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**MASERGY COMMUNICATIONS
UK LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2006

Company no 4170863

MASERGY COMMUNICATIONS UK LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2006

Company registration number	4170863
Registered office	Alder Castle 10 Noble Street London EC2V 7QJ
Directors	B Nalls J Tankersley
Secretary	WCPHD Secretaries Limited 5th Floor Alder Castle 10 Noble Street London EC2V 7QJ
Auditors	Grant Thornton UK LLP Registered Auditors Chartered Accountants Grant Thornton House Melton Street Euston Square London NW1 2EP

MASERGY COMMUNICATIONS UK LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2006

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MASERGY COMMUNICATIONS UK LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 30 June 2006

Principal activities

The principal activity of the company is the sale of network services, providing businesses with customer-controlled network services for enhanced application performance

Business review

There was a loss for the year after taxation amounting to £12,790 (2005 £1,240,215) The directors do not recommend the payment of a dividend

Directors

The present membership of the Board is set out below All served on the Board throughout the year

B Nalls
J Tankersley

Neither of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company According to the register of director's interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year

As the company is wholly owned subsidiary of a company incorporated outside Great Britain, the company is exempt from the requirement to record the directors' interests in the ultimate parent company

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union/United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

MASERGY COMMUNICATIONS UK LIMITED

REPORT OF THE DIRECTORS

Statement of directors' responsibilities (continued)

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

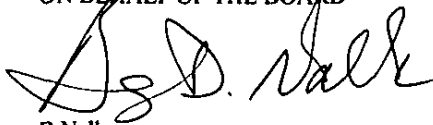
Political and charitable contributions

The company made no political contributions or donations to charity during the year.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



B Nalls
Director
18 May 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MASERGY COMMUNICATIONS UK LIMITED

We have audited the financial statements of Masergy Communications UK Limited for the year ended 30 June 2006 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
MASERGY COMMUNICATIONS UK LIMITED**

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its loss for the year then ended,
- have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 30 June 2006



**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

**LONDON
07 JUNE 2007**

MASERGY COMMUNICATIONS UK LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

The company is exempt by virtue of section 248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £7,148,143, which the directors believe to be appropriate for the following reasons.

In March 2005, Masergy Communications, Inc., the company's ultimate parent company, closed a third round of funding for US\$45 million, comprising equity investment of US\$30 million and a debt facility of US\$15 million. In February 2006, Masergy Communications, Inc. obtained additional equity financing of US\$3 million. Masergy Communications, Inc. will be using the funds for sales, marketing and customer support activities, and to fund group operations through 2007. Management currently anticipates that the cash on hand and funds available under existing financing agreements are sufficient to fund operations for at least 12 months.

The company is dependent for its working capital on funds provided to it by Masergy Communications Inc., the company's ultimate parent undertaking.

Masergy Communications Inc. has indicated to the company that for at least 12 months from the date of approval of these financial statements, it will be using the funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. The directors believe this will enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Further, as with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

TURNOVER

Service revenues are recognised based on usage of its telecommunications network and facilities and contract fees. The company recognises product and other service revenues when services are provided in accordance with the contract terms and when products are delivered and accepted by the customers. Cost of service revenues includes fees paid to wholesale telecommunications carriers for connectivity and collocation services provided to the company.

Where contracts are signed and invoiced by the company but include services provided by Masergy Communications Inc., turnover is recognised gross and charges are recognised in cost of sales in respect of these services provided.

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

MASERGY COMMUNICATIONS UK LIMITED

PRINCIPAL ACCOUNTING POLICIES

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are

Leasehold improvements	over the remaining life of the lease
Computers and equipment	3 to 5 years
Fixtures and fittings	3 to 5 years
Network equipment	10 years

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

FOREIGN CURRENCY

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

LIQUID RESOURCES

Liquid resources are short term deposits which may be withdrawn at 24 hours notice.

MASERGY COMMUNICATIONS UK LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 30 June 2006

	Note	2006 £	2005 £
Turnover		7,287,137	3,741,334
Cost of sales		<u>(6,109,200)</u>	<u>(3,800,851)</u>
Gross profit/(loss)		1,177,937	(59,517)
Administrative expenses		<u>(1,198,174)</u>	<u>(1,059,751)</u>
Operating loss		(20,237)	(1,119,268)
Interest payable and similar charges	2	(147)	(120,947)
Interest receivable and similar income	3	<u>7,594</u>	<u>-</u>
Loss on ordinary activities before taxation	1	(12,790)	(1,240,215)
Tax on profit on ordinary activities	5	-	-
Retained loss for the year	12	<u>(12,790)</u>	<u>(1,240,215)</u>

All transactions arise from continuing operations

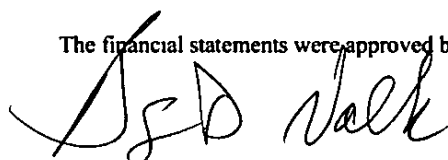
There were no recognised gains or losses other than the losses for the financial year

