KeyTech Limited

Annual Report 2009

We anticipate that the economic environment will continue to be challenging and we have taken steps to prepare to weather a softer revenue environment. Nevertheless we face 2009/10 with the excitement of a service provider who has new products and services to offer based on our investments in the current year.

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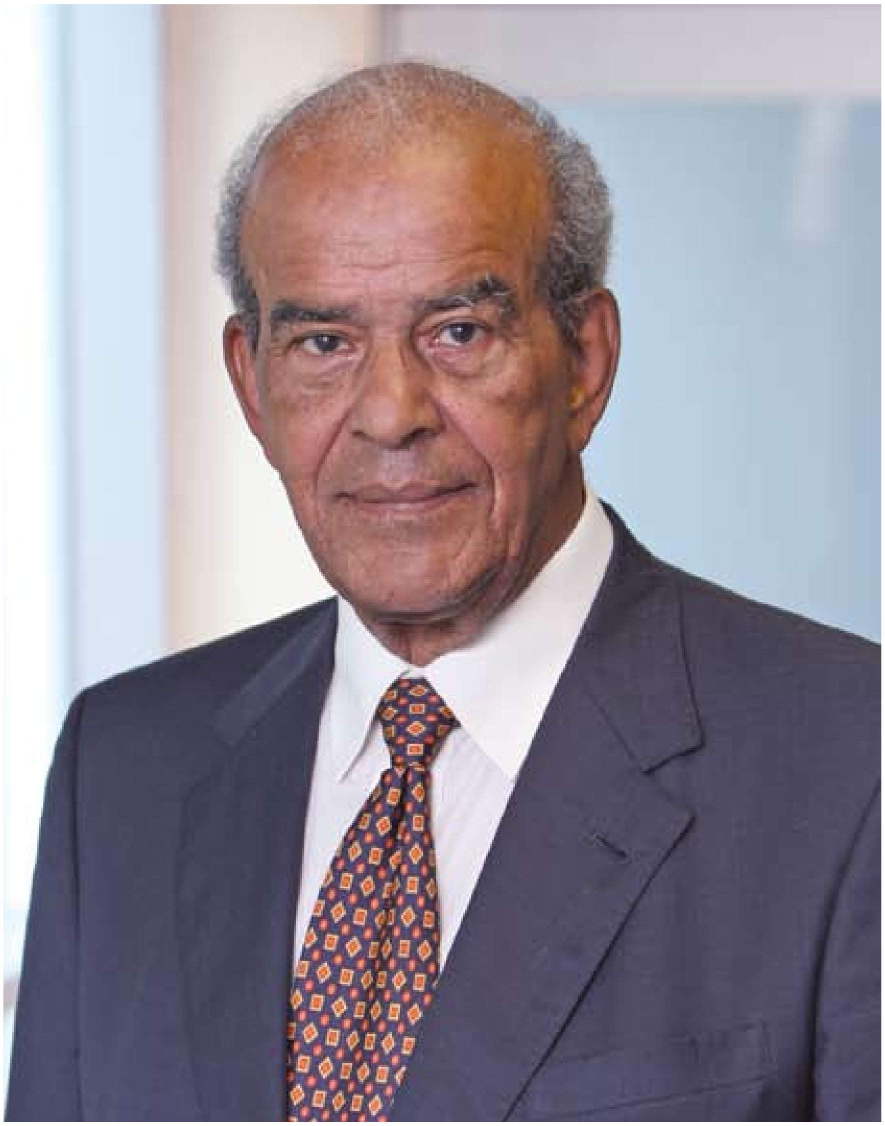

Chairman's Report

On behalf of your Board of Directors, I am pleased to report that the KeyTech Group of Companies concluded fiscal year 2008/09 with a net income of $10.6 million. While decreased from net income of $14.6M for the prior year, in the context of the economic environment of the last year, this represents a commendable return on investment for shareholders. The Company also completed a number of major infrastructure projects and, in the second half of the year, took some difficult but necessary steps to contain and, where possible, reduce costs in expectation of continued difficult economic conditions. Total cash dividend payments for the year were $0.60 per common share, and we issued a one for ten stock dividend effective July 2008.

We have continued to pursue our long-term strategies of ensuring quality customer service, enhancing data services to offset declining local voice revenue, and seeking to realize additional growth for the Company through penetration of the Cayman market. The Company has continued to make measurable improvements in the quality of its services and completed a number of projects in line with our strategy of enhancing data services which are detailed in the Chief Executive Officer's Report in this Annual Report.

In November 2008, the Bermuda Government issued its Regulatory Reform Policy and accompanying milestone plan that anticipates the introduction of new telecommunications legislation in the House in November 2009 with implementation by Parliament in January 2010. The Government proposes to establish a new regulatory regime based on an assessment of each carrier's market power in certain relevant markets. Those carriers found to be dominant in any relevant market will be subject to cost and price regulation, non-discrimination requirements, mandatory interconnection, and/or network unbundling or wholesaling requirements, among other measures.

BTC is subject to price regulation today, although different cost and pricing rules are likely to be adopted under Regulatory Reform. Carriers that are not dominant, or those dominant carriers that have satisfied the regulatory requirements placed on them, will be eligible for a unified license which allows them to provide any or all telecommunications services, eliminating the existing system of Class A, B and C licenses. It is not possible to say with certainty what impact these regulatory changes will have on carriers in our industry, including the Company. Our staff are working hard to ensure that our companies' views are well-articulated and given due consideration in the ongoing consultation processes.

On behalf of the Board, I would thank all members of staff for their energy and dedication to ensuring the Company is well positioned both to meet future challenges and to benefit from future opportunities. I would also like to take this opportunity to thank the Directors for their time and attention to the affairs of the Company.

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

Chief Executive Officer's Report

Our Results

This past year we successfully completed a number of major infrastructure projects and substantially advanced others which strengthen the Company's position as a diversified communications service provider. In total we invested $46.3M in infrastructure in the year of which $26.4M relates to the Challenger submarine cable system. In terms of operating conditions for the twelve months, it was a tale of two halves. We started the year with ambitious financial targets built on the successes of the prior year. Initially our dual approach of targeting revenue growth in data and tight control of operating costs achieved our anticipated net income results. However by the end of our second quarter, September 30, 2008, the changing global economic conditions began to impact our revenue opportunities with customers changing their plans in anticipation of continued global recession in 2009. We completed the year ending March 31, 2009, with net income of $10.6 million, down from $14.6 million in the prior year.

