisition of intangible assets	9	312,500	812,500
Total current liabilities	18	14,894,338	16,871,171
Deferred investment gain	6	1,742,449	1,991,371
Accrued post-retirement medical benefits	11	6,611,210	6,318,210
Total liabilities		23,247,997	25,180,752
Shareholders' equity			
Share capital	13	3,009,238	2,735,782
Share premium	13	45,940,651	34,182,010
Contributed surplus		20,920,454	20,920,454
Retained earnings		61,954,229	70,668,342
Total shareholders' equity		131,824,572	128,506,588
Total liabilities and shareholders' equity		$ 155,072,569	$ 153,687,340

Approved by the Board of Directors　　Director James de King　　Director [signature]

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

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended 31st March 2005

	Note		2005		2004
Revenues and other income					
Operating revenues		$	97,292,392	$	93,845,513
Expenses					
Operating expenses	4		68,233,059		63,070,759
Amortization	8, 9, 10		21,983,999		19,332,323
Total expenses			90,217,058		82,403,082
Net income before under noted items			7,075,334		11,442,431
Excess storm damage expense	3		-		(1,950,180)
Equity (loss) earnings in affiliates	6		(1,335,602)		165,814
Investment gains			489,699		2,740,217
Other income (expense)	14		4,096,903		(1,165,000)
Net income before discontinued operations		$	10,326,334	$	11,233,282
Discontinued operations	7		(273,057)		(803,017)
Net income after discontinued operations		$	10,053,277	$	10,430,265
Earnings per common share before discounted operations					
Basic		$	0.858	$	0.932
Fully diluted		$	0.858	$	0.921
Loss per common share from discontinued operations					
Basic		$	(0.023)	$	(0.069)
Fully diluted		$	(0.023)	$	(0.066)
Earnings per common share					
Basic	15	$	0.835	$	0.863
Fully diluted	15	$	0.835	$	0.855

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

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended 31st March 2005

	Note	2005	2004
Retained earnings – Beginning of year		$ 70,668,342	$ 76,869,158
Net income		10,053,277	10,430,265
		80,721,619	87,299,423
Dividends declared			
Cash - common shares		(6,735,293)	(6,341,028)
Shares - common shares		(12,032,097)	(9,874,010)
Cash - preferred shares		-	(416,043)
		(18,767,390)	(16,631,081)
Retained earnings – End of year		**$ 61,954,229**	**$ 70,668,342**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st March 2005

		2005		2004
Cash flows from operating activities				
Net income for year	$	10,053,277	$	10,430,265
Items not affecting cash				
Amortization		21,983,999		19,332,323
Amortization from discontinued operations		262,302		293,328
Net realized gain on marketable securities		(413,755)		(2,428,392)
Equity loss (earnings) in affiliates		1,335,602		(165,814)
Provisions for investments and loans		911,097		790,000
Post-retirement benefits (income) expense in excess of amounts received (paid)		1,073,000		859,000
		35,205,522		29,110,710
Increase in non-cash working capital		(2,686,042)		(994,167)
Cash provided by operating activities		32,519,480		28,116,543
Cash flows from investing activities				
Investments, net		(9,416,204)		(3,111,395)
Sale of marketable securities, net		1,493,719		3,892,246
Acquisition of capital assets		(16,171,299)		(18,830,937)
Acquisition of intangible assets		-		(2,528,500)
Cash used for investing activities		(24,093,784)		(20,578,586)
Cash flows from financing activities				
Redemption of notes payable		(142,469)		(453,916)
Cash paid on share dividend		(5,343)		(4,827)
Redemption of preferred shares		(374,983)		(3,372,217)
Dividends paid on common shares		(6,565,876)		(5,814,010)
Dividends paid on preferred shares		-		(778,057)
Cash used for financing activities		(7,088,671)		(10,423,027)
Increase (decrease) in cash and cash equivalents		1,337,025		(2,885,070)
Cash and cash equivalents – Beginning of year		12,768,698		15,653,768
Cash and cash equivalents – End of year	$	14,105,723	$	12,768,698
Comprising:				
Cash and cash equivalents	$	14,105,723	$	12,518,698
Restricted cash in escrow		-		250,000
	$	14,105,723	$	12,768,698

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, is a major supplier of telecommunications services, providing a wide range of voice, data, wireless and Internet 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 subsidiaries. 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 amortized on the straight-line basis over their estimated useful lives. Gains and losses resulting from the retirement of capital assets are included in net earnings for the year.

