ANNUAL REPORT 2008

WestTel

BERMUDA TELEPHONE DIRECTORY

m3 wireless

Logic

BTC

KeyTech LIMITED

Contents

KeyTech LIMITED

Chairman's Report

On behalf of your Board of Directors, I am pleased to report that the KeyTech Group of Companies concluded fiscal year 2007/08 with a net income of $14.6 million compared to $9.2 million for fiscal year 2006/07. This increase is to due to the growth in data, cellular and fixed wireless group revenues coupled with the effective management of our group operating costs. Total cash dividend payments for the year were $0.60 per common share, and we declared a one for ten stock dividend effective July 2008.

In 2007/08, we continued the strategies of the prior year, namely: ensuring quality customer service, enhancing data services to offset declining local voice revenue, investing in wireless and wire line technologies to provide new and more competitive products and services, and diversifying our portfolio to realize additional growth via our position in the Cayman market.

Access to international bandwidth is critical to our success. Therefore, we are delighted that the consortium we formed with other local Bermuda carriers was successful in acquiring a Class A license in December 2007 to build and operate a submarine cable system linking Bermuda to the US. Since then, we have made good progress in further planning and constructing the cable system, which we expect to be in service in our 2008/09 year. We have also continued to invest in our local wire line and wireless networks to ensure that both our international and local infrastructure is up to the demands of our customers.

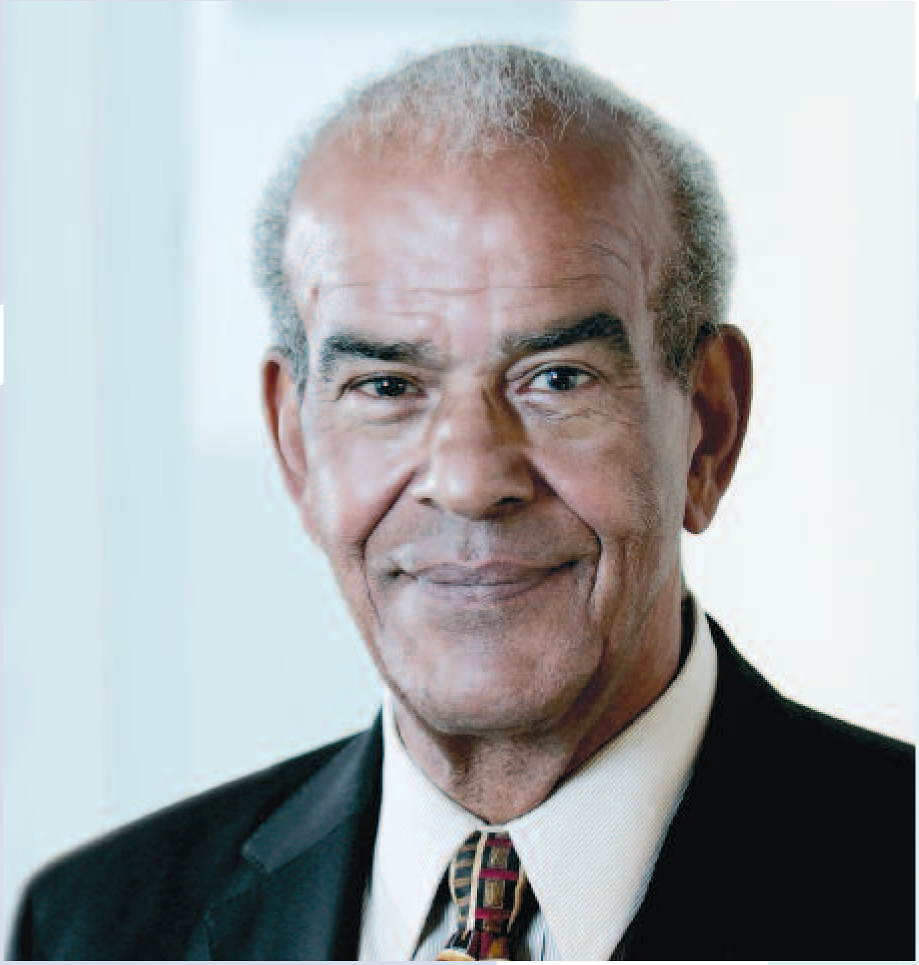
When I last reported to you, government regulation was a key theme of my comments due to the pending telecommunications regulatory reforms in Bermuda. The industry has recently been informed that the policy for regulatory reform has been approved by Cabinet and we anticipate that the regulatory reform process will therefore pick up speed in our fiscal year 2008/09.

We support many of the government's initiatives to reform the telecommunications regulatory regime in Bermuda, for example the elimination of the "alphabet" licensing of A, B, and C carriers. We look forward to engaging in positive and constructive dialogue with the Bermuda Government and our industry partners on the details of regulatory reform. We believe Bermuda enjoys a wealth of healthy and well-established competitors and that service providers within the telecommunications industry should be allowed to compete in all markets on a level playing field. KeyTech is committed to this industry and continues to invest aggressively.

2007/08 was a successful year for KeyTech both financially and strategically, and on behalf of the Board I would thank all the staff for their hard work in achieving these results. Board membership has remained stable again this past year, and I would also like to take this opportunity to thank the Directors for their time and attention to the affairs of the Company.

James A.C. King

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



Chief Executive Officer's Report

OUR RESULTS

This past year, we continued to execute our long-term strategies increasing returns for shareholders and strengthening our strategic position. For the year ending March 31, 2008 KeyTech's net income was $14.6 million, up from $9.2 million in the prior year.

Total revenues for 2007/08 increased 3% to $108 million due to growth in data, cellular and fixed wireless revenues which offset declines in our fixed line local voice revenue. Although diminishing fixed line local voice revenue is consistent with global industry trends, our diversified service offerings allow us to continue to grow revenue from rising business and residential customer demands for data and wireless services.

