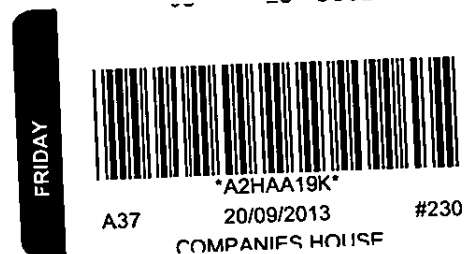


Verizon UK Limited

Report and financial statements

Registered number 2776038

31 December 2012



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Directors' report

The directors present their annual report and financial statements of Verizon UK Limited (the "Company") for the year ended 31 December 2012

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. The Company also has exposure to foreign currency risk which arises from sales and purchases in currencies other than its functional currency. 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.

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 2012 are set out on pages 7 to 25. The profit for the year after taxation was £23,785,000 (2011 £29,500,000).

As at 31 December 2012 the Company's balance sheet shows net assets of £429,650,000 (2011 £405,865,000).

Turnover has decreased from £481,289,000 in 2011, to £451,459,000 in 2012. This decrease in turnover of 6.2% was primarily due to a reduction in Wholesale voice revenue reflecting a strategic move by the company away from low margin voice traffic services and a smaller planned reduction in individual customer equipment sales. As a result of this market strategy, the mix of Retail business increased to 85.0% of total revenue in 2012 and the Strategic Services product mix increased 3.4% to 68.3%.

The profit for the financial year was £23,785,000 (2011 £29,500,000). In comparison with the preceding year, the 2012 operating profit has decreased by £1,953,000 to £24,210,000. This is driven by the operating profit impact from the revenue decrease of £29,830,000 and operating expense increase of £6,613,000 being partially offset by an increase in Telecommunication Service Fees of £34,490,000.

The directors do not recommend the payment of a final dividend (2011 £nil).

Future developments

The directors are satisfied with the performance of the Company for the year and do not expect any significant changes in future activities of the business.

Future growth will be focused on further increasing the Retail and Strategic Services product mix.

In recent years Verizon has embarked upon a strategic transformation to meet the changing needs of our customers. To support this change the Company is focusing efforts around achieving higher margin from existing products and growing specific areas of our business, particularly Data and Strategic services, including Cloud Computing services and Security and Professional Services.

Despite the challenging economic environment, the Company will continue to focus on growing key areas of our business by providing superior network reliability and offering innovative product bundles to our customers. It will also continue to focus on cost efficiencies to attempt to offset adverse impacts from unfavourable economic conditions and intense competitive pressure.

Directors' report (*continued*)

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.

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.

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)

Directors' report (*continued*)

Events since the balance sheet date

No matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect

- (a) the current and future Company's operations, or
- (b) the current or future state of affairs of the Company

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.

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.

Disclosure of information to auditors

So far as the directors at the date of approving this report are aware, there is no relevant audit information, being information needed by the auditor in connection with preparing this report, of which the auditor is unaware. Having made enquiries of the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the Board



C Aitkenhead
Director

12 September 2013

Reading International Business Park
Basingstoke Road
Reading
Berkshire
RG2 6DA

Directors' responsibilities statement

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 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 26. 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 Directors' Responsibilities Statement 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 Report and financial statements 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 2012 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 (*continued*)

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 *13 September 2013*

Profit and loss account
for the year ended 31 December 2012

	<i>Notes</i>	2012 £000	2011 £000
Turnover	2	451,459	481,289
Net operating expenses	3	(480,769)	(474,156)
Other operating income	4	53,520	19,030
Operating profit	9	24,210	26,163
Profit on sale of tangible fixed assets		308	264
Gain on sale of fixed asset investments	12	-	3,764
Profit on ordinary activities before interest and taxation		24,518	30,191
Other interest receivable and similar income	7	716	760
Interest payable and similar charges	8	(1,326)	(1,359)
Profit on ordinary activities before taxation		23,908	29,592
Tax on profit on ordinary activities	10	(123)	(92)
Profit for the financial year	21	23,785	29,500

All results were derived from continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2012