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

(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 recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. Where appropriate additional provisions are made to reduce the carrying value to fair value when such declines are considered to be other than temporary.

Portfolio investments are accounted for on the cost basis. Declines in fair value below cost are recognized 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 on a portfolio basis.

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 recognized when such declines are considered to be other than temporary.

(f) Deferred costs

During the year ended 31st March 2003, the Company decided to publish the annual telephone directory internally.

i) Deferred pre-operating costs

The costs incurred by the subsidiary prior to the commencement of operations have been deferred and are amortized using the straight-line basis over a three-year period representing the period of expected future benefit of the costs incurred. Unamortized deferred costs at 31st March 2005 of $106,655 (2004 - $213,308) are included in prepaid expenses and other assets in the balance sheet.

ii) Deferred production costs

Costs incurred directly relating to the publication of the annual directory are deferred and recognized in income at the date of publication. Deferred production costs of $1,873,600 (2004 - $1,663,999) are included in prepaid expenses and other assets in the balance sheet.

(g) Deferred income

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

(h) Merchandise, materials and supplies

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

(i) Goodwill and other intangible assets

Goodwill represents the excess, at the date of acquisition, of the cost over the fair value of the net tangible assets of subsidiary companies acquired and was previously amortized on a straight-line basis over its estimated life. Effective 1st April 2002, the Company adopted the Canadian Institute of Chartered Accountants Section 3062 (“CICA Section 3062”), Goodwill and Other Intangible Assets. This standard requires that intangibles acquired in a business combination be 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 and are no longer amortized. Intangible assets with definite useful lives are initially recorded at cost and amortized over their useful economic lives to their estimated residual values and reviewed for impairment when indications of impairment exist. Any permanent impairment of the value is charged to earnings in the year the impairment is recognized.

(j) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Bermuda dollars at rates of exchange prevailing at the balance sheet date. 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 11, 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 certain employees and retirees of certain of its subsidiaries. The cost to provide pension benefits under the defined benefit pension plan and post-retirement medical benefits is accrued and charged to earnings so as to reflect the manner in which the service giving rise to the benefits is rendered. The cost of providing benefits under the defined contribution plans is charged to earnings in the year.

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

(l) Earnings per share

Earnings per share is calculated based on the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated on the weighted average number of shares outstanding during the year combined with the weighted average number of shares that would have been issued during the year had all existing dilutive conversion rights been exercised.

(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

As explained in note 2(i), effective 1st April 2002 the Company adopted the CICA Section 3062, Goodwill and Other Intangible Assets. Under the corporate restructuring of Bermuda CableVision Limited (BCL) (see note 6) there was both an amount in excess of the tangible assets acquired, originally assessed as goodwill, and a deferred investment gain that arose. The underlying goodwill and the deferred investment gain were being amortized on a straight-line basis over a period of seven years. In applying CICA Section 3062, the Company determined that the excess amount over tangible assets acquired was an intangible asset representing BCL's installed customer base. Further, the Company determined that this intangible has a life of ten years being BCL's current licence period. Therefore, commencing 1st April 2002, the underlying intangible asset and the associated deferred investment gain are being amortized over ten years. The net impact of these changes in amortization period on the equity earnings of affiliates is not significant. Amortization of these amounts is included as a component of equity (loss) earnings in affiliates in the statement of earnings.

