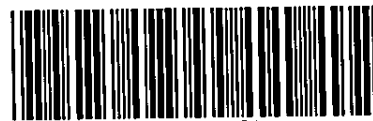


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**MASERGY
COMMUNICATIONS UK
LIMITED**

**DIRECTORS REPORT AND
FINANCIAL STATEMENTS**

**For the Year ended
30 JUNE 2010**

Company no 4170863

MASERGY COMMUNICATIONS UK LIMITED
DIRECTORS REPORT AND FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

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

MASERGY COMMUNICATIONS UK LIMITED
DIRECTORS REPORT AND FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

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The directors present their report together with the audited financial statements for the year ended 30 June 2010

Principal activities

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

Business review

There was a profit for the year after taxation amounting to £57,267 (2009 £550,538) 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

R Bodnar
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 director or their immediate families, or exercised by them, during the financial year

As the company is a 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

Financial risk management objectives and policies

The company uses various financial instruments which include cash, trade debtors, trade creditors and amounts due to group undertakings that arise directly from its operations The main purpose of these financial instruments is to raise finance for the company's operations The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below

The main risks arising from the company's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk The directors review and agree policies for managing each of these risks and they are summarised below These policies have remained unchanged from previous years

Currency risk

The company is exposed to translation and transaction foreign exchange risk

The company's financial liabilities in currencies other than sterling amount to £7,950,075 (2009 £7,241,820) Foreign exchange differences on retranslation of these liabilities are taken to the profit and loss account of the company

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

The company's policy throughout the year has been to achieve this objective through management's day to day involvement in business decisions rather than through setting maximum or minimum liquidity ratios

Interest rate risk

The company finances its operations through retained profits

The interest rate exposure of the financial assets and liabilities of the company as at 30 June 2010 is shown in the balance sheet. The balance sheet includes trade debtors and creditors as these do not attract interest and are therefore subject to fair value interest rate risk

Credit risk

The company's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises, therefore, from trade debtors

In order to manage credit risk management set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the financial controller on a regular basis in conjunction with debt ageing and collection history

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 UK 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

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate 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 2006. 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.

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.

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 during the year. Donations to United Kingdom charities amounted to £nil (2009 £nil).

Auditor

Giant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

ON BEHALF OF THE BOARD



R Bodnar
Director
14 October 2010

**INDEPENDENT AUDITOR'S REPORT 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 2010 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 the Companies Act 2006. 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 auditor's 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

As explained more fully in the Statement of Directors' Responsibilities set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MASERGY COMMUNICATIONS UK LIMITED**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

Richard Hagley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP
1 November 2010

Basis of Preparation

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

The company is exempt by virtue of section 401 of the Companies Act 2006 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 £3,802,071 (2009 £3,859,338) which the directors believe to be appropriate for the following reasons:

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 making funds available 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.

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
Fixtures, fittings and equipment	3 to 5 years
Plant and machinery	5 to 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 more than 24 hours notice.

MASERGY COMMUNICATIONS UK LIMITED
PROFIT AND LOSS ACCOUNT

For the year ended 30 JUNE 2010

	Note	2010 £	2009 £
Turnover	1	20,453,381	18,878,288
Cost of sales		<u>(10,999,889)</u>	<u>(10,900,930)</u>
Gross profit		9,453,492	7,977,358
Administrative expenses		<u>(8,430,822)</u>	<u>(7,011,646)</u>
Operating profit		1,022,669	965,712
Interest payable and similar charges	3	(1,714,094)	(415,174)
Interest receivable and similar income	4	<u>23,991</u>	<u>-</u>
(Loss)/profit on ordinary activities before taxation	2	(667,434)	550,538
Tax credit on (loss)/profit on ordinary activities	6	<u>724,701</u>	<u>-</u>
Retained profit for the year	13	<u>57,267</u>	<u>550,538</u>

All transactions arise from continuing operations

There were no recognised gains or losses other than the profit 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 2010

	Note	2010 £	2009 £
Fixed assets			
Tangible assets	7	1,772,065	1,768,311
Investments	8	1,000	1,000
		<u>1,773,065</u>	<u>1,769,311</u>
Current assets			
Debtors	9	2,377,608	2,171,599
Cash at bank and in hand		655,383	354,282
Deferred tax asset		1,223,661	498,960
		<u>4,256,653</u>	<u>3,024,841</u>
Creditors amounts falling due within one year	10	<u>(2,242,328)</u>	<u>(1,677,243)</u>
Net current assets		<u>2,014,325</u>	<u>1,347,598</u>
Total assets less current liabilities		<u>3,787,390</u>	<u>3,116,909</u>
Creditors amounts falling due after more than one year	11	<u>(7,589,461)</u>	<u>(6,976,247)</u>
		<u><u>(3,802,071)</u></u>	<u><u>(3,859,338)</u></u>
Capital and reserves			
Called up share capital	12	1,000	1,000
Profit and loss account	13	<u>(3,803,071)</u>	<u>(3,860,338)</u>
Equity shareholders' deficit	14	<u><u>(3,802,071)</u></u>	<u><u>(3,859,338)</u></u>