Total operating expenses for 2007/08, excluding amortization expenses, were $0.6 million lower than the prior year due to carefully considered expense management and despite increased maintenance costs, owing to escalating fuel prices, and a rise in employees' and retirees' health claims. Once again, we were fortunate in that we did not suffer significant windstorm or hurricane damage to our plant and facilities. Amortization expense decreased $1.3 million from fiscal year 2006/07 largely resulting from the full depreciation of certain BTC capital assets.

I am pleased to report that operational investments which reduced net income in 2006/07 – the launch of M3 Wireless's easyConnect™ service and the preparatory work for a new submarine cable to Bermuda – have delivered results in 2007/08. In July 2006, we introduced M3 Wireless's easyConnect™ service, a wireless broadband capability that competes with BTC's DSL, CableVision's cable broadband, North Rock's fixed wireless and CellularOne's Bull service, providing subscribers connectivity anywhere on the island. During 2007/08, we increased easyConnect™ revenue to $1.2 million, or 300% over the prior year. M3 Wireless's success in attracting wireless broadband customers suggests that there exists an increasing demand for wireless broadband that we are well positioned to meet.

In December 2007 together with our consortium partners Transact Limited and North Rock Communications Ltd., we were successful in our bid before the Ministry of Environment, Telecommunications and E-Commerce to acquire a Class A license. The license allows the consortium to build and operate a new submarine cable between Bermuda and the United States. This project is well underway. We completed the 1400 kilometer trans-Atlantic marine survey in May, and the consortium engaged BTC to build and manage the Bermuda landing station and the on-island distribution network. Construction of the Bermuda elements of the cable system have begun and the cable laying ship began work off the East Coast of the United States in mid June. We anticipate the cable system will be completed at a total construction cost of approximately $26 million and service launched during our 2008/09 fiscal year.

The consortium will provide high capacity services as a "carrier's carrier" at equal and non-discriminatory terms to all customers, whether investors or not. It will expand customer choice in international services, provide more competitive pricing and ensure redundancy and resiliency for end users' key communications. It will enable local carriers to skip the middle-man in procuring international facilities, thus making high speed global connectivity much more affordable for Bermuda's residents and businesses. Because it is a consortium of Bermuda-based companies committed to fair and open dealing with all carriers, we hope to encourage our carrier colleagues to choose the system for their wholesale bandwidth needs.

OUR OPERATIONS

We believe that providing exceptional customer service in all our geographies and across all our businesses is fundamental to retaining our customers, growing our market share and increasing our revenue. We serve the Bermuda and Cayman markets, both of which are comprised of sophisticated residential and business customers who demand superior customer care. Providing service that greatly exceeds, "good enough" is, therefore, an important and secure strategy for the Company and its shareholders.

In 2007/08 we undertook in-depth customer satisfaction research to better understand what our business and residential customers expect from our companies and to measure how well we are performing against those expectations. Although our results show customer satisfaction levels on par with those reported for the largest telecommunications companies in North America, our objective is to better our performance year over year. With that in mind, each of our operating companies will develop and execute action plans in 2008/09 to improve customer satisfaction in areas where we are falling short and we plan to measure our progress in improving our customers' experiences via annual customer satisfaction research.

During 2007/08, BTC shortened its repair and installation target windows once again with the aim of ensuring that all customers receive repair and installation services within two days. BTC consistently hit its residential targets during the year, and we congratulate its residential team for a job well done. Although BTC has found serving business customers to the same consistent level as its residential customers challenging, BTC's business installation times improved significantly in the last quarter of the year due to management focus and process re-engineering.

While customer service is fundamental, technological innovation is also essential in maintaining market leadership in telecommunications. During the past year, we developed plans to migrate BTC's circuit-based voice network to a packet-based (or Internet protocol) next generation network platform. The first phase of the implementation is underway and we are targeting our commercial product launch for the fourth quarter of 2008/09.

Investment in wireless and mobile services is critical to the competitive positioning of the Company. To meet mobile customer demands and keep pace with global technology, M3 Wireless intends to complete its deployment of a WCDMA/3G network technology this summer. This third generation (3G) network will offer mobile customers higher data speeds and enhanced roaming capabilities. The new network will interoperate with our existing 2G network, providing additional network resiliency.

WestTel, our Cayman subsidiary, completed the expansion of its fixed wireless network this past year while planning its rollout of a next generation network platform in 2008/09. WestTel continues to improve the quality of service for its customers by expanding both its network capabilities and its product offerings.

Over the past year we also turned our attention to our marketing capabilities with an eye toward becoming truly "marketing led", embracing a new marketing paradigm to ensure that our companies have the tools and technologies to be top notch competitors. For us, to be "marketing led" means that marketing (discovering and understanding customer needs) drives each of our companies' business strategies. We have trained all our managers in this philosophy and we have implemented a disciplined approach to developing strategic marketing plans.

The Bermuda Telephone Company Limited (BTC) Report

From left:

Francis R. Mussenden
President & CEO

Edgar F. Dill
Chief Operating Officer

Paul R. Barnes
V.P. Networks & Planning

Nigel D. Burgess
V.P. Field Operations

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



The ambitious overhaul in customer service and infrastructure development that BTC initiated in 2002 is now fully ingrained in BTC's culture. Customer satisfaction with BTC's installation and repair services was so positive in 2006/07 that BTC launched a series of advertisements during the summer of 2007 to share the news about the professional, responsive and quality service BTC's "installation and repair" customers reported receiving. The campaign showcased real customers pleasantly surprised by the new BTC.