3. Excess storm damage expense

On 5th September 2003 Hurricane Fabian caused damage to BTC's network resulting in significant expenditures to repair the network in September 2003 and subsequent months. The Company compared these expenditures to historical average expenditures over a multi-year period which included the costs of recovery from other storms and hurricane force winds. In total, expenses of $2,326,962 were incurred in the year ended 31st March 2004 to restore the network after Hurricane Fabian of which $1,950,180 is in excess of historical average expenditures as described above and has therefore been separately disclosed as excess storm damage expense in the prior year in accordance with CICA Section 1520.

4. Operating expenses

During the year ended 31st March 2005 BTC undertook major organizational restructuring changes to increase operating efficiency and improve customer service. Forty-one long-term employees chose voluntary separation and early retirement packages at a total expense of $3,634,113, which is included in operating expenses in the statement of earnings in the current year.

5. Segmented information

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

The Bermuda Telephone Company Limited ("BTC") – provides a wide range of voice, data and wireline services.

Mobility Limited ("Mobility") – provides wireless services.

Logic Communications Limited ("Logic") – provides a wide range of Internet products and services, as well as selling computer hardware, software and consulting services.

Bermuda Yellow Pages Limited ("BYP") – provides printed and on-line directory services.

Segment information

	BTC	Mobility	Logic	BYP	Total
Year ended 31st March 2005					
Revenues from external customers	$ 63,715,529	$ 12,276,574	$ 16,957,981	$ 4,237,000	$ 97,187,084
Revenues from internal customers	2,017,658	346,373	471,566	174,950	3,010,547
Amortization	14,380,047	5,641,489	1,730,829	88,957	21,841,322
Operating expenses	42,905,987	10,234,577	12,796,084	2,994,066	68,930,714
Interest expense	885,787	444,360	-	-	1,330,147
Segment income (loss)	7,561,366	(3,697,479)	2,902,634	1,328,927	8,095,448
Segment assets	84,382,595	18,502,220	12,112,356	4,082,232	119,079,403

	BTC	Mobility	Logic	BYP	Total
Year ended 31st March 2004					
Revenues from external customers	$ 61,399,110	$ 12,095,240	$ 16,741,715	$ 3,544,406	$ 93,780,471
Revenues from internal customers	1,752,526	391,440	313,104	188,000	2,645,070
Amortization	13,822,469	3,748,728	1,626,826	39,089	19,237,112
Operating expenses	38,609,513	10,872,778	11,497,034	2,399,871	63,379,196
Interest expense	966,350	444,360	-	-	1,410,710
Excess storm damage expense	1,950,180	-	-	-	1,950,180
Segment income (loss)	7,803,124	(2,579,186)	3,930,959	1,293,446	10,448,343
Segment assets	84,244,505	19,197,957	13,219,036	2,633,097	119,294,595

Revenues by service

	2005	2004
Domestic wireline services	$ 52,742,708	$ 50,120,326
International long distance and network services	12,199,042	12,568,593
Domestic wireless services	11,683,994	11,381,478
International interconnection fees	5,412,311	6,085,655
Hardware and software sales	4,712,119	4,440,044
Directory services	4,237,000	3,544,406
Consulting services	3,837,704	3,406,836
Other services	2,467,514	2,298,175
	$ 97,292,392	$ 93,845,513

Reconciliations

Revenues from external customers	2005	2004
Total segment revenues from external customers	$ 97,187,084	$ 93,780,471
Non-segment other income	105,308	65,042
	$ 97,292,392	$ 93,845,513

Amortization	2005	2004
Total segment amortization	$ 21,841,322	$ 19,237,112
Non-segment amortization	142,677	95,211
	$ 21,983,999	$ 19,332,323

Operating expenses	2005	2004
Total segment operating expenses	$ 68,930,714	$ 63,379,196
Non-segment operating expenses	2,380,350	2,316,351
Elimination of inter-company amounts	(3,078,005)	(2,624,788)
	$ 68,233,059	$ 63,070,759