The accompanying accounting policies and notes form an integral part of these financial statements

MASERGY COMMUNICATIONS UK LIMITED**BALANCE SHEET AT 30 JUNE 2006**

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	6	1,180,105	973,841
Investments	7	1,000	1,000
		<u>1,181,105</u>	<u>974,841</u>
Current assets			
Debtors	8	1,199,200	934,268
Cash at bank and in hand		394,214	288,030
		<u>1,593,414</u>	<u>1,222,298</u>
Creditors: amounts falling due within one year	9	<u>(986,732)</u>	<u>(828,774)</u>
Net current assets/(liabilities)		<u>606,682</u>	<u>393,524</u>
Creditors: amounts falling due after more than one year	10	<u>(8,935,930)</u>	<u>(8,503,718)</u>
Total assets less current liabilities		<u>(7,148,143)</u>	<u>(7,135,353)</u>
Capital and reserves			
Called up share capital	11	1,000	1,000
Profit and loss account	12	<u>(7,149,143)</u>	<u>(7,136,353)</u>
Shareholders' funds	13	<u>(7,148,143)</u>	<u>(7,135,353)</u>

The financial statements were approved by the Board of Directors on 18 May 2007


B Nalls - Director

The accompanying accounting policies and notes form an integral part of these financial statements

MASERGY COMMUNICATIONS UK LIMITED

CASH FLOW STATEMENT

For the year ended 30 June 2006

	Note	2006 £	2005 £
Net cash (outflow)/inflow from operating activities	14	30,873	(1,321,950)
Returns on investments and servicing of finance			
Interest received		7,594	-
Interest paid		(147)	(13,137)
Net cash outflow from returns on investments and servicing of finance		<u>7,447</u>	<u>(13,137)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(364,348)	(480,538)
Net cash outflow from capital expenditure and financial investment		<u>(364,348)</u>	<u>(480,538)</u>
Management of liquid resources			
Increase in short term deposits		(3,657)	(150,000)
Net cash outflow from management of liquid resources		<u>(3,657)</u>	<u>(150,000)</u>
Cash inflow before financing		(329,685)	(1,965,625)
Financing			
Capital element of finance lease rentals		-	(1,393)
Increase in long term debt		432,212	1,842,965
Net cash inflow/(outflow) from financing		<u>432,212</u>	<u>1,841,572</u>
Increase/(decrease) in cash	15	<u>102,527</u>	<u>(124,053)</u>

The accompanying accounting policies and notes form an integral part of these financial statements

MASERGY COMMUNICATIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

1 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is stated after

	2006 £	2005 £
Auditors' remuneration Audit services	14,764	24,695
Depreciation Tangible fixed assets owned	158,084	129,204
Hire of plant and machinery under operating leases after crediting	69,817	44,765
Exchange losses/(gains) arising on amounts owed to group undertakings	-	101,327

2 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
On third party bank loans and overdrafts	147	13,137
Net exchange losses on amounts owed to group undertakings	-	101,327
Amounts written off investments	-	6,483
	147	120,947

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 £	2005 £
Other interest receivable	7,594	-
	7,594	-

4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows

	2006 £	2005 £
Wages and salaries	487,509	412,866
Social security costs	46,242	38,947
	533,751	451,813

MASERGY COMMUNICATIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

DIRECTORS AND EMPLOYEES (CONTINUED)

The average number of employees of the company during the year was

	2006 Number	2005 Number
Network operations	2	2
Sales	3	2
	<u>5</u>	<u>4</u>

Neither of the directors received any remuneration from the company

5 TAX ON LOSS ON ORDINARY ACTIVITIES

The tax charge is based on the loss for the year and represents

(a) There is no charge to corporation tax due to the losses incurred in the year

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the United Kingdom of 30%

	2006 £	2005 £
Loss on ordinary activities before tax	(12,790)	(1,240,215)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2005 30%)	(3,837)	(372,065)
Effect of		
Expenses not deductible for tax purposes	11,445	2,584
Capital allowances for the period in excess of depreciation	47,425	(98,083)
Timing differences on provisions	-	9,117
Tax losses not utilised	(55,033)	458,447
Current tax charge for period	<u>-</u>	<u>-</u>

At 30 June 2006, the company had potential deferred tax assets of £1,948,979 (2005 £1,956,587) in relation to allowable tax losses and the difference between depreciation on qualifying assets and accelerated capital allowances. These assets have not been recognised in the financial statements, as, in the opinion of the directors, there is insufficient evidence that they will be recoverable.

