Verizon UK Limited

Report and financial statements
Registered number 2776038
31 December 2011

Contents

Directors' report

The directors present their annual report and financial statements of Verizon UK Limited (the "Company") for the year ended 31 December 2011

Principal activities

The principal activities of the Company comprise the provision of telecommunications services and international support services within the Verizon Communications Inc ("Verizon") group of companies

The principal risks and uncertainties facing the Company are similar to those facing other companies in the telecommunications sector, namely, credit risk from the Company's debtors, revenue risk from competing businesses, and operational dependence on a fibre network These risks are managed at a global and a European regional level, and are significantly mitigated by being an integral part of a leading global communications provider, delivering innovative, cost-effective, advanced communications connectivity to businesses, governments and consumers

Key performance indicators which are focused on by management are

- Revenue, Sales Order Value and Contribution per Sales Channel,
- Customer debt per Sales Channel,
- Sales, General and Administration expense as a % of Revenue

Each of these indicators is monitored by management against budget and against prior periods The indicators listed above are prepared at a European regional level rather than at an individual entity level and, accordingly, specific details relating to the indicators for the current and prior years have not been disclosed

The directors are satisfied with the performance of the Company for the year, in view of the performance of the European operations in regard to the indicators above and do not expect any significant changes in future activities of the business

Verizon UK Limited has two overseas branches Abu Dhabi and Dubai

The Company is expected to continue with its principal activity for the foreseeable future

Business review and trading performance

Performance in the year

The audited financial statements for the year ended 31 December 2011 are set out on pages 7 to 24 The profit for the year after taxation was £29,500,000 *(2010 £26,463,000)*

As at 31 December 2011 the Company's balance sheet shows net assets of £405,865,000 *(2010 £376,365,000)*

The directors do not recommend the payment of a final dividend *(2010 £nil)*

Telecommunications Services Agreement

Effective as of 1 January 2007, the Company entered into a replacement Tier 2 agreement with Verizon European Holdings Limited ("VEHL"), which had entered into a replacement Tier 1 agreement reflecting the centralized U S management of the global telecommunications network following Verizon's 2006 acquisition of the MCI group The other party to the Tier 1 agreement is MCI Communications Services, Inc , the U S entity that controls the overall management of the Verizon global network Fees chargeable between the Company and VEHL for the use and supply of telecommunications services are calculated according to a low risk methodology that is OECD compliant

Effective as of 1 January 2010, the Company and VEHL amended the Tier 2 agreement to provide for additional compensation to the Company for its performance of certain centralised support services

Directors' report (*continued*)

Going Concern

The company's business activities, together with the factors likely to affect its future development and position are set out in the Business Review section of the Directors' Report

The company is expected to continue to generate profits and positive cash flows for the foreseeable future The company participates in the group's treasury arrangements and shares banking arrangements with its parent company and fellow subsidiaries

The directors, having assessed future profit forecasts and the level of financial support available from Verizon Communications Inc , have no reason to believe that a material uncertainty exists about the ability of the company to ensure that it can meet its liabilities to third parties as they fall due and continue as a going concern for a period of at least a year from the date of approval of these financial statements

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company This is achieved through regular information bulletins which seek to achieve a common awareness of the financial and economic factors affecting the performance of the business

Charitable and political contributions

During the year the Company made no charitable donations (*2010 £851*) There were no political contributions made during the year (*2010 £nil*)

Directors and directors' interests

The directors who served during the year and to the date of this report were as follows

D Gaillard (resigned 28 June 2012)
C Aitkenhead
F De Maio (appointed 28 June 2012)

The directors have no interests in the share capital of the Company or any other Verizon group company that require disclosure in the UK statutory accounts

Directors' report *(continued)*

Events since the balance sheet date

No other matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect

(a) the Company's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Company's state of affairs in future financial years

Directors' Indemnity

The Company has granted indemnity to its directors against liability in respect of proceedings brought by third parties, subject to conditions set out in section 234 of the Companies Act 2006 Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the directors' report