Interest expense	2005	2004
Total segment interest expense	$ 1,330,147	$ 1,410,710
Elimination of inter-company amounts	(1,330,147)	(1,410,710)
	$ -	$ -

Net income	2005	2004
Total income for reportable segments	$ 8,095,448	$ 10,448,343
Non-segment other income	6,022,005	3,055,471
Equity (loss) earnings in affiliates	(1,335,602)	165,814
Non-segment administrative expenses	(2,380,350)	(2,316,351)
Non-segment amortization	(142,677)	(95,211)
Loss from discontinued operations	(273,057)	(803,017)
Elimination of inter-company amounts	67,510	(24,784)
	$ 10,053,277	$ 10,430,265

Total assets	2005	2004
Total assets for reportable segments	$ 119,079,403	$ 119,294,595
Goodwill	991,412	991,412
Non-segment assets	62,213,072	59,714,322
Discontinued operations assets	96,702	421,270
Elimination of inter-company amounts	(27,308,020)	(26,734,259)
	$ 155,072,569	$ 153,687,340

6. Investments

	2005	2004
Investment in CableVision Holdings Ltd.		
Promissory notes and accrued interest thereon	$ 7,049,517	$ 6,314,000
Interest in equity	(1,860,919)	(1,286,813)
	5,188,598	5,027,187
Investment in WestTel Ltd.		
Loan and promissory note	4,709,353	-
Interest in equity	35,946	1,303,065
	4,745,299	1,303,065
Investment in QuoVadis Holdings Ltd.		
Interest in equity	3,863,036	-
Investment in PacketExchange (net of losses and provision of $1,053,796; 2004 - $1,053,796)	-	-
Loan to Bahamas Data & Media (net of provision of $2,365,354; 2004 - $1,454,257)	865,644	1,411,742
	$ 14,662,577	$ 7,741,994

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

During the year ended 31st March 2005 the Company loaned BCL $300,000 under a promissory note. During the year ended 31st March 2004 the Company loaned BCL $750,000 under a promissory note. Both promissory notes are unsecured and bear interest at 8% per annum. Should the promissory notes not be repaid within two years of issue, the Company has the right to have additional shares in BCL allotted to the Company to extinguish the promissory notes. Interest relating to the notes is included as a component of equity earnings in affiliates in the statement of earnings.

During the year ended 31st March 2004, the Company purchased a 40% equity interest in WestTel Limited ("WestTel"), a company registered in the Cayman Islands for $1,041,909. WestTel is licensed to provide data and telephony services in the Cayman Islands. The Company is amortizing the intangible assets acquired on purchase of this equity interest over periods of five to fifteen years. Subsequent to the purchase of the equity interest in WestTel, the Company subscribed $378,486 for additional shares. Other shareholders of WestTel also subscribed for further equity, and therefore the Company's proportionate interest after the issuance of these additional shares remained at 40%. The Company provided a loan facility of $3,621,515 to WestTel. WestTel fully utilized the loan facility 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 operations of WestTel were severely disrupted by Hurricane Ivan, which impacted the Cayman Islands in September 2004. As a result, 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 2005 is $1,227,616. 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%. Amortization 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 earnings in affiliates in the statement of earnings.

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 amortizing 78% 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. No advances have been requested under this facility as at 31st March 2005. Advances under the loan facility bear interest at 5% per annum 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. If the loan is not drawn in its entirety by 24th December 2007 the obligation of the Company to make the loan or any part thereof available to QuoVadis shall expire. Amortization of the intangible assets acquired are included as a component of equity earnings in affiliates in the statement of earnings.

The Company sold its investment in PacketExchange for net proceeds of $1,735,275 subsequent to the year end (see note 20).