In addition to service improvements, BTC continues to enhance its data capabilities by once again increasing residential and business DSL speeds (to 4 and 6 Megabytes per second) at no additional cost to customers. For business customers, BTC is promoting its Ethernet-based data service, its fastest growing product offer. At the same time, BTC is fully absorbed in executing plans to transition its network to an Internet protocol based next generation network platform as noted earlier in this report.

BTC is also in the process of replacing its multiple back office systems with a state-of-the-art billing and operational support system, scheduled to be completed later this year. BTC's new system will handle service provisioning, billing, and customer support as an integrated system, enabling us to manage our customer data holistically and to streamline our internal processes.

July 2007 marked the 120th anniversary of BTC's founding by a group of Bermudian entrepreneurs in July 1887. To celebrate BTC's long and proud history, we hosted a series of anniversary events, during which we had the great pleasure in welcoming back many familiar friends and colleagues among our retirees.

Logic Communications Ltd. Report

From left:

Alan Richardson
Chief Executive Officer

Wayne Scott
Chief Technical Officer

Joe Addison
V.P. Professional Services

Garnet Jackson
V.P. Business Development & Marketing

Jimmy Lim
V.P. Network Operations

Logic delivered improved performance in the current fiscal year due to increases in data revenues coupled with reduced maintenance expenses. Logic's recently launched multi-protocol label switching (MPLS) service, the technology of choice for most companies that need to communicate between multiple offices, has proven successful with customers. It provides cost effective wide-area-networking solutions for businesses and enables meshed networks which support any-to-any communications between numerous sites as compared to more traditional data services.

Among residential customers, Logic grew Internet revenue as consumers migrated to higher speed broadband services. Although long distance voice revenues have been under pressure around the world as customers increasingly use wireless and computer based voice over Internet protocol services, Logic was able to sustain its revenue base and continues to maintain a significant share of Bermuda's outbound long distance voice services market.

During the past year, Logic reduced maintenance expenses by reconfiguring its local network and by negotiating better contracts with upstream providers in the United States. In March 2008, Logic invested in additional international capacity to meet immediate customer demand, particularly residential demand for Internet services. With the completion of the new submarine cable, this capacity will be used to provide multiple physical paths and carrier redundancy for its customers.

M3 Wireless Ltd. Report

From left:

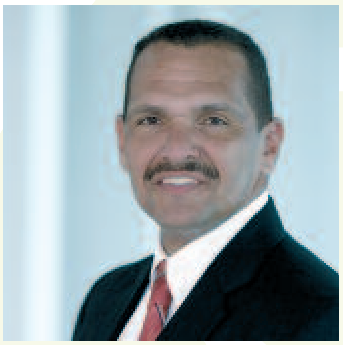
Lloyd Fray
Chief Executive Officer

Karen Pyo
V.P. Marketing
& Product Development

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

Stuart Brash
V.P. Corporate Development

Michael Beckles
V.P. Network Operations



Overall, M3 Wireless revenues increased 17% in fiscal year 2007/08, more than double its 7% increase in the prior year. M3 Wireless's success resulted from sales of corporate BlackBerry™ service, mobile data, and easyConnect™ services. Cellular subscribers grew 6% with the largest growth coming from the corporate sector. As noted earlier in this report, easyConnect™'s fixed wireless revenue grew substantially versus the prior year to $1.2 million from $0.4 million.

In 2007/08, M3 Wireless targeted mobile cellular data services for growth, launching new data plans that attracted customers and increased data revenue. M3 Wireless continued to build a strong competitive position in the corporate BlackBerry™ market this year, signing as customers, many important international and local businesses including the Bermuda Hotel Association and its member hotels. To broaden residential awareness and use of BlackBerry™ services, M3 continued to hold BlackBerry™ seminars to capacity houses at its Burnaby Street location.

M3 Wireless's 2007/08 domestic and international roaming revenues remain at the high levels achieved in 2006/07 with roaming contracts established with wireless voice providers in over 114 countries and with mobile data providers in 76 countries.

BERMUDA
TELEPHONE
DIRECTORY

Bermuda Yellow Pages Ltd. Report

From left:

Gary Taylor
Management Consultant

Anthony Richardson
Operations Manager

Wendy Morris
Senior Administrator

Antoinette Richardson
Sales Team Leader

Bermuda Yellow Pages (BYP) performed extremely well during 2007/08 with growth in both revenue and net income. BYP's customers are largely small and medium sized local businesses and the directory links interested consumers to these businesses. Aware of the meaningful and vital nature of this flow of information, BYP continually creates ways to enhance the value of its directories for Bermuda's businesses.

This year BYP invested significant time and money in its website – www.bermudayp.com – to ensure that the site is fully interactive and not simply a print directory published online. BYP's website offers local search capabilities, enables advertisers to post video online and provides location/mapping capabilities. We are confident that BYP's advances in its online search capabilities are an engine for future revenue growth.

WestTel Limited Report

From left:

Mike Edenholm
Chief Executive Officer

Graham Baxter
Manager, Professional Services

Calvin Morton
V.P. Sales

Lewie Hydes
V.P. Networks

Graham Redman
Financial Controller

Cayman is a highly competitive market where WestTel is a relative newcomer and an aggressive competitor. In 2007/08, WestTel's revenue grew 27% over the prior year – the fastest rate of revenue growth in the group.

Although Digicel entered the fixed wireless market in Cayman in late 2007, WestTel continued to attract customers with its price and service quality, increasing its residential broadband subscribers. In September 2007, WestTel launched residential voice services with a 6% voice penetration among its broadband customers by year end. We anticipate that continued promotion of its voice service coupled with new product introductions will increase take-up further in the coming year. Corporate voice and data revenues are also on a steady path upwards.