Directors' statement as to disclosure of information to auditors

The directors at the time of approving the director's report are listed on page 1 Having made enquiries of the company's auditors, the directors confirm that

- To the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are not aware, and
- The directors have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

The directors have appointed Ernst & Young LLP as auditors for the Company Ernst & Young LLP are deemed to be reappointed in accordance with section 485 of the Companies Act 2006 by virtue of an elective resolution passed by the members on 21 August 2006

By order of the Board

C Aitkenhead
Director

17 September 2012

Reading International Business Park
Basingstoke Road
Reading
Berkshire
RG2 6DA

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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

Independent Auditor's Report to the members of Verizon UK Limited

We have audited the financial statements of Verizon UK Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25 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 of 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 auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 4), 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 and express an opinion on 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 Practice Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent Auditor's Report to the members of Verizon UK Limited

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

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 by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company's 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

Ernst & Young LLP

Debbie O'Hanlon (Senior Statutory Auditor)
for and on behalf of Ernst & Young, LLP, Statutory Auditor
Reading
Date 19 September 2012

Profit and loss account

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Turnover	2	**481,289**	523,018
Net operating expenses	3	**(474,156)**	(544,326)
Other operating income	4	**19,030**	47,754
Operating profit	9	**26,163**	26,446
Profit on sale of tangible fixed assets		**264**	751
Gain on sale of fixed asset investments	12	**3,764**	-
Profit on ordinary activities before interest and taxation		**30,191**	27,197
Other interest receivable and similar income	7	**760**	941
Interest payable and similar charges	8	**(1,359)**	(1,634)
Profit on ordinary activities before taxation		**29,592**	26,504
Tax on profit on ordinary activities	10	**(92)**	(41)
Profit for the financial year	21	**29,500**	26,463

All results were derived from continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2011

There are no recognised gains and losses other than those shown in the profit and loss account

Balance sheet
at 31 December 2011

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Tangible assets	*11*		**340,724**		347,541
Investments	*12*		**350**		350
			341,074		347,891
Current assets					
Stocks	*13*	**362**		511	
Debtors					
- due within one year	*14*	**206,680**		314,004	
- due after one year	*14*	**1,530**		630	
Cash		**18,154**		19,890	
		226,726		335,035	
Creditors: amounts falling due within one year	*15*	**(149,413)**		(279,730)	
Net current assets			**77,313**		55,305
Total assets less current liabilities			**418,387**		403,196
Creditors: amounts falling due after more than one year	*16*		**-**		(9,869)
Provisions for liabilities and charges	*17*		**(12,522)**		(16,962)
Net assets			**405,865**		376,365
Capital and reserves					
Called up share capital	*19*		**128,263**		128,263
Special reserve	*20*		**243,324**		242,817
Profit and loss account	*20*		**34,278**		5,285
Equity shareholders' funds	*21*		**405,865**		376,365

These financial statements were approved by the board of directors on 17 September 2012 and were signed on its behalf by

C Aitkenhead
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently throughout the year and the preceding year

Basis of accounting and preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards (UK GAAP)

The Company is exempt from the requirement to prepare group financial statements by virtue of Section 401 of the Companies Act 2006, and accordingly the financial statements present information about the Company as an individual undertaking and not about its group

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparation of the annual report and accounts

Related party disclosures

As the Company is a wholly owned subsidiary of Verizon Communications Inc ("Verizon"), the Company has taken advantage of the exemption contained in Financial Reporting Standard ("FRS") 8, and has therefore not disclosed transactions or balances with wholly owned subsidiaries of Verizon which form part of the group The consolidated financial statements of Verizon, within which the Company is included, can be obtained from its headquarters at 140 West Street, New York City, New York State, USA 10007

Cash flow statement

In accordance with FRS 1 (revised), Verizon UK Limited has not published a cash flow statement as its ultimate parent company, Verizon, which is incorporated in the United States of America, has published consolidated financial statements in which the cash flows of the Company are included