While our local markets do not seem to have suffered thus far as severely as some larger economies, job losses have occurred in both Bermuda and Cayman and our customers have been under pressure to reduce costs and not take on new operating commitments. Our long distance calling and cellular roaming revenues are affected directly by fewer business and tourist visitors. Like our customers, we re-evaluated our short-term economic outlook.

We implemented a number of initiatives, both short and long-term, that we believe will effectively cut costs while improving both product and customer service. We have reduced maintenance rates with a number of suppliers, frozen executive salaries at current pay levels and revamped organizational structures to provide better customer service at a lower cost by utilizing new technologies. In spite of these measures, we saw the need to make the difficult decision to reduce the total number of staff positions within the new organizational structures. We acknowledge and appreciate the affected individuals' considerable contributions. Where possible, we offered alternate positions within the KeyTech Group whilst simultaneously engaging professional outplacement services and employee assistance professionals to assist separated staff. As a result of these actions taken in the year, we feel as prepared as possible to weather on-going weaker economic conditions while not compromising on customer service goals. In 2009/10, we expect the economic climate to continue to be challenging. We will continue to focus on our customers' needs and we will leverage our significant capital investments to offer new and enhanced value propositions to customers.

Total revenues for 2008/09 decreased 2.8%, or $3M, to $105.5 million due to declines in our fixed line local voice revenue, consistent with industry trends, and in hardware sales. Partially mitigating the impact of these declines, data revenues increased in the year. In the prior year revenues grew 3% as the growth in data and cellular revenue streams more than offset the diminishing fixed line local voice revenue. The slower growth of new revenues in 2008/09 is consistent with more challenging current economic conditions.

Total operating expenses for 2008/09 increased 0.7%, or $0.7M due to a $4.3M increase in maintenance costs driven by increased electricity costs, construction of temporary office space as we continue the internal renovations of 30 Victoria Street and increased warranty and materials costs. Partially offsetting these maintenance cost increases were reductions in all other categories of operating expenses year over year. Once again, we were fortunate in that we did not suffer significant windstorm or hurricane damage to our plant and facilities.

Due to general poor investment conditions in 2008/09, and also the realization of a substantial portion of our marketable securities in the summer of 2008 to fund capital projects, income combined with realized gains, and losses, and depreciation on investments, decreased from income of $1.1M in the prior year to a loss of $0.4M in the current year. Equity earnings in affiliates increased $0.6M in the current year.

I am pleased to report that three major capital projects have been completed in the year: the Challenger high capacity submarine cable; M3 Wireless WCDMA/3G network; and BTC's Internet Protocol Next Generation Network. In addition, M3 Wireless introduced the much sought after iPhone to Bermuda in April 2009. Challenger forms a key platform of our long-term strategy of growing data revenues as does the launch of M3 Wireless' high speed 3G network which interoperates with our existing 2G network, providing additional network resiliency.

Based on our experiences in Cayman, we determined that while fixed wireless is suitable for residential service delivery, corporate customers prefer provision of data service over wire line. In 2008/09, we therefore commenced construction of a fibre network in George Town with service offered to customers on the first section in March 2009.

A further major capital project under way in 2008/09 was completed in June 2009 - the replacement of BTC's operating and billing systems with a new fully integrated billing and operating system. This implementation and conversion is a major undertaking for BTC and, while not directly related to new revenue generating products and services, it paves the way for further improvements to customer service and streamlining of operations. The implementation also mitigates corporate risk as the previous, fully depreciated systems, while functional, were no longer vendor supported due to their age.

Operating Review

We continue to believe that providing exceptional customer service across all our businesses is fundamental to being able to retain our customers and to sustain and grow revenue. We serve the Bermuda and Cayman markets, both of which are comprised of sophisticated residential and business customers. Our focus over a number of years has been on improving installation and repair times and investing in new call center and other customer interfacing facilities, particularly in BTC. We have made further measurable improvements in 2008/09. Looking back at the significant service improvements achieved over these years as we enter 2009/10, while we still have areas to improve, in many parts of the group our service levels are a strong positive factor in the market.

As previously reported, in 2007/08 we undertook in-depth customer satisfaction research to better understand what matters most in communications services for business and residential customers and how well we were performing against those expectations. We implemented action plans in the current year to improve customer satisfaction based on the results of the research and this will continue into 2009/10. Our experience is that it is a slow process in "shifting the dial" on customers reported satisfaction rates even where we feel we have made good progress on addressing issues arising out of the research. Nevertheless, our ambition to continuously improve service levels is undiminished. We will continue to measure service delivery against our internal metrics such as call answering, repair and installation times, and also against what customers are telling us about our service.

As reported above, we have completed a number of major network and operational investments in Bermuda and Cayman that will enable us to offer new functionality to our voice services and greater data capacity delivery for our data services. Greater data capabilities allow our customers both at home and the office to derive improved value and utilization from our services.

Over the past year we have also continued to work to improve our strategic marketing skills utilizing a disciplined approach to developing marketing plans and monitoring implementation of the plan tactics. We have also strengthened our marketing team with additional senior human resources. Historically marketing has not been our strength. However in our competitive market, it is essential that we develop the products customers truly value and effectively promote those products. We are also engaged in bringing our sales teams to a consistently high standard and providing them with the information and tools they need to be effective. In a difficult or slower economic environment, increased positive interaction with our customers, either through marketing efforts or through direct contact, is key to customer retention.

STANDING LEFT TO RIGHT

Francis R. Mussenden - President & CEO
Nigel D. Burgess - V.P. Field Operations
Patricia Tucker - V.P. Marketing & Sales
Paul R. Barnes - V.P. Networks & Planning
Edgar F. Dill - Chief Operating Officer
Jeanne M. Schaaf, PhD - V.P. Regulatory Affairs

BTC®
The Bermuda Telephone Company Limited

BTC has significantly improved data service installation times during the current year and has maintained the repair time achievements of the prior year. Success has been measured by monitoring the percentage of installations and repairs completed on the date promised to customers with review and corrective action taken where this was not achieved. This methodology focuses resources on the specific occasions where service "Promise Date" was not achieved for a customer and has been more effective in driving operational improvements compared to previous repair and installation metrics.