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

Balance sheet
at 31 December 2012

	Notes	2012		2011	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11		322,003		340,724
Investments	12		350		350
			<u>322,353</u>		<u>341,074</u>
Current assets					
Stocks	13	315		362	
Debtors					
- due within one year	14	185,082		136,887	
- due after one year	14	69,029		71,323	
Cash		15,166		18,154	
		<u>269,592</u>		<u>226,726</u>	
Creditors: amounts falling due within one year	15	(140,860)		(144,495)	
Net current assets			<u>128,732</u>		<u>82,231</u>
Total assets less current liabilities			<u>451,085</u>		<u>423,305</u>
Creditors: amounts falling due after more than one year	16		(6,117)		(4,918)
Provisions for liabilities and charges	17		(15,318)		(12,522)
Net assets			<u>429,650</u>		<u>405,865</u>
Capital and reserves					
Called up share capital	19		128,263		128,263
Special reserve	20		243,756		243,324
Profit and loss account	20		57,631		34,278
Equity shareholders' funds	21		<u>429,650</u>		<u>405,865</u>

These financial statements were approved by the board of directors on 12 September 2013 and were signed on its behalf by



C Aitkenhead
Director

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of accounting and preparation

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

In preparing the financial statements for the current year, certain prior year amounts have been reclassified to conform to current year presentation

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

Consolidation

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

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being no less than twelve months from the date that the financial statements are approved. 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

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses

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

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

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.

Share-based compensation - Cash settled transactions

The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value of share-based compensation is established initially at the award grant date and at each balance sheet date thereafter until the share awards are settled. From the end of the vesting period until settlement, the liability represents the full fair value of the share award as of the balance sheet date. Changes in the carrying amount for the liability are recognised in the profit or loss for the period.

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.

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

	2012 £000	2011 £000
Other external charges	284,969	282,526
Salary and associated costs (Note 5)	148,772	143,535
Depreciation (Note 11)	47,028	48,095
	<u>480,769</u>	<u>474,156</u>

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 2012 of £53,520,000 (2011 £19,030,000).

5 Staff costs

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

	Number of employees	
	2012	2011
Operations	448	470
Sales	699	691
Administration	437	463
	<u>1,584</u>	<u>1,624</u>

Notes (continued)

5 Staff costs (continued)

The aggregate payroll costs of these persons were as follows

	2012 £000	2011 £000
Wages and salaries	124,365	119,667
Social security costs	15,618	15,165
Other pension costs (Note 24)	8,789	8,703
	<u>148,772</u>	<u>143,535</u>

Included in wages and salaries are redundancy costs of £3,619,000 (2011 £3,108,000)

6 Remuneration of directors

All 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.

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 £533,000 (2011 £487,000).

The aggregate remuneration of the highest paid director was £243,000 (2011 £318,000).

7 Other interest receivable and similar income

	2012 £000	2011 £000
Bank interest	50	47
Loans to fellow group undertakings	666	713
	<u>716</u>	<u>760</u>

Notes (continued)

8 Interest payable and similar charges

	2012 £000	2011 £000
Loans from fellow group undertakings	561	553
Other	-	17
Discounted provisions Unwinding of discount	765	789
	<u>1,326</u>	<u>1,359</u>

9 Operating profit

	2012 £000	2011 £000
<i>Operating profit is stated after charging / (crediting)</i>		
Depreciation on tangible fixed assets - owned	47,028	48,095
Auditors' remuneration		
- audit of the financial statements (i)	850	850
- statutory audit (ii)	1,434	1,468
- other services (iii)	1,419	1,258
Operating lease rentals		
- plant and machinery	1,368	1,492
- other	33,840	34,487
Net foreign exchange loss/(gain)	4,468	(2,360)

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

	2012 £000	2011 £000
<i>UK corporation tax at 24.5% (2011: 26.5%)</i>		
Current tax	-	-
Overprovision in respect of prior years	-	-
Withholding tax	123	92
Tax expense	123	92

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

	2012 £000	2011 £000
Profit on ordinary activities before tax	23,908	29,592
Current tax at 24.5% (2011: 26.5%)	5,857	7,842
Effects of		
Expenses / (income) not deductible / (taxable)	77	(785)
Fixed asset timing differences	11,555	12,695
Other timing differences	(907)	(1,008)
Tax losses utilised	(16,582)	(18,744)
Withholding tax	123	92
Tax expense	123	92

Notes (continued)