The financial statements were approved by the Board of Directors on 14 October 2010



R Bodnar - Director

Company registration no 4170863

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 2010

	Note	2010 £	2009 £
Net cash inflow from operating activities	15	1,917,360	594,950
Returns on investments and servicing of finance			
Interest received		-	-
Interest paid		-	-
Net cash inflow from returns on investments and servicing of finance		-	-
Taxation			
Capital expenditure and financial investment			
Proceeds on disposal of tangible fixed assets		(17,282)	(22,835)
Purchase of tangible fixed assets		(498,097)	(507,605)
Net cash outflow from capital expenditure and financial investment		(515,378)	(530,440)
Cash inflow before financing		1,401,982	64,509
Financing			
Capital element of finance lease rentals		-	-
(Decrease)/increase in long term debt		(1,100,881)	117,884
Net cash (outflow)/inflow from financing		(1,100,881)	117,884
Increase in cash		301,102	182,394

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 2010

1 Turnover

The turnover and profit before tax are attributable to the principal activity of the company. The whole of revenue is attributable to continuing operations and arises in the United Kingdom.

2 (Loss)/profit on ordinary activities before taxation

The (loss)/profit on ordinary activities before taxation is stated after charging

	2010 £	2009 £
Fees payable to the Company's auditors and its Associates in respect of		
- The audit of the accounts of the company	16,499	24,450
- Other services relating to taxation	6,165	7,958
Depreciation		
Tangible fixed assets owned	511,624	373,160
Hire of plant and machinery under operating leases	52,456	53,411

3 Interest payable and similar charges

	2010 £	2009 £
Exchange losses arising on amounts owed to group undertakings	1,714,094	388,378
Other exchange losses	-	26,786
	<u>1,714,094</u>	<u>415,164</u>

4 Interest receivable and similar income

	2010 £	2009 £
Exchange gains	23,991	-
Other interest receivable	-	-
	<u>23,991</u>	<u>-</u>

MASERGY COMMUNICATIONS UK LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

5 Directors and employees

Staff costs during the year were as follows

	2010 £	2009 £
Wages and salaries	815,847	591,019
Social security costs	8,075	66,348
	<u>823,922</u>	<u>657,267</u>

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

	2010 Number	2009 Number
Network operations	4	4
Sales	6	5
	<u>10</u>	<u>9</u>

None of the directors received any remuneration from the company

6 Tax on (loss)/profit on ordinary activities

Analysis of credit in the year

	2010 £	2009 £
Current taxation	-	-
Deferred taxation (credit)	(724,701)	-
Total (credit)/charge for the year	<u>(724,701)</u>	<u>-</u>

Reconciliation of charge for the period

(Loss)/profit on ordinary activities before tax	(667,434)	550,538
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 28% (2009 28%)	(186,884)	154,153
Expenses not deductible for tax purposes	15,183	-
Capital allowances for the period in excess of depreciation	-	(82,824)
Timing differences on provisions	-	(18,378)
Tax losses carried forward/(utilised)	171,701	(52,951)
Total current tax	<u>-</u>	<u>-</u>

Deferred tax asset

At 1 July 2009	(498,960)	(498,960)
Deferred tax credit	(724,701)	-
At 30 June 2010	<u>(1,223,661)</u>	<u>(498,960)</u>

MASERGY COMMUNICATIONS UK LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

Tax on (loss)/profit on ordinary activities (continued)

The tax charge is based on the (loss)/profit for the year and represents

(a) There is no charge to corporation tax due to the losses brought forward offset 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 28 % (2009 28%)

At 30 June 2010, the company had potential deferred tax assets of £1,223,661 (2009 £1,051,960) in relation to allowance tax losses and the difference between depreciation on qualifying assets and accelerated capital allowances. A deferred tax asset has been recognised on the basis of the directors' expectations that the company will utilise the losses in the foreseeable future