Included in other investments is a loan to Bahamas Data and Media Limited ("BD&M") of $865,644. BD&M has established a competitive hard copy and on-line directory business in the Bahamas under the trade name of Bahamas Golden Pages. The recoverability of loan amounts to BD&M is contingent on the commercial success of the enterprise. Having reviewed the various future scenarios of the commercial success of BD&M and the probability of each occurring, it is the Company's judgment that $0.87 million reflects the expected value of the cash flow from various outcomes which range from a $nil recoverability to a $3.23 million recoverability of the current loan within a five year period. The Company has also entered into a five year agreement to provide consulting services to BD&M in return for a fee based on 30% of BD&M's gross revenues. Provisions against the loan to BD&M are included in other income in the statement of earnings.

7. Discontinued operations

In the year ended 31st March 2004, Genespidernet Caribbean Inc. ("GSN"), a subsidiary company established and licensed to provide telecommunications services to residents of Curacao, entered voluntary liquidation.

Accordingly the losses of GSN, excluding intercompany expenses, are classified as discontinued operations in the current and prior year. Current year losses of GSN includes losses on the sale of assets of $239,350. Remaining GSN net assets of $29,286 are included in the Company's balance sheet at 31st March 2005.

8. Capital assets

	Range of amortization rates	2005	2004
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		36,272,940	33,916,086
Buildings leased under capital lease		831,398	831,398
Plant and facilities		197,496,919	188,200,740
Machinery and equipment		24,154,163	20,746,699
Total		263,507,862	248,447,365
Less: Accumulated amortization			
Buildings and fixtures	2% - 10%	17,350,054	15,385,544
Buildings leased under capital lease	2%	24,945	8,314
Plant and facilities	6% - 25%	142,901,637	126,844,717
Machinery and equipment	20% - 33%	19,091,680	17,661,106
		179,368,316	159,899,681
Net capital assets in service		84,139,546	88,547,684
Plant under construction		1,431,188	1,914,432
Capital assets, net		$ 85,570,734	$ 90,462,116

During the year ended 31st March 2005 the Company applied CICA Section 3063, Impairment of Long Lived Assets, to the carrying value of Mobility's TDMA cellular system due to the migration of customers to its GSM cellular system. As a result additional amortization expense of $1,820,129 is included in amortization expense in the statement of earnings in the current year. The remaining net book value of the TDMA cellular system at 31st March 2005 is $195,000.

9. Intangible assets

	Amortization rates	2005	2004
Intangible assets, at cost			
Leased telecommunications capacity		$ 10,114,763	$ 10,114,763
NexGen intangibles		1,489,826	1,489,826
Total		11,604,589	11,604,589
Less: Accumulated amortization			
Leased telecommunications capacity	7%	4,275,098	3,588,087
NexGen intangibles	33%	1,306,167	809,558
		5,581,265	4,397,645
Intangible assets, net		$ 6,023,324	$ 7,206,944

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.

During the year ended 31st March 2003, the Company acquired a 100% interest in NexGen Technologies Limited (“NexGen”); a Bermuda based Integration Services Provider – a specialized area of Information Technologies (IT) Outsourcing focused on Local Area Network (LAN) and Wide Area Network (WAN) design, implementation, and support. The Company determined, in accordance with CICA Section 3062, that intangible assets were acquired and are being amortized on a straight-line basis over a period of three years. Accordingly this acquisition is classified as an acquisition of intangible assets. Cash amounts placed in escrow at 31st March 2005 of $Nil (2004 - $250,000) as part of the purchase agreement are shown as restricted cash in escrow.

10. Goodwill

Effective 1st April 2002 the Company adopted CICA Section 3062, Goodwill and Other Intangible Assets. As a result, the goodwill arising on the Logic acquisition in 1998 is evaluated for potential impairment on an annual basis using estimates of future net cash flows and is no longer amortized. The unamortized goodwill of $991,412 did not require impairment in the fiscal years ended 31st March 2005 and 2004.