The expansion of WestTel's fixed wireless network in 2007/08 addressed the capacity, congestion and customer service issues that had plagued the company in the prior year, thus contributing to its successful revenue growth in 2007/08 and positioning it well going forward. WestTel's tower expansion program also increased maintenance and amortization expenses resulting in only marginal improvements in its bottom line over 2006/07. However it has improved both service quality and created additional network capacity to support future revenue growth. The operating loss before amortization expense, interest expense and management fees due to KeyTech was $760 thousand for the year. We are confident that as WestTel continues to grow its revenue its bottom line results will improve as well.

Affiliates

Bermuda CableVision experienced strong growth in revenue and cash flow in 2007/08 with its digital entertainment service offering. The company continues to expand its services to leverage its infrastructure investment and to attract additional revenue. Bermuda CableVision achieved significant growth in its residential high speed data service launched in the prior year.

QuoVadis secured a significant investment from a US-based private equity firm in 2007/08. The investment enables QuoVadis, with operations in Switzerland, the United Kingdom, and Bermuda, to increase its overseas sales presence and to accelerate the international rollout of its digital certificate and electronic signature products. We supported QuoVadis management's decision to seek additional funding for international growth, and we continue to hold an affiliate interest in QuoVadis after the funding transaction. 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

We believe the KeyTech Group of Companies has a responsibility to contribute to the communities in which we do business, and we consider it a privilege to do so. Our charitable contributions are distributed broadly from arts and athletics to education and elder care. During 2007/08, in addition to many other deserving causes, we supported the Bermuda End to End, Bermuda International Film Festival, Masterworks Foundation, The Family Centre, Age Concern, and the Ross Blackie Talbot Golf Charity Classic in Bermuda. In Cayman, we contributed to the Cayman Islands Red Cross and sponsored the Young Caymanian Leaders Award.

Our Outlook For 2008/09

Next year will be a busy one for us. BTC will roll out its next generation network as well as implement its new billing, operational support and services system while M3 Wireless finishes construction of its WCDMA/3G cellular network. Together with our consortium partners, we will complete the US–Bermuda submarine cable system. Against this backdrop of network and technological development we will continue our drive to be customer centric and marketing led. Our goal is to provide exceptional customer care together with the innovative products and services that our customers demand.

At the heart of our endeavors and our aspirations are our people. We are committed to operating our businesses within a fair and equitable, highly engaged, performance-based culture that offers rewarding careers to our employees. We seek to work as a team because we believe we can achieve more success through teamwork than through individual, solo efforts. We have a wealth of talent in the KeyTech Group of Companies. Our goal is to retain, engage, and develop that talent for the benefit of our employees as well as our customers and shareholders.

Sheila Lines

Sheila Lines
Chief Executive Officer

Five Year Financial and Statistical Summary

As at 31st March 2008

	2008	2007	2006	2005	2004
Revenue & Expense Items ($000'S)					
Operating revenues	**108,478**	105,383	98,899	97,292	93,845
Total expenses excluding amortisation	**76,414**	77,015	67,669	68,233	63,071
Amortisation	**19,063**	20,351	18,575	21,983	19,332
Net earnings	**14,596**	9,170	11,677	10,053	10,430
Cash dividends declared on Common shares	**7,944**	7,771	7,222	6,735	6,341
Balance sheet items ($000's, except number of shares)					
Total assets	**174,886**	161,904	159,068	155,073	153,687
Shareholders' equity	**145,054**	136,431	136,280	131,825	128,507
Number of common shares	**13,240**	13,240	12,037	12,037	10,943
Per common share ($'s)					
Net Earnings – Basic	**1.102**	0.693	0.882	0.759	0.785
Cash dividend	**0.600**	0.600	0.600	0.600	0.590
Net assets – Basic	**10.96**	10.30	10.29	9.95	10.06
Items of interest					
Capital expenditures ($000's)	**24,849**	20,960	16,675	16,171	18,831
Number of employees (full-time)	**433**	422	408	423	454

Auditors' Report

25th June 2008

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

To the Shareholders of KeyTech Limited

We have audited the consolidated balance sheet of KeyTech Limited as at 31st March 2008 and the consolidated statements of earnings, retained earnings, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31st March 2008 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 2008

	Notes	2008	2007
Assets			
Current assets			
Cash and cash equivalents	16	$ 25,656,438	$ 23,057,112
Accounts receivable	16	9,519,677	8,656,521
Merchandise, materials and supplies		4,530,613	4,002,762
Prepaid expenses and other assets		5,971,717	3,460,921
Total current assets		45,678,445	39,177,316
Marketable securities	16	13,777,330	13,994,663
Investments	5	9,106,559	9,367,755
Capital assets, net	6	96,445,734	89,939,302
Intangible assets, net	7	5,625,511	5,178,173
Goodwill	8	3,701,460	3,637,615
Deferred pension asset	9	551,000	609,000
Total assets		$ 174,886,039	$ 161,903,824
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	18	$ 16,779,504	$ 11,404,794
Long-term debt redemption amounts unclaimed	10	579,546	596,496
Preferred share redemption amounts unclaimed	11	1,198,128	1,270,258
Dividends payable		1,986,025	1,986,025
Deferred income		1,362,420	1,444,645
Liability on acquisition of intangible assets	7	—	312,500
Total current liabilities	16	21,905,623	17,014,718
Deferred investment gain	5	995,683	1,244,605
Accrued post-retirement medical benefits	9	6,931,210	7,213,210
Total liabilities		29,832,516	25,472,533
Shareholders' equity			
Share capital	11	3,310,042	3,310,042
Share premium	11	64,289,664	64,289,664
Contributed surplus		20,920,454	20,920,454
Retained earnings	18	54,562,989	47,911,131
Accumulated other comprehensive income		1,970,374	—
Total shareholders' equity		145,053,523	136,431,291
Total liabilities and shareholders' equity		$ 174,886,039	$ 161,903,824