The transition in the year of BTC's core network to a Next Generation Network based on Internet Protocol is in keeping with global technological changes in our industry and will enable BTC to offer new voice services based on the Internet Protocol technology. Subject to Commission approval, BTC anticipates new product offerings will be launched in our fiscal 2009/10 year.

The new integrated billing and operations support system being implemented in BTC combines in one system outside plant and network records, customer service orders and billing. This will enable more efficient internal customer handling and general record maintenance processes. In 2009/10, BTC intends to provide its field technicians with GPS tools so that service ticket completion and changes to the outside plant can be entered real time directly from the field.

STANDING LEFT TO RIGHT

Jimmy Lim - V.P. Network Operations
Lloyd Fray - Chief Executive Officer
Ben Barlaba - Manager, Business Development
Paul Coleman - V.P. Marketing
Joe Addison - V.P. Professional Services

Logic increased data revenues both in residential Internet and the corporate market during the year. Logic's multi-protocol label switching (MPLS) service, the technology of choice for most companies that need to communicate between multiple offices, has continued to be a driver of corporate revenue growth. A new facility in New York was opened in November 2008 to prepare for the new Challenger cable system adding further redundancy to the Logic network by eliminating a prior single point of failure. With the completion of Challenger in December 2008, Logic purchased significant additional international bandwidth capacity and further enhanced its network redundancy by adding the Challenger route to capacity already acquired from other cable systems serving Bermuda.

For residential customers, Logic launched the Detechtives in June 2008, bandwidth speeds of 3 and 4 megabytes per second in November 2008, and the new "Colours of Logic" in April 2009. The Detechtives, Logic's certified team of computer technicians, offer diagnostics, virus clean-up, installations, Internet set-up, peripheral set-up, training and much more. The Colours of Logic represent targeted product sets for different customer segments. Logic launched four bundles or "Colours" that combine hardware, Internet, peripherals, and PC repair time. This new and exciting approach to being a complete solution provider is part of Logic's marketing strategy to differentiate its service and to provide enhanced value to customers.

STANDING LEFT TO RIGHT

Lloyd Fray - Chief Executive Officer
Michael Beckles - Chief Operating Officer
Karen Pyo - V.P. Marketing & Product Development
Ken Wilson - V.P. Network Operations

m3 | wireless

The cellular market in Bermuda continues to be fiercely competitive with each of the three cellular providers commanding significant market share. Within this context, M3 Wireless has continued to build on its competitive strength in the corporate market, particularly BlackBerry™ and mobile data. In March 2009, M3 Wireless became the first cellular provider to offer high speed 3G services and complemented this network capability launch with the introduction of the iPhone to Bermuda. While less visible to customers, but critical in maintaining network redundancy and sufficient bandwidth to support 3G, M3 Wireless also completed a major project to upgrade its wireless backhaul.

M3 Wireless has also recently introduced new unlimited voice, data and text plans for customers. In May 2009, the Computer Society of Bermuda rated these as the best value for cellular in Bermuda and noted that M3 Wireless has led the way in reshaping the cellular market in Bermuda.

During the year, M3 Wireless increased its roaming contracts with wireless voice providers to 217 in over 124 countries and with mobile data providers to 128 in 84 countries.

STANDING LEFT TO RIGHT

Wendy Morris - Office Manager
Anthony Richardson - Operations Manager
Gary Taylor - Management Consultant
Antoinette Richardson - Sales Team Leader

BERMUDA YELLOW PAGES®
PRINT • ONLINE • MOBILE

Bermuda Yellow Pages (BYP) performed well again in the current year, both operationally and financially. Despite the more difficult economic environment, net income was maintained. The BYP team have worked very hard at promoting to customers the value proposition of continuing to market and maintaining market presence during periods of economic downturn. As a result, despite pressures from customers seeking to reduce operating spend, the team has achieved its sales targets for the year. This impressive result is also based on the continued delivery of innovative and valued products to advertisers and Directory users.

In the current year, BYP began in-house production of advertising videos for customers and video tours of Bermuda and Bermuda events which can be viewed on www.bermudayp.com.

In 2009/10, BYP will be completing the development of a proprietary software platform and database to support further development of the functionality of www.bermudayp.com.

STANDING LEFT TO RIGHT

Mike Edenholm - Chief Executive Officer
Lewie Hydes - V.P. Networks
Shannon Oberprillar - Financial Accountant
Graham Baxter - Manager, Professional Services
Calvin Morton - V.P. Sales

WestTel

Although WestTel's revenue grew $1.5M in the prior year to $6.7M, data revenue declined $0.5M in the current year as the impact of Internet price changes implemented in December 2007 fed through to total revenue on renewals of annual contracts. In total, residential Internet subscribers grew 6.5% to over 5,000 in the current year as WestTel continued to attract customers with its price and service quality.

WestTel started the year with expectations of growth in residential telephony following the launch in September 2007 of residential voice, and based on a plan to market voice to its existing substantial Internet customer base. However despite intense campaigns to market the product, in the first half of the current year WestTel concluded that Caymanian residents are not attracted by fixed wireless voice, particularly given the significant use of cellular phones. In the second half of the current year, given these revenue experiences, WestTel commenced a program of cost reduction in areas that are not directly customer facing and which will not impair WestTel's high quality of service.

In March 2009, WestTel began service to corporate customers on the newly constructed fibre network and will be offering service at additional locations on the route. WestTel is seeing some encouraging signed contract wins on the fibre network and will continue to build on its strength in the residential Internet market. It is anticipated that the additional data revenues, combined with the cost reduction steps taken in the current year, will improve bottom line performance.

Ray Charlton - V.P. Cable Station Operations

challenger

Cable Co. is the newly created subsidiary which constructed and operates a submarine high capacity cable system, Challenger. Cable Co. was issued a Class A license by the Ministry of Energy, Telecommunications and E-Commerce in December 2007. Challenger was completed on budget at $26.4M and ahead of schedule in December 2008, a considerable achievement for such a complex project with a number of moving parts including licensing in Bermuda and the USA in addition to the construction elements.

Challenger spans 1,445 km, linking Bermuda to the United States. Designed with an initial capacity of 20 Gbit/s, the new network can be scaled up to 320Gbit/s. KeyTech partnered with two Bermuda companies, North Rock Communications Ltd. and FKB Transact Limited, on the license application and product specifications throughout the planning and construction phase. All three now utilize Challenger for international bandwidth needs enabling them to better serve Bermuda's business and residential customers. With Challenger completing in late 2008 amongst increasingly uncertain global economic conditions, North Rock Communications Ltd. and FKB Transact Limited elected not to exercise options to participate in equity ownership and Cable Co. remains a wholly owned subsidiary of KeyTech.