11. Pensions and post-retirement medical benefits

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

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

During the current year, the Company requested the Trustees of the plan to return to the Company a portion of the surplus in excess of the amount required to fund the benefits under the former plan. The Company, after consultation with their independent actuaries determined that, after providing an appropriate reserve for possible adverse investment and actuarial experience in the future, they could request $5,788,000 of the then approximately $30,358,000 surplus available. The Company received this amount prior to 31st March 2005.

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	
	2005	**2004**	**2005**	**2004**
Accrued benefit obligation				
Balance – Beginning of year	$(48,383,000)	$ (47,713,000)	$(6,516,210)	$(6,061,210)
Current service cost	(218,000)	(270,000)	(176,000)	(177,000)
Interest cost	(2,834,000)	(2,907,000)	(353,000)	(370,000)
Net actuarial gain (loss) on plan liability	(7,014,000)	(310,000)	(182,000)	29,000
Benefits paid, net	3,027,000	2,817,000	133,000	63,000
Curtailment (loss) gain arising on corporate restructuring	(138,000)	-	103,000	-
Balance – End of year	(55,560,000)	(48,383,000)	(6,991,210)	(6,516,210)
Plan assets				
Fair value – Beginning of year	82,162,000	64,531,000	-	-
Actual return on plan assets	1,340,000	20,448,000	-	-
Return excess employer contributions	(5,788,000)	-	-	-
Benefits paid, net	(3,027,000)	(2,817,000)	-	-
Fair value – End of year	74,687,000	82,162,000	-	-
Defined benefit pension plan assets consist of:				
Equity securities	77%	65%		
Debt securities	22%	22%		
Other	1%	13%		
	100%	100%		

On 31st March 2005 10% (2004 - 11.7%) of plan assets were invested in common shares of the Company.

Status of plan				
Funded status – plan surplus (deficit)	19,127,000	33,779,000	(6,991,210)	(6,516,210)
Unamortized net actuarial loss on plan liability	-	-	380,000	198,000
Unamortized past service cost	725,000	1,288,000	-	-
Valuation allowance against accrued benefit asset	(19,127,000)	(33,562,000)	-	-
Accrued benefit asset (liability)	$ 725,000	$ 1,505,000	$ (6,611,210)	$ (6,318,210)

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**	
	2005	**2004**	**2005**	**2004**
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected long-term rate of return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	4.75%	3.75%	N/A	N/A
Assumed initial health care cost trend rate	N/A	N/A	10.00%	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	2011	2009
Remaining service life (in years)	N/A	N/A	7	8

For the year ended 31st March 2005 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 $101,000 increase and $81,000 decrease, respectively, and on the benefit obligation a $993,000 increase and a $824,000 decrease, respectively.

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

	Defined benefit pension plan		**Post-retirement medical benefits**	
	2005	**2004**	**2005**	**2004**
Amortization of past service cost	$ 58,000	$ 95,000	$ -	$ -
Amortization of net actuarial gains	-	-	-	-
Current service cost	218,000	270,000	176,000	177,000
Interest cost	2,834,000	2,907,000	353,000	370,000
Actual return on plan assets	(1,340,000)	(20,448,000)	-	-
Curtailments arising on corporate restructuring	643,000	-	(103,000)	-
Actuarial loss on plan liability	7,014,000	310,000	-	-
Change in valuation allowance against accrued benefit asset	(14,435,000)	17,241,000	-	-
Net benefit plan (income) expense	$ (5,008,000)	$ 375,000	$ 426,000	$ 547,000

Contributions relating to the Company's defined contribution pension plans during the year ended 31st March 2005 amounted to approximately $1,382,000 (2004 - $1,299,000) 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.

12. 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. Holders of notes totaling $19,239,810 accepted the exchange offer and received 1,923,833 preferred shares and cash of $1,480. 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 2005 and 2004, not all notes redeemed had been presented to the Company in exchange for cash. The notes remaining outstanding valued at $610,860 (2004 - $753,329) are included in long-term debt redemption amounts unclaimed on the balance sheet and do not accrue interest beyond the redemption date.