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Telecommunications network		
- Transmission equipment	-	4-20 years
- Customer facilities	-	4-15 years
- Network cable	-	40 years
Leasehold improvements	-	Over the term of the lease
Fixtures and fittings	-	3-7 years

Cost includes internal employee costs which are directly attributable to capital activities of the Company
Freehold land is not depreciated

An asset is regarded as being in the course of construction until ready for its intended use, when it is reclassified and depreciated over its estimated useful economic life

Notes *(continued)*

1 Accounting policies *(continued)*

Asset impairment
Tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable When an impairment indicator is identified, the carrying value of the income generating unit is compared with its recoverable amount Where the recoverable amount is less than the carrying value, an impairment is recognised

Stocks
Stocks of equipment held for use in the maintenance and expansion of the Company's telecommunication systems are stated at cost, less provision for obsolete and slow moving items

Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Pension costs
The Company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Company in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Taxation
The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover
Revenue is recognised on the basis of usage of networks, facilities and equipment or the provision of services In general, fixed fees for circuits and certain other services may be billed in advance or in the month of usage, but are recognised as revenue in the month of usage Where fees are based on traffic and variable fees, they are generally billed in arrears and recognised in the month of usage At the start of a contract, there may be fees for equipment, customer activation and similar set up costs Where the costs and fees are separately identifiable the revenue for these items is recognised when the equipment is installed in accordance with the contractual specifications and ready for the customer's use Revenue for maintenance and monitoring service is recognised over the term of the contracts as we provide the services Where there is a contractual arrangement with multiple deliverables that cannot be considered separate for accounting purposes, the revenue is recognised evenly over the term of the contract

Other operating income
Other operating income derives from the service agreement with Verizon European Holdings Limited ("VEHL") The Company provides telecommunications services within the UK to service Verizon Group customers, and the Verizon Group provides telecommunications services outside the UK to service the Company's customers In consideration for such services, fees are payable The net charge/income is reflected in the Profit and Loss account Effective as of 1 January 2010, the Company and VEHL amended the services agreement to provide for additional compensation to the Company for its performance of certain centralised support services, this is further explained in the Directors' Report

Foreign currency
Transactions denominated in foreign currencies are recorded at the rate of exchange at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date Any gains 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 These financial statements are presented in the currency of the primary economic environment in which the company operates (its functional currency) which is pounds sterling

Provisions
A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, the expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability

Provision is made for onerous leases where the unavoidable costs of meeting the obligation under the lease exceed the economic benefits to be received under it in accordance with FRS12 "Provisions, Contingent Liabilities and Contingent Assets" Costs provided for represent the minimum obligation under the lease, net of any contributions where the property is sub-let, and are discounted

2 Turnover

Turnover is based on the invoiced value, exclusive of VAT, of services supplied by the Company in the normal course of business, in accordance with the revenue recognition policy in Note 1 The total turnover of the Company for the year has been derived from its one principal continuing activity which is wholly undertaken in the United Kingdom

Notes *(continued)*

3 Net operating expenses

	2011	2010
	£000	£000
Other external charges	**282,526**	363,058
Salary and associated costs (Note 5)	**143,535**	133,998
Depreciation (Note 11)	**48,095**	47,270
	474,156	544,326

4 Other operating income

In accordance with its service agreement with VEHL, the Company provides telecommunications services within the UK to service Verizon Group customers, and the Verizon Group provides telecommunications services outside the UK to service the Company's customers In consideration for such services, fees are payable The net charge/income is reflected in the Profit and Loss account

In accordance with this service agreement, the Company received net income in 2011 of £19,030,000 *(2010 £47,754,000)*

5 Staff costs

The average number of persons employed by the Company (including executive directors) during the year was as follows

	Number of employees	
	2011	2010
Operations	**470**	791
Sales	**691**	389
Administration	**463**	482
	1,624	1,662

Notes *(continued)*

5 Staff costs *(continued)*

The aggregate payroll costs of these persons were as follows

	2011 £000	2010 £000
Wages and salaries	**119,667**	112,294
Social security costs	**15,165**	13,577
Other pension costs (Note 23)	**8,703**	8,127
	143,535	133,998