Affiliates

Bermuda CableVision continues to expand its services to leverage its infrastructure investment and to attract additional revenue both in the provision of entertainment services and high speed data. As a result, earnings from Bermuda CableVision increased $0.3M over the prior year.
Building on the significant investment from a US-based private equity firm in the prior year, QuoVadis has increased its overseas sales presence to accelerate the international rollout of its digital certificate and electronic signature products, particularly in Switzerland. QuoVadis also has operations in the Netherlands and the United Kingdom.

Our Community Involvement

We continue to contribute to the communities in which we live and work. Our charitable contributions are distributed broadly from arts and athletics to education and elder care. During 2008/09, in addition to many other deserving causes, we supported the Catlin Bermuda End-to-End, Bermuda International Film Festival, The Family Centre, Parents Resource Institute for Drug Education “PRIDE”, and the Ross Blackie Talbot Golf Charity Classic in Bermuda. In Cayman, we contributed to the Cayman Islands Red Cross and Cayman Islands Big Brothers and Sisters.

Our Outlook for 2009/10

We anticipate that the economic environment will continue to be challenging and we have taken steps as outlined earlier in this report to prepare to weather a softer revenue environment. Nevertheless we face 2009/10 with the excitement of a service provider who has new products and services to offer based on our investments in the current year. The current year has been very busy with construction projects that have drawn heavily on management’s time and group resources. Our operational focus in the year ahead will be on increasing interaction with customers and delivering these new products with a respite from construction activity. Expected capital expenditure for 2009/10 is $14M, of which $6.4M relates to completion of existing major projects. The regulatory reform of our industry in Bermuda will also be an on-going backdrop to our operational efforts and we will remain as engaged partners in that process – putting forward our views in a constructive but clear manner.

In closing I would like to take this opportunity to thank the team for all their efforts this year in achieving our ambitious capital projects. Not all are quite complete as we close the year, but those that are not are close to completion. This does not happen without dedication and hard work from many people.

Sheila Lines

Sheila A. Lines
Chief Executive Officer

Board of Directors

STANDING LEFT TO RIGHT

CHAIRMAN
James A.C. King, M.D., F.R.C.S.(C.), F.A.C.S., J.P.
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

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

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

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

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

Chairman
Purvis Ltd.

Director
Bermuda Container Line Limited
Director since 1988

Mr. Gary L. Philips, OBE, CIArb
Director since 2000

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

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

Mr. Peter C. Durhager *(not shown)*
Chief Administrative Officer
RenaissanceRe Holdings Limited

President
RenaisannceRe Services Limited

Director
BELCO Holdings Limited
Director since 2000

Five Year Financial and Statistical Summary

As at 31st March 2009

	2009	2008	2007	2006	2005
Revenue & Expense Items ($000'S)					
Operating revenues	**105,483**	108,478	105,383	98,899	97,292
Total expenses excluding amortisation	**77,426**	76,414	77,015	67,669	68,233
Amortisation	**18,718**	19,063	20,351	18,575	21,983
Net earnings	**10,551**	14,596	9,170	11,677	10,053
Cash dividends declared on Common shares	**8,547**	7,944	7,771	7,222	6,735
Balance sheet items					
($000's, except number of shares)					
Total assets	**173,088**	174,886	161,904	159,068	155,073
Shareholders' equity	**143,765**	145,054	136,431	136,280	131,825
Number of common shares	**14,564**	13,240	13,240	12,037	12,037
Per common share					
($'s)					
Net Earning - Basic	**0.724**	1.002	0.630	0.802	0.690
Cash dividend	**0.600**	0.600	0.600	0.600	0.600
Net assets - Basic	**9.87**	9.96	9.36	9.35	9.05
Items of interest					
Capital expenditures ($000's)	**46,324**	24,849	20,960	16,675	16,171
Number of employees (full time)	**395**	433	422	408	423

Auditors' Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants
Dorchester House
7 Church Street
Hamilton HM 11
Bermuda
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Facsimile +1 (441) 295 1242
www.pwc.com/bermuda

24th June 2009

To the Shareholders of KeyTech Limited

We have audited the consolidated balance sheet of KeyTech Limited as at 31st March 2009 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 2009 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 2009

	Notes	2009	2008
Assets			
Current assets			
Cash and cash equivalents	16	$ 7,480,047	$ 25,656,438
Accounts receivable	16	8,407,625	9,519,677
Merchandise, materials and supplies	18	4,951,641	4,530,613
Prepaid expenses and other assets		5,020,973	5,971,717
Total current assets		25,860,286	45,678,445
Marketable securities	16	3,363,348	13,777,330
Investments in affiliates	5	9,992,721	9,106,559
Capital assets, net	6	125,105,827	96,445,734
Intangible assets, net	7	4,571,079	5,625,511
Goodwill	8	3,701,460	3,701,460
Deferred pension asset	9	493,000	551,000
Total assets		$ 173,087,721	$ 174,886,039
Liabilities			
Current liabilities			
Bank overdraft	16	$ 3,220,780	$ –
Accounts payable and accrued liabilities		16,695,763	16,779,504
Long-term debt redemption amounts unclaimed	10	552,004	579,546
Preferred share redemption amounts unclaimed	11	1,149,122	1,198,128
Dividends payable		2,175,610	1,986,025
Deferred income		1,982,410	1,362,420
Total current liabilities	16	25,775,689	21,905,623
Deferred investment gain	5	746,761	995,683
Accrued post-retirement medical benefits	9	2,800,210	6,931,210
Total liabilities		29,322,660	29,832,516
Shareholders' equity			
Share capital	11	3,640,908	3,310,042
Share premium	11	83,413,733	64,289,664
Contributed surplus		20,920,454	20,920,454
Retained earnings		37,112,177	54,562,989
Accumulated other comprehensive income		(1,322,211)	1,970,374
Total shareholders' equity		143,765,061	145,053,523
Total liabilities and shareholders' equity		$ 173,087,721	$ 174,886,039