11 Tangible fixed assets

	Assets under construction	Telecoms network	Leasehold improvements, fixtures and fittings	Total
	£000	£000	£000	£000
<i>Cost</i>				
At 1 January 2012	27,327	1,285,897	376,449	1,689,673
Additions	18,128	8,954	1,359	28,441
Transfers	(25,383)	21,113	4,270	-
Disposals	-	(161)	(6,135)	(6,296)
At 31 December 2012	20,072	1,315,803	375,943	1,711,818
<i>Depreciation</i>				
At 1 January 2012	-	1,025,837	323,112	1,348,949
Charge for year	-	33,900	13,128	47,028
Disposals	-	(113)	(6,049)	(6,162)
At 31 December 2012	-	1,059,624	330,191	1,389,815
<i>Net book value</i>				
At 31 December 2012	20,072	256,179	45,752	322,003
At 31 December 2011	27,327	260,060	53,337	340,724

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 to Verizon Communications Inc , resulting in a gain of £3,764,000

<i>Subsidiary undertakings</i>	£000
<i>Cost</i>	
At 1 January 2012	653,475
At 31 December 2012	653,475
<i>Amounts written off</i>	
At 1 January 2012	653,125
At 31 December 2012	653,125
<i>Net book value</i>	
At 31 December 2012	350
At 31 December 2011	350

Notes (continued)

13 Stocks

	2012 £000	2011 £000
Network equipment and items for resale	315	362

14 Debtors

	2012 £000	2011 £000
<i>Amounts falling due within one year</i>		
Trade debtors	52,810	50,518
Amounts owed by group undertakings	98,902	53,424
Other debtors	13	6
Prepayments	16,921	18,904
Accrued income	16,436	14,035
	185,082	136,887
<i>Amounts falling due after one year</i>		
Amounts owed by group undertakings	66,736	69,793
Other debtors	2,293	1,530
	254,111	208,210

In preparing the financial statements for the current year, certain amounts due from group companies have been reclassified between short and long term debtors to more accurately reflect the substance of the transaction and conform to current year presentation

Notes (continued)

15 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	7,020	8,772
Amounts owed to group undertakings	53,795	73,339
Taxation and social security	5,465	5,623
Accruals and deferred income	59,606	47,309
Other creditors	4,176	4,002
Cash settled share-based payments	10,798	5,450
	<u>140,860</u>	<u>144,495</u>

16 Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
Deferred income	1,016	-
Cash settled share-based payments	5,101	4,918
	<u>6,117</u>	<u>4,918</u>

17 Provision for liabilities and charges

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

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% (2011: 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% (2011: 5.5%).

	Onerous leases £000	Dilapidations £000	Total £000
At 1 January 2012	2,998	9,524	12,522
Amounts provided	2,539	-	2,539
Unwinding of discount factor	232	533	765
Utilised during the year	(508)	-	(508)
	<u>5,261</u>	<u>10,057</u>	<u>15,318</u>
At 31 December 2012	5,261	10,057	15,318

Notes (continued)

18 Deferred tax

As at 31 December 2012 a deferred tax asset of £153 million at a rate of 23% (2011 £172 million at a rate of 25%) 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 taxable profits 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 2012 of £875 million (2011 £849 million).

In his Budget 2012 on 21 March 2012, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 24%. This reduced rate applied from 1 April 2012 and was enacted using secondary legislation. A further 1% rate reduction to 23% was also announced and it was intended that this would be effective from 1 April 2013.

However, in his Budget of 21 March 2013, 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 23% to 21% effective from 1 April 2014 and to further reduce the UK corporate income tax rate to 20%, effective from 1 April 2015, 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

	2012 £000	2011 £000
<i>Authorised</i>		
255,304,200 ordinary shares of £1 each	255,304	255,304
<i>Allotted, called up and fully paid</i>		
128,263,262 ordinary shares at £1 each	128,263	128,263

20 Reserves

	Special Reserve £000	Profit and loss account £000	Total £000
At 1 January 2012	243,324	34,278	277,602
Profit for the financial year	-	23,785	23,785
Transfers	432	(432)	-
At 31 December 2012	243,756	57,631	301,387

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:

- any distribution to the Company from any of its subsidiaries, earned from profits up to 31 December 2004,
- any realised profits from sales of fixed assets (where the fixed asset was held on 31 December 2004),
- any release of provisions that existed at 31 December 2004 (i.e. where a provision has proved to be surplus to requirements).