Included in wages and salaries are redundancy costs of £3,108,000 *(2010 £4,179,000)*

6 Remuneration of directors

Both directors are employed by Verizon group companies and their service as directors is incidental to their main employment Consequently, they do not receive emoluments for their services as directors of this company

Both of the directors are employed by the Company and their total remuneration for the year, including bonus, benefits, and pension contributions to a money purchase scheme was £487,000 *(2010 £426,000)*

The aggregate remuneration of the highest paid director was £318,000 *(2010 £299,000)*

7 Other interest receivable and similar income

	2011 £000	2010 £000
Bank interest	**47**	35
Loans to fellow group undertakings	**713**	742
Other	**-**	164
	760	941

Notes *(continued)*

8 Interest payable and similar charges

	2011 £000	2010 £000
Loans from fellow group undertakings	**553**	679
Other	**17**	6
Discounted provisions Unwinding of discount	**789**	949
	1,359	1,634

9 Operating profit

	2011 £000	2010 £000
Operating profit is stated after charging / (crediting)		
Depreciation on tangible fixed assets - owned	**48,095**	47,270
Auditors' remuneration		
- audit of the financial statements (i)	**850**	850
- statutory audit (ii)	**1,468**	1,690
- other services (iii)	**1,258**	1,974
Operating lease rentals		
- plant and machinery	**1,492**	1,772
- other	**34,487**	27,829
Net foreign exchange gain	**(2,360)**	(1,021)

The auditors' remuneration charge includes costs incurred in relation to
(i) the statutory audit of the Company,
(ii) the statutory audit of other group entities,
(iii) corporate and indirect tax services

Notes *(continued)*

10 Taxation

	2011	2010
	£000	£000
UK corporation tax at 26 5% (2010 28%)		
Current tax	**-**	-
Overprovision in respect of prior years	**-**	-
Withholding tax	**92**	41
Tax expense	**92**	41

The table shown reconciles the UK statutory tax expense to the Company's profit on ordinary activities before taxation

	2011	2010
	£000	£000
Profit on ordinary activities before tax	**29,592**	26,504
Current tax at 26 5% *(2010 28%)*	**7,842**	7,421
Effects of		
Expenses / (income) not deductible / (taxable)	**(785)**	178
Fixed asset timing differences	**12,695**	(9,519)
Other timing differences	**(1,008)**	(638)
Group relief (claimed) / surrendered	**-**	2,765
Tax losses (utilised) / unutilised	**(18,744)**	(207)
Withholding tax	**92**	41
Tax expense	**92**	41

Notes *(continued)*

11 Tangible fixed assets

	Assets under construction	Telecoms network	Leasehold improvements, fixtures and fittings	Total
	£000	**£000**	**£000**	**£000**
Cost				
At 1 January 2011	70,762	1,214,894	367,008	1,652,664
Additions	18,092	25,744	3,051	46,887
Transfers	(61,527)	49,106	7,160	(5,261)
Disposals	-	(3,847)	(770)	(4,617)
At 31 December 2011	**27,327**	**1,285,897**	**376,449**	**1,689,673**
Depreciation				
At 1 January 2011	-	996,342	308,781	1,305,123
Charge for year	-	33,362	14,733	48,095
Disposals	-	(3,867)	(402)	(4,269)
At 31 December 2011	**-**	**1,025,837**	**323,112**	**1,348,949**
Net book value				
At 31 December 2011	**27,327**	**260,060**	**53,337**	**340,724**
At 31 December 2010	70,762	218,552	58,227	347,541

Notes *(continued)*

12 Fixed asset investments

Verizon UK Limited has investments in the following principal subsidiary undertakings

Name of undertaking	Country of incorporation	Principal activities	Description of shares held	
MK International Limited	England and Wales	Investment holding company	Ordinary Shares	100%
Fox Court Nominees Limited	England and Wales	Holding minority shareholdings in certain undertakings of the Verizon group	Ordinary Shares	100%
MCI WorldPhone Limited	England and Wales	Provider of telecommunications services to certain Verizon group customers who are resident in the European Union	Ordinary Shares	100%