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

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

Consolidated Statement of Earnings

For the year ended 31st March 2009

	Notes	2009	2008
Revenues and other income			
Wireline revenues		$ 53,228,376	$ 55,702,662
Wireless revenues		23,777,986	24,513,619
International long distance and network revenues		14,648,527	13,251,383
Other revenues		13,828,364	15,010,250
Total operating revenues	4	$ 105,483,253	$ 108,477,914
Expenses			
Salaries and employee benefit expenses	3	39,984,293	42,075,562
Maintenance expenses		21,667,160	17,333,443
General and administration expenses		11,913,212	12,978,906
Government taxes, fees and levies		3,860,982	4,025,613
Amortization	5, 6, 7	18,718,526	19,063,051
Total expenses		96,144,173	95,476,575
Net income before undernoted items		9,339,080	13,001,339
Equity in earnings of affiliates	5	1,135,084	487,726
Investment income and realized (loss) gains		(164,085)	1,101,048
Realized depreciation on investments		(190,376)	–
Other expense	12	(58,000)	(58,000)
Non-controlling interests		489,600	63,846
Net income		$ 10,551,303	$ 14,595,959
Earnings per common share, basic and fully diluted	13	$ 0.724	$ 1.002

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

Consolidated Statement of Retained Earnings

For the year ended 31st March 2009

	2009	2008
Retained earnings - Beginning of year	$ 54,562,989	$ 47,911,131
Net income	10,551,303	14,595,959
	65,114,292	62,507,090
Dividends declared		
Cash	(8,547,179)	(7,944,101)
Shares	(19,454,936)	–
	(28,002,115)	(7,944,101)
Retained earnings - End of year	$ 37,112,177	$ 54,562,989

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

Consolidated Statement of Accumulated Other Comprehensive Income (Loss)

For the year ended 31st March 2009

	2009	2008
Accumulated other comprehensive income – Beginning of year	$ 1,970,374	$ –
Unrealized appreciation on marketable securities – Beginning of year	$ –	$ 3,004,075
Adjusted other comprehensive income – Beginning of year	$ 1,970,374	$ 3,004,075
Depreciation on investments during the year		
Depreciation on investments	(3,482,961)	(549,440)
Realized depreciation (appreciation) on investments	190,376	(484,261)
Accumulated other comprehensive loss	(3,292,585)	(1,033,701)
Accumulated other comprehensive (loss) income – End of year	$ (1,322,211)	$ 1,970,374

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

Consolidated Statement of Cash Flows

For the year ended 31st March 2009

	2009	2008
Cash flows from operating activities		
Net income for year	$ 10,551,303	$ 14,595,959
Items not affecting cash		
Amortization	18,718,526	19,063,051
Net realized loss (gain) on marketable securities	446,635	(627,662)
Equity in earnings of affiliates	(1,135,084)	(487,726)
Post-retirement benefits expense in excess of amounts paid	(4,073,000)	(224,000)
Non-controlling interests	(489,600)	(63,846)
	24,018,780	32,255,776
Increase in non-cash working capital	2,667,617	1,078,183
Cash provided by operating activities	26,686,397	33,333,959
Cash flows from investing activities		
Investments	–	500,000
Sale of marketable securities	8,554,574	4,679,439
Purchase of marketable securities	(1,879,812)	(1,864,070)
Acquisition of capital assets	(46,324,188)	(24,849,063)
Acquisition of intangible assets	–	(1,167,758)
Cash used for investing activities	(39,649,426)	(22,701,452)
Cash flows from financing activities		
Bank overdraft	3,220,780	–
Redemption of notes payable	(27,542)	(16,950)
Cash paid on share dividend	(8,209)	–
Redemption of preferred shares	(49,006)	(72,130)
Dividends paid on common shares	(8,349,385)	(7,944,101)
Cash used for financing activities	(5,213,362)	(8,033,181)
(Decrease) increase in cash and cash equivalents	(18,176,391)	2,599,326
Cash and cash equivalents - Beginning of year	25,656,438	23,057,112
Cash and cash equivalents - End of year	$ 7,480,047	$ 25,656,438

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

Notes to Consolidated Financial Statements

31st March 2009

1. The Company

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

2. Summary of significant accounting policies

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

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries; The Bermuda Telephone Company Limited ("BTC"), M3 Wireless Ltd. ("M3"), Logic Communications Limited ("Logic"), Bermuda Yellow Pages Limited ("BYP"), Key Management Services Limited ("KMS"), Cable Co. Ltd. and Cedar Cable Ltd. (jointly "Cable Co.") 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 2009 and 2008.

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 in affiliates

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

(e) Marketable securities

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

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 as the portfolio is not actively traded and is not intended to be held to maturity. 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. Where quoted prices are not available for an unquoted fund, net asset values for the fund are used for fair value. The unrealized gain at 1st April 2007 is recorded as an adjustment to the opening balance of accumulated other comprehensive income. Movements in the unrealized gains and losses on the portfolio of marketable securities during the current and prior year are recorded as changes in other comprehensive income for the period.

When fair value of marketable securities is below cost, the Company conducts a review of evidence of impairment of the relevant marketable securities in accordance with CICA 3855. Such a review considers factors such as financial condition of the issuer, default in interest or principal payments, significant changes in the operations of the issuer and length of time fair value has been below cost.

(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 $1,891,445 (2008 - $1,826,391) 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. Marketable securities, non-monetary assets and transactions denominated in foreign currencies are translated at rates of exchange prevailing at the transaction dates. Exchange gains and losses are included in net earnings for the year.

(k) Pension and post retirement benefits

As described in note 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 2009 and 2008.

(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 minutes on cellular phone plans utilized prior to expiry in a future period are deferred until they are utilized, at which point they are taken into income.

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

(p) Going concern

Management has performed an assessment of the Company's ability to continue as a going concern as required by the Canadian Institute of Chartered Accountants Standards Board Section 1400 General Standards of Financial Statement Presentation and has concluded that preparation of these financial statements on a going concern basis is appropriate.

3. Expenses

In the current year, the Company incurred $2,653,734 in early retirement and redundancy expenses as part of a staff restructuring. These expenses are included in salaries and employee benefit expenses in the statement of earnings for the 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 wireline and fixed wireless voice and data services in the Cayman Islands.