7 Tangible fixed assets

	Leasehold improve- ments £	Plant and machinery £	Fixtures, fittings and equipment £	Total £
Cost				
At 1 July 2009	72,261	3,588,889	40,254	3,701,404
Additions	-	515,378	-	515,378
Disposals	-	-	-	-
At 30 June 2010	<u>72,261</u>	<u>4,104,267</u>	<u>40,254</u>	<u>4,216,782</u>
Depreciation				
At 1 July 2009	55,032	1,837,854	40,207	1,933,093
Provided in the year	8,179	503,398	47	511,624
Disposals	-	-	-	-
At 30 June 2010	<u>63,211</u>	<u>2,341,252</u>	<u>40,254</u>	<u>2,444,717</u>
Net book amount at 30 June 2010	<u>9,050</u>	<u>1,763,015</u>	<u>-</u>	<u>1,772,065</u>
Net book amount at 30 June 2009	<u>17,229</u>	<u>1,751,035</u>	<u>47</u>	<u>1,768,311</u>

MASERGY COMMUNICATIONS UK LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

8 Fixed asset investments

	Shares in group undertakings £
Cost and net book amount	
At 1 July 2009 and at 30 June 2010	<u>1,000</u>

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

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

9 Debtors

	2010 £	2009 £
Trade debtors	1,581,388	1,443,586
Prepayments and accrued income	56,507	37,576
Other debtors	<u>739,713</u>	<u>690,436</u>
	<u>2,377,608</u>	<u>2,171,599</u>

Other debtors includes an amount of £234,682 (2009 £250,443) due after more than one year

10 Creditors: amounts falling due within one year

	2010 £	2009 £
Trade creditors	565,920	317,914
Other taxation and social security	289,176	190,434
Accruals and deferred income	<u>1,387,232</u>	<u>1,166,895</u>
	<u>2,242,328</u>	<u>1,677,243</u>

MASERGY COMMUNICATIONS UK LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

11 Creditors: amounts falling due after more than one year

	2010 £	2009 £
Amounts owed to parent undertaking	<u>7,589,461</u>	<u>6,976,247</u>

12 Share capital

	2010 £	2009 £
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>

13 Reserves

	Profit and loss account £
At 1 July 2009	(3,860,338)
Profit for the year	<u>57,267</u>
At 30 June 2010	<u>(3,803,071)</u>

14 Reconciliation of movements in equity shareholders' deficit

	2010 £	2009 £
Profit for the financial year	57,267	550,548
Shareholders' funds at 1 July 2009	<u>(3,859,338)</u>	<u>(4,409,886)</u>
Shareholders' funds at 30 June 2010	<u>(3,826,061)</u>	<u>(3,859,338)</u>

MASERGY COMMUNICATIONS UK LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

15 Net cash inflow from operating activities

	2010 £	2009 £
Operating profit	1,022,669	965,712
Depreciation	511,624	373,160
Increase in debtors	(206,009)	(375,984)
Decrease/(increase) in creditors	565,085	(367,938)
Foreign exchange movements	23,991	-
Net cash inflow from operating activities	<u>1,917,360</u>	<u>594,950</u>

16 Reconciliation of net cash flow to movement in net debt

	2010 £	2009 £
Increase in cash in the year	301,102	182,394
Net cash outflow/(inflow) from long term debt	1,076,888	(117,884)
Foreign exchange losses	(1,690,103)	(388,378)
Movement in net debt in the year	(312,113)	(323,868)
Net debt at 1 July 2009	(6,621,965)	(6,298,097)
Net debt at 30 June 2010	<u>(6,934,078)</u>	<u>(6,621,965)</u>

17 Analysis of changes in net debt

	At 1 July 2009 £	Cash flow £	Foreign exchange movements £	At 30 Jun 2010 £
Cash in hand	354,282	301,102	-	655,383
Debt due in more than one year	(6,976,247)	1,076,888	(1,690,103)	(7,589,461)
	<u>(6,621,965)</u>	<u>1,377,990</u>	<u>(1,690,103)</u>	<u>(6,934,078)</u>

18 Capital commitments

The company had no capital commitments at 30 June 2010 or 30 June 2009

19 Contingent assets/liabilities

There were no contingent liabilities at 30 June 2010 or 30 June 2009

20 Leasing commitments

Operating lease payments amounting to £52,456 (2009 £53,411) are due within one year. The leases to which these amounts relate expire as follows

MASERGY COMMUNICATIONS UK LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 JUNE 2010

	2010 Plant and machinery £	2009 Plant and machinery £
Between one and five years	<u>52,456</u>	<u>53,411</u>

21 Transactions with directors and other related parties

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

At 30 June 2010, Masergy Communications, Inc , is owed £7,589,461 (2009 £6,976,247) by Masergy Communications UK Limited This amount is currently non-interest bearing with no fixed repayment date Masergy Communications, Inc has confirmed that that it will not demand repayment within twelve months of the date of approval of these financial statements

During the year ended 30 June 2010 the company paid £6,627,017 (2009 £5,487,797) to Masergy Communications, Inc by way of a management charge

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

22 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