On the 22 July 2011 the Company transferred its ownership of Verizon International Limited (formerly Cybertrust UK Limited) to Verizon Communications Inc , resulting in a gain of £3,764,000

Subsidiary undertakings	£000
Cost	
At 1 January 2011	653,475
Additions	-
Disposals	-
At 31 December 2011	**653,475**
Amounts written off	
At 1 January 2011	653,125
Impairment	-
At 31 December 2011	**653,125**
Net book value	
At 31 December 2011	**350**
At 31 December 2010	350

Notes *(continued)*

13 Stocks

	2011 **£000**	2010 £000
Network equipment and items for resale	**362**	511

14 Debtors

	2011 **£000**	2010 £000
Amounts falling due within one year		
Trade debtors	**50,518**	61,875
Amounts owed by group undertakings	**123,217**	221,102
Other debtors	**6**	5
Prepayments	**18,904**	16,372
Accrued income	**14,035**	14,650
	206,680	314,004
Amounts falling due after one year		
Other debtors	**1,530**	630
	208,210	314,634

Notes *(continued)*

15 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**8,772**	13,962
Amounts owed to group undertakings	**73,339**	172,556
Taxation and social security	**5,623**	5,225
Accruals and deferred income	**57,677**	87,033
Other creditors	**4,002**	954
	149,413	279,730

16 Creditors: amounts falling due after more than one year

	2011 £000	2010 £000
Deferred income	-	9,869

17 Provision for liabilities and charges

Provision for liabilities and charges relates to onerous property leases, lease dilapidation costs, and property and litigation matters

The onerous lease provision covers the difference between future property rentals of premises which the Company has vacated and expected sub-let income The future net cash outflows have been discounted at an annual interest rate of 7 5% *(2010 7 5%)*

The dilapidation provision was created to cover the estimated costs that will be incurred at the end of each of the Company's facility leases The future cash outflows have been discounted at an annual interest rate of *5 5% (2010 5 5%)*

Management have carried out a review of property and litigation related matters As a result, a provision was created to cover remedial works and litigation identified

	Onerous leases £000	Dilapidations £000	Property and legal £000	Total £000
At 1 January 2011	3,231	11,041	2,690	16,962
Amounts provided / (reversed)	-	(2,072)	-	(2,072)
Unwinding of discount factor	234	555	-	789
Utilised during the year	(467)	-	(916)	(1,383)
Transfer	-	-	(1,774)	(1,774)
At 31 December 2011	**2,998**	**9,524**	**-**	**12,522**

Notes *(continued)*

18 Deferred tax

As at 31 December 2011 a deferred tax asset of £172 million at a rate of 25% *(2010 £194 million at a rate of 27%)* relating to timing differences has not been recognised A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted There is currently insufficient evidence that suitable income will be generated, and therefore the deferred tax asset has not been recognised

The Company estimates that it has unclaimed capital allowances as at 31 December 2011 of £849 million *(2010 £795 million)*

In his Budget 2011 on 23 March 2011, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 26% This reduced rate applied from 1 April 2011 and was enacted using secondary legislation, called the Provisional Collection of Taxes Act A further 1% rate reduction to 25% was also announced and it was intended that this would be effective from 1 April 2012 However, in his Budget of 21 March 2012, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate These included a reduction in the UK corporation tax rate from 25% to 24% effective from 1 April 2012 (and substantively enacted as of 26 March 2012 and dealt with by Resolution under the Provisional Collection of Taxes Act) The UK government intends to further reduce the UK corporate income tax rate, to 22%, in annual increments of 1% per annum which will be enacted in successive Finance Bills Consequently, the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements

Notes *(continued)*

19 Called up share capital

	2011	2010
	£000	£000
Authorised		
255,304,200 ordinary shares of £1 each	**255,304**	255,304
Allotted, called up and fully paid		
128,263,262 ordinary shares at £1 each	**128,263**	128,263