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

Notes to Consolidated Financial Statements

31st March 2009

Segment information

	BTC	M3	Logic	BYP	WestTel	Cable Co.	Total
Year ended 31st March 2009							
Revenues from external customers	$ 57,521,884	$ 17,663,548	$ 18,646,356	$ 5,850,856	$ 5,898,450	$ 128,146	$ 105,709,240
Revenues from internal customers	4,684,811	649,709	452,893	228,716	–	147,944	6,164,073
Amortization	9,945,892	4,896,902	1,467,788	12,924	1,796,461	524,808	18,644,775
Operating expenses	39,314,498	12,736,735	16,024,436	3,928,358	7,864,168	787,551	80,655,746
Interest expense	512,773	444,360	–	–	213,136	–	1,170,269
Segment income (loss)	12,433,532	235,260	1,607,025	2,138,290	(3,975,315)	(1,036,269)	11,402,523
Segment assets	86,425,978	18,612,867	17,767,923	2,548,071	5,879,107	26,650,198	157,884,144

	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

Revenues by service

	2009	2008
Wireline services	$ 50,859,438	$ 53,062,939
International long distance and network services	14,648,527	13,251,383
Cellular services	16,502,758	16,495,705
Fixed wireless services	7,275,228	8,017,914
International interconnection fees	2,368,938	2,639,723
Hardware and software sales and rental	3,027,974	4,075,183
Directory services	5,849,093	5,629,871
Consulting services	3,500,930	3,610,663
International data services	128,146	–
Other services	1,322,221	1,694,533
	$ 105,483,253	$ 108,477,914

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 $3,824,771 (2008 - $4,045,118).

Notes to Consolidated Financial Statements

31st March 2009

Reconciliations

	2009	2008
Revenues from external customers		
Total segment revenues from external customers	$ 105,709,240	$ 108,355,455
Non-segment other (loss) revenue	(225,987)	122,459
	$ 105,483,253	$ 108,477,914

	2009	2008
Amortization		
Total segment amortization	$ 18,644,775	$ 18,815,603
Non-segment amortization	221,695	247,448
Elimination of inter-company amounts	(147,944)	–
	$ 18,718,526	$ 19,063,051

	2009	2008
Operating expenses		
Total segment operating expenses	$ 80,655,746	$ 78,092,458
Non-segment operating expenses	3,017,657	2,832,714
Elimination of inter-company amounts	(6,247,756)	(4,511,648)
	$ 77,425,647	$ 76,413,524

	2009	2008
Interest expense		
Total segment interest expense	$ 1,170,269	$ 1,439,362
Elimination of inter-company amounts	(1,170,269)	(1,439,362)
	$ –	$ –

	2009	2008
Net income		
Total income for reportable segments	$ 11,402,523	$ 14,274,673
Non-segment other income	861,339	2,662,867
Equity earnings in affiliates	1,135,084	487,726
Non-segment administrative expenses	(3,017,657)	(2,928,861)
Non-segment amortization	(221,695)	(247,448)
Elimination of inter-company amounts	(97,891)	283,156
Non-controlling interest	489,600	63,846
	$ 10,551,303	$ 14,595,959

	2009	2008
Total assets		
Total assets for reportable segments	$ 157,884,144	$ 133,505,493
Goodwill	3,701,460	3,701,460
Non-segment assets	55,419,137	61,867,418
Elimination of inter-company amounts	(43,917,020)	(24,188,332)
	$ 173,087,721	$ 174,886,039

5. Investments in affiliates

	2009	2008
Investment in CableVision Holdings Ltd.		
Promissory notes and accrued interest thereon	$ 8,841,119	$ 8,385,119
Interest in equity	(570,176)	(1,618,659)
	8,270,943	6,766,460
Investment in QuoVadis Holdings Ltd.		
Loan and accrued interest thereon	599,891	574,891
Interest in equity	1,121,887	1,765,208
	1,721,778	2,340,099
	$ 9,992,721	$ 9,106,559

Notes to Consolidated Financial Statements

31st March 2009

Bermuda CableVision Limited

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

During the year ended 31st March 2005 the Company loaned BCL $300,000 under a promissory note. During the year ended 31st March 2004 the Company loaned BCL $750,000 under a promissory note. During the year ended 31st March 2006 the Company exchanged the two promissory notes from BCL, plus accrued interest thereon, in exchange for a promissory note from CHL for $1,200,000 and $23,398 in cash. 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 earnings in affiliates in the statement of earnings.

QuoVadis Holdings Limited

During the year ended 31st March 2005, the Company purchased a 20% equity interest in QuoVadis Holdings Limited (“QuoVadis”), a company registered in Bermuda, for $1,009,513. QuoVadis is a provider of managed security services. The Company 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 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. Amortization of the intangible assets acquired and interest on the loan are included as a component of equity earnings in affiliates in the statement of earnings. During the year ended 31st March 2008 a private equity firm based in the United States invested $7,500,000 in convertible preference shares issued by QuoVadis. Of the investment proceeds $500,000 was used to repay a portion of the loan from KeyTech. Repayment of the remaining loan balance is subordinated to repayment of the convertible preference shares. 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	2009	2008
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		46,007,217	41,642,717
Buildings leased under capital lease		831,398	831,398
Plant and facilities		239,382,513	231,112,624
Submarine cable system		26,453,310	–
Machinery and equipment		40,123,153	38,786,955
Total		357,550,033	317,126,136
Less: Accumulated amortization			
Buildings and fixtures	2% - 10%	25,999,322	23,757,533
Buildings leased under capital lease	2%	91,473	74,841
Plant and facilities	6% - 25%	191,972,548	180,274,647
Submarine cable system	6.7%	524,783	–
Machinery and equipment	20% - 33%	34,243,121	31,078,724
		252,831,247	235,185,745
Net capital assets in service		104,718,786	81,940,391
Plant under construction		20,387,041	14,505,343
Capital assets, net		$ 125,105,827	$ 96,445,734

Amortization on capital assets for the current year was $17,664,094 (2008 - $18,342,631).

7. Intangible assets

	Amortization rates	2009	2008
Intangible assets, at cost			
Leased telecommunications capacity		$ 11,282,521	$ 11,282,521
Other intangibles		904,409	904,409
Total		12,186,930	12,186,930
Less: Accumulated amortization			
Leased telecommunications capacity	7%	7,132,060	6,211,825
Other intangibles	7% - 33%	483,791	349,594
		7,615,851	6,561,419
Intangible assets, net		$ 4,571,079	$ 5,625,511

Amortization on intangible assets for the current year was $1,054,432 (2008 - $720,420).

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 (2008 - $3,701,460) did not require an impairment provision in the fiscal years ended 31st March 2009 and 2008.