Approved by the Board of Directors James de King Director Leanne Allred Director

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

Consolidated Statement of Earnings

For the year ended 31st March 2008

	Notes	2008	2007
Revenues and other income			
Wireline revenues		$ 55,702,662	$ 56,694,548
Wireless revenues		24,513,619	20,605,779
International long distance and network revenues		13,251,383	11,947,053
Other revenues		15,010,250	16,135,560
Total operating revenues	4	$ 108,477,914	$ 105,382,940
Expenses			
Salaries and employee benefit expenses	3,18	42,651,562	39,349,616
Maintenance expenses		16,537,443	16,096,175
General and administration expenses		13,198,906	17,699,944
Government taxes, fees and levies		4,025,613	3,868,972
Amortization	5, 6, 7, 8	19,063,051	20,351,423
Total expenses		95,476,575	97,366,130
Net income before undernoted items		13,001,339	8,016,810
Equity in earnings of affiliates	5	487,726	29,544
Investment income and realized gains		1,101,048	739,841
Other expense	12	(58,000)	(58,000)
Non-controlling interests		63,846	441,789
Net income		$ 14,595,959	$ 9,169,984
Earnings per common share, basic and fully diluted	13	$ 1.102	$ 0.693

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

Consolidated Statement of Retained Earnings

For the year ended 31st March 2008

		2008		2007
Retained earnings – Beginning of year	$	47,911,131	$	65,162,045
Net income		14,595,959		9,169,984
		62,507,090		74,332,029
Dividends declared				
Cash		(7,944,101)		(7,771,081)
Shares		—		(18,649,817)
		(7,944,101)		(26,420,898)
Retained earnings – End of year	$	54,562,989	$	47,911,131

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

Consolidated Statement of Accumulated Other Comprehensive Income

For the year ended 31st March 2008

		2008
Accumulated other comprehensive income – Beginning of year	$	—
Unrealized appreciation on marketable securities – Beginning of year	$	3,004,075
Adjusted other comprehensive income – Beginning of year	$	3,004,075
Appreciation on investments during the year		
Depreciation on investments		(549,440)
Realized appreciation on investments		(484,261)
Accumulated other comprehensive income		(1,033,701)
Accumulated other comprehensive income – End of year	$	1,970,374

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

KeyTech LIMITED

Consolidated Statement of Cash Flows

For the year ended 31st March 2008

		2008		2007
Cash flows from operating activities				
Net income for year	$	14,595,959	$	9,169,984
Items not affecting cash				
Amortization		19,063,051		20,351,423
Net realized gain on marketable securities		(627,662)		(384,151)
Equity in earnings of affiliates		(487,726)		(29,544)
Post-retirement benefits expense in excess of amounts (paid) received		(224,000)		287,790
Non-controlling interests		(63,846)		(441,789)
		32,255,776		28,953,713
Decrease in non-cash working capital		1,078,183		1,375,657
Cash provided by operating activities		33,333,959		30,329,370
Cash flows from investing activities				
Investments, net		500,000		(500,000)
Equity contribution from non-controlling interest		—		530,154
Acquisition of cash of subsidiary		—		182,797
Sale of marketable securities, net		2,815,369		2,155,105
Acquisition of capital assets		(24,849,063)		(20,959,977)
Acquisition of intangible assets		(1,167,758)		—
Cash used for investing activities		(22,701,452)		(18,591,921)
Cash flows from financing activities				
Redemption of notes payable		(16,950)		(5,364)
Cash paid on share dividend		—		(7,462)
Redemption of preferred shares		(72,130)		(29,535)
Dividends paid on common shares		(7,944,101)		(7,609,559)
Cash used for financing activities		(8,033,181)		(7,651,920)
Increase in cash and cash equivalents		2,599,326		4,085,529
Cash and cash equivalents – Beginning of year		23,057,112		18,971,583
Cash and cash equivalents – End of year	$	25,656,438	$	23,057,112

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

Notes to Consolidated Financial Statements

31st March 2008

1. The Company

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

2. Summary of significant accounting policies

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

(a) Consolidation

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

During the year ended 31st March 2007 the Company subscribed for additional shares in WestTel increasing the Company's proportionate interest to 67% at 31st March 2007. The Company and the other shareholders of WestTel entered into an agreement under which other shareholders of WestTel have the option in the year 2012 to purchase from the Company, at the higher of the original subscription price and an agreed market valuation, sufficient shares in WestTel to reduce the Company's proportionate shareholding to 50%. Under the agreement, unless and until the option is exercised and all indebtedness to the Company is retired, the Company has the right to appoint the majority of the WestTel Board of Directors. WestTel is consolidated as a subsidiary of the Company in these consolidated financial statements as at 31st March 2008 and 31st March 2007.

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

(b) Use of estimates

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

(c) Capital assets

Capital assets purchased, 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.

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

(d) Investments

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.

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(e) Marketable securities

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

Effective 1st April 2007 the Company adopted the Canadian Institute of Chartered Accountants Standards Board Section 3855 Financial Instruments – Recognition and Measurement ("CICA 3855"); Section 3865 Hedges and Section 1530 Comprehensive Income. In applying CICA 3855 the Company determined that its portfolio of marketable securities is held on an available-for-sale basis. In accordance with CICA 3855 the portfolio of marketable securities is recorded at fair value in these financial statements. The fair value of marketable securities is determined by reference to their quoted market prices. The unrealized gain 1st April 2007 is recorded as an adjustment to the opening balance of accumulated other comprehensive income. Movements in the unrealized gains on the portfolio of marketable securities during the current year are recorded as changes in other comprehensive income for the period. Prior to the application of CICA 3855 the Company's portfolio of marketable securities was recorded on a cost basis.