MASERGY COMMUNICATIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

6 TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Plant and machinery £	Fixtures, fittings, tools and equipment £	Total £
Cost				
At 1 June 2005	52,188	1,780,184	39,407	1,871,779
Additions	-	364,348	-	364,348
At 30 June 2006	<u>52,188</u>	<u>2,144,532</u>	<u>39,407</u>	<u>2,236,127</u>
Depreciation				
At 1 June 2005	39,204	831,998	26,736	897,938
Provided in the year	12,984	138,270	6,830	158,084
At 30 June 2006	<u>52,188</u>	<u>970,268</u>	<u>33,566</u>	<u>1,056,022</u>
Net book amount at 30 June 2006	<u>-</u>	<u>1,174,264</u>	<u>5,841</u>	<u>1,180,105</u>
Net book amount at 30 June 2005	<u>12,984</u>	<u>948,186</u>	<u>12,671</u>	<u>973,841</u>

7 FIXED ASSET INVESTMENTS

	Shares in group undertakings £
Cost and net book amount	
At 1 June 2005 and at 30 June 2006	<u>1,000</u>

The companies in which the company's interest at the year end is more than 20% are as follows

Subsidiary undertakings	Country of incorporation or registration	Principal activity	Class and percentage of shares held
Masergy Licensing Limited	England and Wales	Dormant	Ordinary 100%

MASERGY COMMUNICATIONS UK LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2006

8 DEBTORS

	2006 £	2005 £
Trade debtors	683,003	683,701
Prepayments and accrued income	79,584	15,713
Other debtors	436,613	234,854
	<u>1,199,200</u>	<u>934,268</u>

Other debtors includes an amount of £nil (2005 £37,350) due after more than one year

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £	2005 £
Trade creditors	184,968	361,698
Other taxation and social security	65,979	42,896
Accruals and deferred income	735,785	424,180
	<u>986,732</u>	<u>828,774</u>

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 £	2005 £
Amounts owed to parent undertaking	<u>8,935,930</u>	<u>8,503,718</u>

11 SHARE CAPITAL

	2006 £	2005 £
Authorised Equity 1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid Equity 1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

MASERGY COMMUNICATIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

12 RESERVES

	Profit and loss account £
At 1 June 2005	(7,136,353)
Loss for the year	(12,790)
At 30 June 2006	<u>(7,149,143)</u>

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Loss for the financial year	(12,790)	(1,240,215)
Shareholders' funds at 1 June 2005	<u>(7,135,353)</u>	<u>(5,895,138)</u>
Shareholders' funds at 30 June 2006	<u>(7,148,143)</u>	<u>(7,135,353)</u>

14 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £
Operating loss	(20,237)	(1,119,268)
Depreciation	158,084	129,204
(Increase) in debtors	(264,932)	(636,912)
Increase in creditors	<u>157,958</u>	<u>305,026</u>
Net cash inflow/(outflow) from operating activities	<u>30,873</u>	<u>(1,321,950)</u>

15 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2006 £	2005 £
Increase/(decrease) in cash in the year	102,527	(124,053)
Net cash outflow in respect of finance leases	-	1,393
Net cash inflow from long term debt	<u>(432,212)</u>	<u>(1,842,965)</u>
Change in net debt resulting from cash flows	<u>(329,685)</u>	<u>(1,965,625)</u>
Reanalysis of long term debt	-	(6,660,753)
Net debt at 1 July	<u>(8,365,688)</u>	<u>260,690</u>
Net debt at 30 June	<u>(8,695,373)</u>	<u>(8,365,688)</u>

MASERGY COMMUNICATIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

16 ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 2005 £	Cash flow £	Other Changes £	At 30 June 2006 £
Cash in hand	138,030	102,527	-	240,557
Finance leases	-	-	-	-
Debt due in more than one year	(8,503,718)	(432,212)	-	(8,935,930)
	<u>(8,365,688)</u>	<u>(329,685)</u>	<u>-</u>	<u>(8,695,373)</u>

17 CAPITAL COMMITMENTS

The company had no capital commitments at 30 June 2006 or 30 June 2005

18 CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2006 or 30 June 2005

19 LEASING COMMITMENTS

Operating lease payments amounting to £69,817 (2005 £44,765) are due within one year. The leases to which these amounts relate expire as follows

	Land and buildings £	Land and buildings £
Between one and five years	<u>53,000</u>	<u>53,000</u>

20 TRANSACTIONS WITH DIRECTORS /AND OTHER RELATED PARTIES

Masergy Communications Inc, funds the working capital requirements for Masergy Communications UK Limited

At 30 June 2006, Masergy Communications Inc, is owed £8,935,930 (2005 £8,503,718) by Masergy Communications UK Limited. This amount is currently non-interest bearing with no fixed repayment date. Masergy Communications Inc has confirmed that it will not demand repayment within twelve months.

The company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related party disclosures" and has not disclosed transactions with group undertakings.

There are no other related party transactions.

MASERGY COMMUNICATIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

21 ULTIMATE PARENT UNDERTAKING

The company is a subsidiary undertaking of Masergy Communications Inc, incorporated in the USA

The largest group in which the results of the company are consolidated is that headed by Masergy Communications Inc. The consolidated accounts of this company are not available to the public