In 2012, this resulted in a transfer of £432,000 (2011: £507,000) from the profit and loss reserve to the special reserve.

Notes (continued)

21 Reconciliation of movements in equity shareholders' funds

	2012 £000	2011 £000
Profit for the year	23,785	29,500
Opening equity shareholders' funds	405,865	376,365
Closing equity shareholders' funds	429,650	405,865

22 Share-based payments

Details of the Long Term Incentive Plan

The Company participates in the Verizon Communications Inc ("Verizon") Long Term Incentive Plan ("the Plan" or "LTI Plan") The Plan permits the granting of restricted stock units (RSUs) and performance stock units (PSUs)

The objective of the Plan is to reward executives in a manner that aligns remuneration with the creation of shareholder value As such, LTI Plan grants are only made to executives who are able to influence generation of shareholder value and thus have an impact on the performance of Verizon and its subsidiaries

The LTI Plan grants to executives are delivered in the form of PSUs and RSUs, which represent shares of Verizon stock that generally vest at the end of the third year after the grant 40% of the LTI Plan opportunity is in the form of RSUs and 60% in the form of PSUs

Restricted Stock Units

The Plan provides for the grant of RSUs that vest at the end of the third year after the grant The RSUs are classified as liability awards because the RSU awards are paid in cash upon vesting The RSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon's stock

Performance Stock Units

The Plan also provides for grants of PSUs that generally vest at the end of the third year after the grant As defined by the Plan, the Human Resources Committee of the Board of Directors of Verizon determines the number of PSUs a participant earns based on the extent to which the corresponding performance goals have been achieved over the three year performance cycle The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon common stock as well as performance relative to the targets Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award

Notes (continued)

22 Share-based payments (continued)

The following share-based payment arrangements were in existence at 31 December 2012

Grant award year	Grant date	Number of RSUs	Fair value at grant date (£000)	Number of PSUs	Fair value at grant date (£000)
2010	04/02/2010	77,373	1,374	116,050	2,061
2011	03/02/2011	62,600	1,425	93,891	2,138
2012	02/03/2012	70,890	1,778	106,326	2,667

All RSUs and PSUs granted generally vest at the end of the third year after the grant date, subject to any variations determined by the Board of Directors of Verizon

Where a participant ceases employment prior to the vesting of their stock units, the stock units are forfeited unless cessation of employment is due to retirement (at least six months after the start of the award cycle) or involuntary termination initiated by the Company

Fair value of RSUs and PSUs

The Company measures and recognises compensation expense for all stock based compensation awards made to employees and directors based on estimated fair values

The carrying amount of the liability relating to the cash settled options at 31 December 2012 is £15,899,000 (2011 £10,368,000) Cash settled share based payments valued at £5,492,000 vested and were settled during 2012 (2011 £5,949,000)

Movements in RSUs and PSUs during the period

The following table illustrates the number of, and movements in, RSUs and PSUs during the year

	2012		2011	
	Number of RSUs	Number of PSUs	Number of RSUs	Number of PSUs
Balance at 1 January	227,672	341,380	265,642	398,192
Granted during the year	70,890	106,326	62,600	93,891
Settled during the year	(87,699)	(131,439)	(100,570)	(150,703)
Balance at 31 December	<u>210,863</u>	<u>316,267</u>	<u>227,672</u>	<u>341,380</u>

Notes (continued)

23 Financial commitments

a) Capital commitments are as follows

	2012 £000	2011 £000
Contracted but not provided for	5,699	2,751

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

	2012		2011	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	21	7,209	-	7,228
Between one and five years	657	4,377	1,010	1,916
After more than five years	15,805	56	15,166	1,619
	<u>16,483</u>	<u>11,642</u>	<u>16,176</u>	<u>10,763</u>

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 £4,516,000 (2011 £5,795,000). Further telecommunications circuits contracts, which cannot be cancelled and last for a duration of over 5 years, have an annual lease charge of £56,000 (2011 £1,619,000).

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.

24 Pension obligations

The Company contributes to a number of defined contribution schemes for which the pension cost charged for the year amounted to £8,789,000 (2011 £8,703,000).

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

Notes (continued)

25 Ultimate 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

26 Events since the balance sheet date

No matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect the Company's operations in the current or future financial years