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 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)). In the current year, the Company determined to continue to provide post-retirement medical benefits only to existing retiree recipients and to those employees aged 60 at 1st April 2009. These benefits are fully vested and accrued at 31st March 2009 and therefore no benefits for future service will be accrued in future periods. From 1st April 2009, post-retirement medical benefits will be a fixed monthly financial contribution to assist the retiree with medical costs.

Notes to Consolidated Financial Statements

31st March 2009

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 2009	Defined benefit pension plan 2008	Post-retirement medical benefits 2009	Post-retirement medical benefits 2008
Accrued benefit obligation				
Balance - Beginning of year	$ (50,447,000)	$ (51,622,000)	$ (7,475,210)	$ (7,410,210)
Current service cost	–	–	(233,000)	(212,000)
Interest cost	(2,899,000)	(2,973,000)	(438,000)	(405,000)
Net actuarial loss on plan liability	(248,000)	–	–	(347,000)
Settlements	–	–	4,784,000	–
Benefits paid, net	4,270,000	4,148,000	352,000	899,000
Balance - End of year	**(49,324,000)**	**(50,447,000)**	**(3,010,210)**	**(7,475,210)**
Plan assets				
Fair value - Beginning of year	$ 94,996,000	$ 99,837,000	$ –	$ –
Actual return on plan assets	(26,077,000)	(693,000)	–	–
Benefits paid, net	(4,270,000)	(4,148,000)	–	–
Fair value - End of year	$ 64,649,000	$ 94,996,000	$ –	$ –
Defined benefit pension plan assets consist of:				
Equity securities	61%	70%		
Debt securities	34%	24%		
Other	5%	6%		
	100%	100%		

On 31st March 2009 10.8% (2008 - 10%) of plan assets were invested in common shares of the Company.

	Defined benefit pension plan 2009	Defined benefit pension plan 2008	Post-retirement medical benefits 2009	Post-retirement medical benefits 2008
Status of plan				
Funded status - plan surplus (deficit)	$ 15,325,000	$ 44,549,000	$ (3,010,210)	$ (7,475,210)
Unamortized net actuarial loss on plan liability	–	–	210,000	544,000
Unamortized past service cost	493,000	551,000	–	–
Valuation allowance against accrued benefit asset	(15,325,000)	(44,549,000)	–	–
Accrued benefit asset (liability)	$ 493,000	$ 551,000	$ (2,800,210)	$ (6,931,210)

Notes to Consolidated Financial Statements

31st March 2009

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

	Defined benefit pension plan 2009	Defined benefit pension plan 2008	Post-retirement medical benefits 2009	Post-retirement medical benefits 2008
Discount rate	6.50%	6.00%	6.50%	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	9.50%	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	N/A	10

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

	Defined benefit pension plan 2009	Defined benefit pension plan 2008	Post-retirement medical benefits 2009	Post-retirement medical benefits 2008
Amortization of past service cost	$ 58,000	$ 58,000	$ –	$ –
Current service cost	–	–	233,000	212,000
Interest cost	2,899,000	2,973,000	438,000	405,000
Actual return on plan assets	26,077,000	693,000	–	–
Actuarial loss on plan liability	248,000	–	–	–
Termination Benefits	–	–	(4,450,000)	–
Change in valuation allowance against accrued benefit asset	(29,224,000)	(3,666,000)	–	–
Net benefit plan expense (income)	$ 58,000	$ 58,000	(3,779,000)	$ 617,000

Contributions relating to the Company's defined contribution pension plans during the year ended 31st March 2009 amounted to approximately $1,405,000 (2008 - $1,554,000) 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 2009 and 2008, not all notes redeemed had been presented to the Company in exchange for cash. The notes remaining outstanding valued at $552,004 (2008 - $579,546) 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

	2009	2008
Authorized – 21,546,220 (2008 - 21,546,220) common shares of par value $0.25 each		
Authorized – 2,615,445 (2008 - 2,615,445) preferred shares of par value $1 each		
Issued and outstanding 14,563,633 (2008 - 13,240,168) common shares	$ 3,640,908	$ 3,310,042
Issued and outstanding Nil (2008 - 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 2009, not all preferred shares had been presented to the Company in exchange for cash. The preferred shares remaining outstanding valued at $1,149,122 (2008 - $1,198,128) are included in preferred share redemption amounts unclaimed on the balance sheet and do not accrue dividends beyond the redemption date.

On 24th July 2008, 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 1,323,465 shares on 24th July 2008 and the payment of cash amounting to $8,029 to those shareholders entitled to fractional shares. As a result of this transaction, $19,454,936 was recorded as the stock dividend based on prevailing market values with $19,124,070 being credited to share premium and $330,866 being credited to share capital in the current year. The balance of $8,029 was charged as a cash dividend.

12. Other expense

	2009	2008
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 2009 and 2008.

	2009			2008		
	Income (numerator)	**Average weighted shares (denominator)**	**Per share amount**	**Income (numerator)**	**Average weighted shares (denominator)**	**Per share amount**
Net income	$ 10,551,303			$ 14,595,959		
Basic earnings per share						
Income available to common shares	10,551,303	14,563,633	$ 0.724	14,595,959	14,563,633	$1.002

Average weighted shares have been adjusted to reflect retrospectively the stock dividend declared 24th July 2008 (see note 11).

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 6% or 3% of certain revenues, and the Government of the Cayman Islands is paid a license fee based on 6% of revenues less certain allowable deductions specified in its license. The license fees for the year ended 31st March 2009 were approximately $3,128,104 (2008 - $3,051,000).

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	7,191,381
2010	1,514,410
2011	1,055,406
2012	984,186
2013	783,143
2014 and beyond	2,640,021

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.