13. Share capital

	2005	2004
Authorized – 21,546,220 (2004 - 21,546,220) common shares of par value $0.25 each		
Authorized – 2,615,445 (2004 - 2,613,445) preferred shares of par value $1 each		
Issued and outstanding 12,036,954 (2004 - 10,943,127) common shares	$ 3,009,238	$ 2,735,782
Issued and outstanding nil (2004 - nil) preferred shares	$ -	$ -

At a special general meeting of the Company on 12th September 2002, the common shareholders approved an increase in the total authorized capital of the Company from $4,000,000 to $8,000,000 by the creation of 2,613,445 preferred shares of a par value of $1 each and 1,386,555 additional common shares of a par value of $1 each and also the subsequent subdivision of each common share into four common shares of par value $0.25 effective on that date. The common shareholders also approved the rights for the preferred shares created.

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 preferred shares are preferred over the common shares as to dividends and return of capital and entitle the holder to a preferential cumulative dividend of 8% per annum paid quarterly. The preferred shares are redeemable at the option of the Company at a price equal to their initial issue price, namely $10, together with any accrued but unpaid dividend. The preferred shares are convertible into common shares at the option of the holder and, in certain circumstances, the Company has the right to compulsorily convert the preferred shares into common shares. Initially conversions are on the basis of one common share for each preferred share, but the conversion price is subject to adjustment subject to the occurrence of certain events detailed in the preferred share rights. During the prior year 1,411,325 preferred shares chose to convert their preferred shares to common shares and, as a consequence, during the prior year 1,411,325 common shares were issued.

The Company exercised its right to redeem the remaining preferred shares effective 15th November 2003. As a result no preferred shares are now in issue. As at 31st March 2005, not all preferred shares had been presented to the Company in exchange for cash. The preferred shares remaining outstanding valued at $1,378,721 (2004 - $1,753,704) are included in preferred share redemption amounts unclaimed on the balance sheet and do not accrue dividends beyond the redemption date.

On 31st January 2005, 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 1,093,827 shares on 31st January 2005 and the payment of cash amounting to $5,343 to those shareholders entitled to fractional shares. As a result of this transaction, $12,032,097 was recorded as the stock dividend with $11,758,641 being credited to share premium and $273,456 being credited to share capital. The balance of $5,343 was charged as a cash dividend. Earnings per share for the prior year has been adjusted retroactively to take into account this stock dividend.

14. Other income

	2005 $	2004 $
Pension income (expense) defined benefit pension plan (note 11)	5,008,000	(375,000)
Provisions for loan to BD&M (note 6)	(911,097)	(790,000)
	4,096,903	(1,165,000)

15. Earnings per share

The following sets forth the computation of basic and diluted earnings per share for the years ended 31st March 2005 and 2004.

	2005 Income (numerator)	2005 Average weighted shares (denominator)	2005 Per share amount	2004 Income (numerator)	2004 Average weighted shares (denominator)	2004 Per share amount
Net income	$ 10,053,277			$ 10,430,265		
Less preferred shares dividends	-			(416,043)		
Basic earnings per share						
Income available to common shares	10,053,277	12,036,954	$ 0.835	10,014,222	11,606,202	$ 0.863
Effect of dilutive securities						
Convertible preferred shares	-	-		416,043	590,124	
Diluted earnings per share						
Income available to common shareholders and assumed conversions	$ 10,053,277	12,036,954	$ 0.835	$ 10,430,265	12,196,326	$ 0.855

16. 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 2005 was approximately $2,548,000 (2004 - $2,617,000).

17. Commitments

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

2006	1,236,247
2007	1,226,687
2008	1,219,467
2009	617,617
2010	402,769
Thereafter	1,611,076

18. Financial assets and liabilities

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

		2005		2004
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	$ 14,105,723	$ 14,106,000	$ 12,518,698	$ 12,519,000
Accounts receivable	9,252,778	9,253,000	8,383,736	8,384,000
Marketable securities:				
Mutual funds	5,689,394	5,290,000	8,699,264	8,095,000
Bonds	5,531,062	5,411,000	6,682,067	6,935,000
Equities	4,617,884	5,026,000	1,536,973	1,778,000
	15,838,340	15,727,000	16,918,304	16,808,000
Current liabilities	14,894,338	14,894,000	16,871,171	16,871,000

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 realizable 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% (2004 - 51%) 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.