20 Reserves

	Special Reserve	**Profit and loss account**	**Total**
	£000	**£000**	**£000**
At 1 January 2011	242,817	5,285	248,102
Profit for the financial year	-	29,500	29,500
Transfers	507	(507)	-
At 31 December 2011	**243,324**	**34,278**	**277,602**

By means of a Special Resolution dated 15 November 2004, and in accordance with Section 381A of the Companies Act 1985, the Company reduced its share premium account by £1,358,737,799 to zero This reduction was approved by an Order of the High Court of Justice, Chancery Division on 8 December 2004, and registered at Companies House on 10 December 2004 The purpose of the reduction was to create a special reserve that could be used to offset any deficits in the Company's profit and loss account that exist on or after 31 December 2004, up to the amount of the reserve created

Following this Resolution, in order to protect the Company's creditors, the Company committed to transfer from the profit and loss reserve to the special reserve (which is non-distributable for so long as debts of the Company remain which existed on 31 December 2004) amounts arising from any of the following transactions

a) any distribution to the Company from any of its subsidiaries, earned from profits up to 31 December 2004,

b) any realised profits from sales of fixed assets (where the fixed asset was held on 31 December 2004),

c) any release of provisions that existed at 31 December 2004 (i e where a provision has proved to be surplus to requirements)

In 2011, this resulted in a transfer of £507,000 (*2010 £1,330,000*) from the profit and loss reserve to the special reserve

Notes *(continued)*

21 Reconciliation of movements in equity shareholders' funds

	2011 £000	2010 £000
Profit for the year	**29,500**	26,463
Opening equity shareholders' funds	**376,365**	349,902
Closing equity shareholders' funds	**405,865**	376,365

22 Financial commitments

a) Capital commitments are as follows

	2011 £000	2010 £000
Contracted but not provided for	**2,751**	17,642

Notes *(continued)*

22 Financial commitments *(continued)*

b) Annual commitments under non-cancellable operating leases are as follows

	2011		2010	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire				
Within one year	**-**	**7,228**	27	7,129
Between one and five years	**1,010**	**1,916**	947	309
After more than five years	**15,166**	**1,619**	15,350	575
	16,176	**10,763**	16,324	8,013

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs

Other operating lease commitments relate to vehicles, office equipment and telecommunications circuits Typically these telecommunications circuits contracts are for a minimum period of 12 months but can be cancelled by the Company at one to five weeks notice following this initial term The commitment in respect of these contracts is £5,795,000 *(2010 £5,998,000)* Further telecommunications circuits contracts, which cannot be cancelled and last for a duration of over 5 years, have an annual lease charge of £1,619,000 *(2010 £575,000)*

c) Intra-EMEA Funding Agreement
A Letter of Agreement exists whereby each of the EMEA Companies undertakes to loan its excess available cash to any EMEA company with a cash requirement

These loans are unsecured, interest bearing inter-company loans and are due and payable within 5 days of demand and no later than 15 years after the date the loan was made

23 Pension obligations

The Company contributes to a number of defined contribution schemes for which the pension cost charged for the year amounted to £8,703,000 *(2010 £8,127,000)*

There were no outstanding or prepaid contributions at either the beginning or end of the financial year

Notes *(continued)*

24 Utimate parent undertaking and controlling party

The Company is a wholly owned subsidiary undertaking of Verizon European Holdings Limited, a company incorporated in the United Kingdom

The Company is a wholly owned indirect subsidiary of Verizon Communications Inc , a company incorporated in the United States of America, whose principal place of business is 140 West Street, New York City, New York State, USA 10007 and is the ultimate parent undertaking and controlling party of the Company

Verizon Communications Inc is the ultimate parent company of the largest and smallest group in which the results of the Company are consolidated

25 Events since the balance sheet date

No matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect the Company's operations in future financial years, results of those operations in future financial years or the Company's state of affairs in future financial years