		2009		2008
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 7,480,047	$ 7,480,047	$ 25,656,438	$ 25,656,438
Accounts receivable	8,407,625	8,407,625	9,519,677	9,519,677
Marketable securities:				
Mutual funds	122,581	122,581	955,168	955,168
Bonds	1,786,900	1,786,900	6,736,905	6,736,905
Equities	1,453,867	1,453,867	6,085,257	6,085,257
	3,363,348	3,363,348	13,777,330	13,777,330
Bank overdraft	3,220,780	3,220,780	–	–
Other current liabilities	22,554,909	22,554,909	21,905,623	21,905,623

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

Management of Financial Risk: The Company evaluates foreign exchange, interest rate, credit risk, liquidity risk, market and establishes risk management practices where the risk is deemed greater than immaterial:

(a) Cash and cash equivalents

Cash and cash equivalents includes deposits held by one United States bank and one Bermuda bank and a Bermuda subsidiary of an international bank as well as money market funds. The fair value of deposits with banks approximates their carrying value. The fair value of money market funds approximates carrying value as they are readily realizable at this amount. Interest income on cash and cash equivalents is included in other revenues in the consolidated statement of earnings.
No significant interest rate risk is associated with cash and cash equivalents. There is a concentration of credit risk as substantially all cash is held with a Bermuda bank and a Bermuda subsidiary of an international bank. To manage cash flows on an annual basis the Company holds cash and cash equivalent balances, marketable securities and at 31st March 2009 has an unsecured overdraft facility of $10 million.

(b) Accounts receivable

The fair value of accounts receivable approximates carrying value, which is net of an allowance for doubtful accounts. There is a credit risk that the Company may not be able to collect all of its customer accounts receivable, however this does not represent a concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. To manage credit risk the Company executed a credit and collections policy and establishes allowances for doubtful debts.

The allowance for doubtful accounts is established based on the judgment of management after consideration of historical trends and expectations of future developments. As the allowance is an estimate, there is the risk that actual results may differ from the estimate.

Analysis of accounts receivable by age is as follows:

	2009	2008
Current	$ 4,186,758	$ 3,259,736
30 days	2,512,715	3,161,810
60 days	630,720	955,086
90 days and over	4,822,709	4,798,106
	12,152,902	12,174,738
Allowance for doubtful accounts	(3,745,277)	(2,655,061)
Accounts receivable balance	$ 8,407,625	$ 9,519,677

(c) Marketable securities

The fair value of marketable securities is determined by reference to their quoted market prices. Where quoted prices are not available for an unquoted fund, net asset values for the fund are used for fair value. Approximately 0% (2008 - 7%) 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 marketable securities are subject to market risk and general economic conditions which can affect the fair value of these financial assets. To manage market risk the Company maintains investment guidelines and reviews individual investment holdings for existence of evidence of impairment. The loss recognized directly in other comprehensive income (loss) during the current year in relation to marketable securities was $3,482,961 and the loss removed from accumulated other comprehensive income (loss) and recognized in net income for the current year was $190,376. Total interest income from marketable securities was $232,859 for the year ended 31st March 2009 (2008 – $687,104). Total fee expense relating to the management of marketable securities was $141,355 for the year ended 31st March 2009 (2008 – $137,487). Interest income, dividend income realized and unrealized gains and losses on marketable securities, net of related management fees are included in investment income and realized (loss) gains in the consolidated statement of earnings. Transaction costs related to the acquisition of marketable securities are added to the recorded cost of the marketable securities, however carrying value of marketable securities is at fair value excluding any additional transaction costs to acquire or dispose of such financial assets.

The Company has reviewed all marketable securities held at 31st March 2009 for evidence of impairment. The Company has determined that an investment in an alternative investment fund originally acquired at a cost of $500,000 is impaired and the Company has recorded realized losses and an impairment charge totaling $253,230 in relation to this investment in the current year. The remaining estimated fair value of this investment at 31st March 2009 is $122,581.

The Company also holds a portfolio of fixed income and equity securities with a fair value of $3,238,420 and an amortized cost of $4,560,632 at 31st March 2009. The Company concluded that insufficient evidence of impairment for these marketable securities exists 31st March 2009. Assessment by the Company of evidence of impairment involves the use of estimates as disclosed in Note 2. (b). The Company holds its marketable securities on an available for sales basis and therefore records the difference between carrying value and fair value as a component of accumulated other comprehensive income (loss) within shareholders' equity on the consolidated balance sheet. If impairment is determined, the amount of such impairment is removed from accumulated other comprehensive income (loss) and is recorded in the consolidated statement of earnings for the reporting period.

(d) Bank overdraft and other current liabilities

The fair value of the bank overdraft and current liabilities approximates carrying value due to their relatively short-term nature. The bank overdraft is subject to a $10 million limit, incurs interest expense at the Bermuda Dollar Rate plus 1% on amounts drawn and is unsecured. The bank overdraft facility expires in October 2009 and can be repaid at any time without incurring penalties. Total interest expense in relation to these facilities was $66,352 for the year ended 31st March 2009 (2008 – nil) and is included in general and administrative expenses in the consolidated statement of earnings.

The Company's financial position could be adversely affected if it fails to maintain sufficient liquid financial assets and credit facilities to meet obligations incurred in the normal course of business as they fall due. The Company forecasts operating cash flow and capital requirements and on an on-going basis monitors its actual liquidity position. To assist in the management of short term liquidity risk the Company has an unsecured bank overdraft facility of $10 million. The Company has no long term funding obligations that require refinancing or repayment.

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. Merchandise, materials and supplies

During the year the Company expensed merchandise, materials and supplies totalling $6,930,651 (2008 - $6,879,786). Merchandise, materials and supplies written off during the year totalled $577,552 (2008 - $219,252).

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

	2009	2008
Voice equipment	$ 5,051,569	$ 4,324,870
Computer equipment	150,026	170,938
Cable and other plant spares	538,091	512,448
	5,739,686	5,008,256
Allowance for obsolescence	(788,045)	(477,643)
	$ 4,951,641	$ 4,530,613

19. Capital management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company measures capital by reference to total shareholders' equity as included on the consolidated balance sheet. The Company has met its objective in managing capital for both the current and the prior year. The Company seeks to generate sufficient cash from operations to meet capital asset expenditure and dividend payments to shareholders over the long term with capital requirements in particular varying on an annual basis.

20. Comparative figures

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

Officers and Executives

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. Leslie Rans
Chief Financial Officer

Ms. Lorianne Gilbert
General Counsel

Mr. Philip S. Harris
Director of Human Resources

Mr. Richard Lau
Director of Information Technology

Common shares held by Directors - 489,951.

Commons shares held by KeyTech Executive Management - 8,759

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 $17,689 (2008 - $12,745).

There are no contracts of significance subsisting during or at the end of the financial year in which a Director was materially interested either directly or indirectly.

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PRINCIPLE SUBSIDIARIES

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

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

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

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

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

Cable Co. Ltd.
30 Victoria Street, Hamilton HM 12, Bermuda
www.challenger.bm