(f) Deferred costs

Costs incurred directly relating to the publication of the annual directory are deferred and recognized in income at the date of publication. Deferred production costs of $1,826,391 (2007 – $1,852,211) are included in prepaid expenses and other assets in the balance sheet.

(g) Deferred income

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

(h) Merchandise, materials and supplies

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

(i) Goodwill and other intangible assets

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

(j) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Bermuda dollars at rates of exchange prevailing at the balance sheet date. 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 9, some of the Company's subsidiaries maintain defined contribution pension plans for their employees. In addition, the Company has a residual non-contributory defined benefit pension plan and offers post-retirement medical benefits for the benefit of employees and retirees of certain of its subsidiaries. The cost to provide pension benefits under the defined benefit pension plan and post-retirement medical benefits is accrued and charged to earnings so as to reflect the manner in which the service giving rise to the benefits is rendered. The cost of providing benefits under the defined contribution plans is charged to earnings in the year.

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

(l) Earnings per share

Earnings per share is calculated based on the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated on the weighted average number of shares outstanding during the year combined with the weighted average number of shares that would have been issued during the year had all existing dilutive conversion rights been exercised. There existed no dilutive conversion rights in the years ended 31st March 2008 and 31st March 2007.

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

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

(o) Revenue recognition
The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and 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 recognized when services are provided. This is based upon either usage (e.g. minutes of traffic processed), period of time (e.g. monthly service fees) or other established fee schedules.

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

Revenues relating to unused minutes on cellular phone plans are deferred until they are utilized or expire, at which point they are taken into income.

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

3. Expenses

In the prior year, BTC 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 prior year.

4. Segmented information

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

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

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

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

BYP – provides printed and on-line directory services.

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

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Segment Information

	BTC	M3	Logic	BYP	WestTel	Total
Year ended 31st March 2008						
Revenues from external customers	$ 60,905,004	$ 17,880,036	$ 17,167,456	$ 5,643,604	$ 6,759,355	$ 108,355,455
Revenues from internal customers	3,191,715	567,059	288,263	219,604	—	4,266,641
Amortization	10,893,506	4,953,224	998,430	58,113	1,912,330	18,815,603
Operating expenses	39,728,288	12,114,235	14,696,421	3,683,053	7,870,461	78,092,458
Interest expense	614,555	444,360	—	—	380,447	1,439,362
Segment income (loss)	12,860,370	935,276	1,760,868	2,122,042	(3,403,883)	14,274,673
Segment assets	89,236,153	21,981,055	12,098,282	3,519,864	6,670,139	133,505,493

	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
Amortization	12,959,341	3,402,110	1,362,787	68,718	2,302,252	20,095,208
Operating expenses	40,588,380	11,892,814	15,145,891	3,692,881	6,121,929	77,441,895
Interest expense	710,430	444,360	—	—	395,122	1,549,912
Segment income (loss)	10,800,056	(47,776)	414,208	1,855,495	(3,484,853)	9,537,130
Segment assets	83,418,114	23,612,492	10,072,990	4,808,899	9,383,608	131,296,103

Revenues by service

	2008	2007
Wireline services	$ 53,062,939	$ 54,245,943
International long distance and network services	13,251,383	11,947,053
Cellular services	16,495,705	14,762,885
Fixed wireless services	8,017,914	5,842,894
International interconnection fees	2,639,723	2,448,605
Hardware and software sales and rental	4,075,183	4,387,132
Directory services	5,629,871	5,378,657
Consulting services	3,610,663	4,063,183
Other services	1,694,533	2,306,588
	$ 108,477,914	$ 105,382,940

Hardware and software sales and rental revenues are shown net of the related cost of goods sold. Amortization of assets rented is included in amortization expense in the statement of earnings. Cost of goods sold for the current year were $4,045,118 (2007 – $3,855,986).

Reconciliations

	2008	2007
Revenues from external customers		
Total segment revenues from external customers	$ 108,355,455	$ 104,950,399
Non-segment other revenue	122,459	432,541
	$ 108,477,914	$ 105,382,940

	2008	2007
Amortization		
Total segment amortization	$ 18,815,603	$ 20,095,208
Non-segment amortization	247,448	256,215
	$ 19,063,051	$ 20,351,423

	2008	2007
Operating expenses		
Total segment operating expenses	$ 78,092,458	$ 77,441,895
Non-segment operating expenses	2,832,714	3,924,244
Elimination of inter-company amounts	(4,511,648)	(4,351,432)
	$ 76,413,524	$ 77,014,707

	2008	2007
Interest expense		
Total segment interest expense	$ 1,439,362	$ 1,549,912
Elimination of inter-company amounts	(1,439,362)	(1,549,912)
	$ —	$ —

	2008	2007
Net income		
Total income for reportable segments	$ 14,274,673	$ 9,537,130
Non-segment other income	2,662,867	2,977,016
Equity earnings in affiliates	487,726	29,544
Non-segment administrative expenses	(2,928,861)	(3,497,057)
Non-segment amortization	(247,448)	(256,215)
Elimination of inter-company amounts	283,156	(62,223)
Non-controlling interest	63,846	441,789
	$ 14,595,959	$ 9,169,984

	2008	2007
Total assets		
Total assets for reportable segments	$ 133,505,493	$ 131,296,103
Goodwill	3,701,460	3,637,615
Non-segment assets	61,867,418	46,558,781
Elimination of inter-company amounts	(24,188,332)	(19,588,675)
	$ 174,886,039	$ 161,903,824

5. Investments

	2008	2007
Investment in CableVision Holdings Ltd.		
Promissory notes and accrued interest thereon	$ 8,385,119	$ 7,929,119
Interest in equity	(1,618,659)	(2,316,791)
	6,766,460	5,612,328
Investment in QuoVadis Holdings Ltd.		
Loan and accrued interest thereon	574,891	1,046,781
Interest in equity	1,765,208	2,708,646
	2,340,099	3,755,427
	$ 9,106,559	$ 9,367,755

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 in earnings of affiliates in the statement of earnings. The above transaction resulted in a gain of $3,697,862, net of restructuring expenses, which was deferred and was being amortized into income over a period of seven years. The period of amortization of the deferred gain was adjusted to ten years from 1st April 2002 to reflect the Company's estimate of the useful life of the underlying intangible assets acquired on restructuring. The amortization of the deferred gain is included as a component of equity in earnings of affiliates in the statement of earnings.