The Company holds a mutual fund whose policy is to invest in a diverse range of top performing offshore equity mutual funds and indexed products. At 31st March 2005, the fair value of this fund was $458,571 (2004 - $852,894) less than the carrying value. The Company has reviewed the fund for the purposes of assessing any permanent impairment in the value. Given the diverse holdings of the fund and absence of significant identifiable exposure to individual company equity positions, the Company has concluded that the fair value of the fund is likely to increase as general equity market conditions improve, as it has in the years ended 31st March 2005 and 31st March 2004. As a consequence, the Company believes that no permanent impairment should be recorded at 31st March 2005. The Company will continue to monitor closely the mutual fund's performance in the light of general equity market conditions.

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

19. Comparative figures

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

20. Subsequent events

In April 2005 the Company sold its investment in PacketExchange realizing a gain equal to the net sale proceeds received of $1,735,275.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Chairman

James A.C. King, M.D., F.R.C.S. (C.), F.A.C.S.
Chairman,
The Bank of N.T. Butterfield & Son Ltd.
Chairman,
Argus Insurance Company Limited.
Director since 1979

Deputy Chairman

Mr. Roderick A. Ferguson III, MBA, J.P.
Chairman,
Gorham's Limited.
Director,
The Bank of N.T. Butterfield & Son Ltd.
Chairman,
Purvis Ltd.
Director since 1988

Mrs. Jeanne J. Atherden, C.A., J.P.
Head of Premises and Corporate Management,
The Bank of Bermuda Limited.
Director since 1988

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

Mr. Peter C. Durhager
Senior Vice President,
RenaissanceRe Holdings Ltd.
Director since 2000

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 since 2004

Mr. S. Sean Tucker, LL.B.
Attorney,
King & Associates,
Barristers and 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 EXECUTIVE MANAGEMENT

Mrs. Sheila G. Manderson
Chief Executive Officer,
Director,
The Bank of N.T. Butterfield & Son Ltd.

Mrs. Sheila A. Lines
Chief Financial Officer

Common Shares held by Directors – 341,282.
Common shares held by KeyTech Executive Management – 14,193.
No rights to subscribe to shares or notes in the Company have been granted to, or exercised by, any Director, Officer or member of KeyTech Executive Management.

There are no service contracts in existence for Directors.

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.

After the end of the financial year the Company sold its interest in PacketExchange (Ireland) Limited ("PEIRL") to an unrelated third party for net proceeds of $1,735,275. Simultaneously the same unrelated third party purchased equity interests from other shareholders unrelated to the Company, and who subsequent to the sale had no continuing interest in PEIRL, for $1,825,785 and subscribed $2,119,000 for additional equity in PEIRL. At the time of the transaction Mr. Colin V. K. Williams controlled 10.8% of the equity of PEIRL. As provided in the Company's bye-laws Mr. Colin V.K. Williams did not vote as a Director of the Company on this transaction.

KEYTECH LIMITED

P.O. Box HM 1021, Hamilton HM DX, Bermuda, tel: 441-295-5009, fax: 441-292-4984
www.keytech.bm

PRINCIPAL SUBSIDIARIES

The Bermuda Telephone Company Limited
30 Victoria Street, P.O. Box HM 1021, Hamilton HM DX, Bermuda
www.btc.bm

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

Mobility Ltd.
30 Victoria Street, P.O. Box HM 1021, Hamilton HM DX, Bermuda
www.mobilityltd.bm

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

Photography: **V. Stephen Raynor** Design and Production: **RBK Advertising Ltd.** Printing: **Island Press**