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

QuoVadis Holdings Limited

During the year ended 31st March 2005, the Company purchased a 20% equity interest in QuoVadis Holdings Limited ("QuoVadis"), a company registered in Bermuda, for $1,009,513. QuoVadis is a provider of managed security services. The Company is amortizing 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 was advanced under this facility and the loan facility was 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. Amortization of the intangible assets acquired and interest on the loan are included as a component of equity in earnings of affiliates in the statement of earnings. During the year ended 31st March 2008 a private equity firm based in the United States invested $7,500,000 in convertible preference shares issued by QuoVadis. Of the investment proceeds $500,000 was used to repay a portion of the loan from KeyTech. Should the preference shares be converted to equity the Company's proportionate equity interest in QuoVadis will reduce to 24%.

6. Capital assets

	Range of amortization rates	2008	2007
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		41,642,717	39,221,907
Buildings leased under capital lease		831,398	831,398
Plant and facilities		231,112,624	218,896,233
Machinery and equipment		38,786,955	35,086,290
Total		317,126,136	298,788,270
Less: Accumulated amortization			
Buildings and fixtures	2% – 10%	23,757,533	21,658,819
Buildings leased under capital lease	2%	74,841	58,209
Plant and facilities	6% – 25%	180,274,647	168,288,110
Machinery and equipment	20% – 33%	31,078,724	27,857,134
		235,185,745	217,862,272
Net capital assets in service		81,940,391	80,925,998
Plant under construction		14,505,343	9,013,304
Capital assets, net		$ 96,445,734	$ 89,939,302

Amortization on capital assets for the current year was $18,342,631 (2007 – $19,524,801).

Included in plant under construction is $3,124,870 relating to the building of a submarine cable.

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7. Intangible assets

	Amortization rates	2008	2007
Intangible assets, at cost			
Leased telecommunications capacity		$ 11,282,521	$ 10,114,763
Other intangibles		904,409	2,394,235
Total		12,186,930	12,508,998
Less: Accumulated amortization			
Leased telecommunications capacity	7%	6,211,825	5,649,122
Other intangibles	7% – 33%	349,594	1,681,703
		6,561,419	7,330,825
Intangible assets, net		$ 5,625,511	$ 5,178,173

Amortization on intangible assets for the current year was $720,420 (2007 – $826,622).

8. Goodwill

The goodwill arising on the Logic acquisition in 1998 and the acquisition of a majority interest in WestTel is evaluated for potential impairment on an annual basis using estimates of future net cash flows. The unamortized goodwill of $3,701,460 (2007 – $3,637,615) did not require an impairment provision in the fiscal years ended 31st March 2008 and 2007.

9. Pensions and post-retirement medical benefits

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

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

Subsidiaries of the Company offer post-retirement medical benefits for 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	
	2008	2007	2008	2007
Accrued benefit obligation				
Balance – Beginning of year	$ (51,622,000)	$ (50,894,000)	$ (7,410,210)	$ (6,710,210)
Current service cost	—	—	(212,000)	(203,000)
Interest cost	(2,973,000)	(2,940,000)	(405,000)	(394,000)
Net actuarial loss on plan liability	—	(1,583,000)	(347,000)	(470,000)
Benefits paid, net	4,148,000	3,795,000	899,000	367,000
Balance – End of year	(50,447,000)	(51,622,000)	(7,475,210)	(7,410,210)
Plan assets				
Fair value – Beginning of year	$ 99,837,000	$ 87,592,000	$ —	$ —
Actual return on plan assets	(693,000)	16,040,000	—	—
Benefits paid, net	(4,148,000)	(3,795,000)	—	—
Fair value – End of year	$ 94,996,000	$ 99,837,000	$ —	$ —
Defined benefit pension plan assets consist of:				
Equity securities	70%	73%		
Debt securities	24%	21%		
Other	6%	6%		
	100%	100%		

On 31st March 2008 10% (2007 – 11%) of plan assets were invested in common shares of the Company.

	Defined benefit pension plan		Post-retirement medical benefits	
	2008	2007	2008	2007
Status of plan				
Funded status – plan surplus (deficit)	$ 44,549,000	$ 48,215,000	$ (7,475,210)	$ (7,410,210)
Unamortized net actuarial loss on plan liability	—	—	544,000	197,000
Unamortized past service cost	551,000	609,000	—	—
Valuation allowance against accrued benefit asset	(44,549,000)	(48,215,000)	—	—
Accrued benefit asset (liability)	$ 551,000	$ 609,000	$ (6,931,210)	$ (7,213,210)

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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	
	2008	2007	2008	2007
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	2015
Remaining service life (in years)	N/A	N/A	10	10

For the year ended 31st March, 2008, 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 $112,000 increase and $90,000 decrease, respectively, and on the benefit obligation a $987,000 increase and a $826,000 decrease, respectively.

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

	Defined benefit pension plan		Post-retirement medical benefits	
	2008	2007	2008	2007
Amortization of past service cost	$ 58,000	$ 58,000	$ —	$ —
Current service cost	—	—	212,000	203,000
Interest cost	2,973,000	2,940,000	405,000	394,000
Actual return on plan assets	693,000	(16,040,000)	—	—
Actuarial loss on plan liability	—	1,583,000	—	—
Change in valuation allowance against accrued benefit asset	(3,666,000)	11,517,000	—	—
Net benefit plan expense	$ 58,000	$ 58,000	$ 617,000	$ 597,000

Contributions relating to the Company's defined contribution pension plans during the year ended 31st March 2008 amounted to approximately $1,554,000 (2007 – $1,520,000) and were expensed during the year.

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

10. Long-term debt redemption amounts unclaimed

The Company exercised its right to redeem the 7¾% notes effective 15th December 2002. As at 31st March 2008 and 2007, not all notes redeemed had been presented to the Company in exchange for cash. The notes remaining outstanding valued at $579,546 (2007 – $596,496) are included in long-term debt redemption amounts unclaimed on the balance sheet and do not accrue interest beyond the redemption date.

11. Share capital

		2008		2007
Authorized – 21,546,220 (2007 – 21,546,220) common shares of par value $0.25 each				
Authorized – 2,615,445 (2007 – 2,615,445) preferred shares of par value $1 each				
Issued and outstanding 13,240,168 (2007 – 13,240,168) common shares	$	3,310,042	$	3,310,042
Issued and outstanding Nil (2007 – Nil) preferred shares	$	—	$	—

The Company exercised its right to redeem the preferred shares effective 15th November 2003. As a result no preferred shares are now in issue. As at 31st March 2008, not all preferred shares had been presented to the Company in exchange for cash. The preferred shares remaining outstanding valued at $1,198,128 (2007 – $1,270,258) 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 in the prior year. The balance of $7,462 was charged as a cash dividend.

12. Other expense

		2008		2007
Pension expense defined benefit pension plan (note 9)	$	58,000	$	58,000

13. Earnings per share

The following sets forth the computation of basic and diluted earnings per share for the years ended 31st March 2008 and 2007.

	2008			2007		
	Income (numerator)	Average weighted shares (denominator)	Per share amount	Income (numerator)	Average weighted shares (denominator)	Per share amount
Net income	$ 14,595,959			$ 9,169,984		
Basic earnings per share						
Income available to common shares	14,595,959	13,240,168	$ 1.102	9,169,984	13,240,168	0.693

Notes to Consolidated Financial Statements

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14. Government license fee

Certain subsidiaries of the Company are required to pay a license fee to the Governments of Bermuda or the Cayman Islands. The Government of Bermuda is paid a license fee based on 3% of certain revenues, and the Government of the Cayman Islands is paid a license fee based on 6% of revenues less certain allowable deductions specified in its license. The license fees for the year ended 31st March 2008 were approximately $3,051,000 (2007 – $2,812,000).

15. Commitments

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

	$
2009	6,677,871
2010	1,257,002
2011	662,291
2012	636,291
2013	640,150
2014 and beyond	5,091,983

16. Financial assets and liabilities

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

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 25,656,438	$ 25,656,438	$ 23,057,112	$ 23,057,112
Accounts receivable	9,519,677	9,519,677	8,656,521	8,656,521
Marketable securities:				
Mutual funds	955,168	955,168	3,435,073	4,232,125
Bonds	6,736,905	6,736,905	6,571,839	6,484,036
Equities	6,085,257	6,085,257	3,987,751	6,282,577
	13,777,330	13,777,330	13,994,663	16,998,738
Current liabilities	21,905,623	21,905,623	17,014,718	17,014,718

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 includes deposits held by one United States bank and one Bermuda bank and a Bermuda subsidiary of an international bank as well as money market funds. The fair value of deposits with banks approximates their carrying value. The fair value of money market funds approximates carrying value as they are readily realizable at this amount.

(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 7% (2007 – 25%) 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.

17. Rate regulated entities

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

18. Restatement of prior period financial statements

In the year ended 31st March 2008, the Company started accounting for accrued vacation pay. As a result, accounts payable and accrued liabilities included in the consolidated balance sheet as at 31st March 2007 and the salaries expense included in the consolidated statement of earnings for the year ended 31st March 2007 have been restated in these financial statements to reflect the new policy on a basis consistent with the current year. A further adjustment was required to decrease opening retained earnings in the consolidated statement of retained earnings to reflect the provision for 2006.

The table below sets out the components of the adjustment.

2007	As previously reported $	Effect of revision $	Revised amount $
Accounts payable and accrued liabilities	10,241,110	1,163,684	11,404,794
Salaries and employee benefit expenses	39,433,147	(83,531)	39,349,616
Net income for the year	9,086,453	83,531	9,169,984
Retained earnings – beginning of year	66,409,260	(1,247,215)	65,162,045
Retained earnings – end of year	49,074,815	(1,163,684)	47,911,131

19. Comparative figures

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

Directors and Officers
As at 31st March 2008

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
Senator Jeanne J. Atherden, C.A., J.P.
Chairman
Hotel Pension Fund
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
Bermuda Container Line Ltd.
Director since 1988

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

Mr. Gary L. Phillips, CIArb
Director since 2000

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

Mr. S. Sean Tucker, J.P., 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 – 435,939.

Common shares held by KeyTech Executive Management – 8,555.

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 prior financial year the Company entered into a service contract with Mr. Colin V. K. Williams, a Director of the Company, under which fees paid for the current year were $12,745 (2007 – $12,466).

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.

KeyTech Limited
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tel: 441-295-5009, fax: 441-292-4984
www.keytech.bm

PRINCIPAL SUBSIDIARIES

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

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

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

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

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