Registration number: 2776038

Verizon UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

Verizon UK Limited

Contents

Verizon UK Limited

Company Information

Directors	C Aitkenhead F De Maio
Registered office	Reading International Business Park Basingstoke Road Reading Berkshire RG2 6DA
Auditors	Ernst & Young LLP Statutory Auditor Reading RG1 1YE

Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

Business review
Performance in the year

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

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

Turnover has decreased from £412,698,000 in 2015 to £405,620,000 in 2016. This decrease in turnover of 1.7% was due to a reduction in Strategic Communications of 30% and Core Voice and Data Networking Services of 14% (reflecting a strategic move by the company away from low margin voice traffic services), together with a decrease in Private IP and Ethernet sales of 7%, partially offset by an increase in Professional Services of 50% and an increase in Customer Premise Equipment sales of 58%. The mix of Retail business increased from 81.2% to 84.8% of total revenue in 2016 and the Strategic Services product mix increased from 74.8% to 75.2%.

The profit on ordinary activities before taxation was £102,047,000 (2015: *£51,808,000)*. In comparison with the preceding year, the 2016 operating profit has increased by £49,776,000 to £101,613,000. This is driven by the operating profit impact from an operating expense decrease of £56,060,000 and an increase in Telecommunication Service Fees of £1,472,000. The operating expense decrease is primarily due to foreign exchange gains as a result of the movement in sterling rates following the United Kingdom's intention to leave the European Union.

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 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.

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.

Principal risks and uncertainties

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.

Approved by the Board on 18 May 2017 and signed on its behalf by:

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C Aitkenhead
Director

Verizon UK Limited

Directors' Report for the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

The audited financial statements for the year ended 31 December 2016 are set out on pages 9 to 34.

Branches outside the United Kingdom
Verizon UK Limited has two overseas branches in Abu Dhabi and Dubai.

Dividends
The directors do not recommend the payment of a final dividend (2015: £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 increasing the Retail and Strategic Services product mix as set out in the Strategic report.

Going concern
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.

Events since the balance sheet date
On 2nd May 2017 the Group announced it has entered into an agreement to sell it's cloud-enabled managed hosting services and operations. The transaction is expected to close later this year.

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

C Aitkenhead

F De Maio

Directors' liabilities
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.

Employment of disabled persons
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.

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 the 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.

Approved by the Board on 18 May 2017 and signed on its behalf by:

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C Aitkenhead
Director

Reading International Business Park
Basingstoke Road
Reading
Berkshire
RG2 6DA

Verizon UK Limited

Directors' Rcsponsibilitics Statement

The directors are responsible for preparing the Annual 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), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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 adequate 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 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 2016 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity, 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 6), 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 Practices 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 Annual Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 31st December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the Members of Verizon UK Limited (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.

Ernst & Young LLP

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San Gunapala (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

Date: 18/5/17

Verizon UK Limited

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Turnover	3	405,620	412,698
Net operating expenses	4	(395,504)	(453,930)
Other operating income	5	91,497	93,069
Operating profit	6	101,613	51,837
Profit on sale of tangible fixed assets		60	117
Profit on ordinary activities before interest and taxation		101,673	51,954
Other interest receivable and similar income	7	3,721	1,530
Interest payable and similar charges	8	(3,347)	(1,676)
Profit on ordinary activities before taxation		102,047	51,808
Tax on profit on ordinary activities	11	(1,918)	33
Profit for the year		100,129	51,841
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		100,129	51,841

The above results were derived from continuing operations.

The notes on pages 12 to 34 form an integral part of these financial statements.

Verizon UK Limited

Balance Sheet as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Fixed assets			
Tangible assets	12	222,623	240,172
Current assets			
Stocks	14	86	82
Debtors - due within one year	15	604,741	482,592
Debtors - due after one year	15	25,922	19,635
Cash at bank and in hand		16,367	9,249
		647,116	511,558
Creditors: Amounts falling due within one year	16	(154,046)	(142,324)
Net current assets		493,070	369,234
Total assets less current liabilities		715,693	609,406
Creditors: Amounts falling due after more than one year	17	(16,571)	(8,148)
Provisions for liabilities	18	(21,933)	(24,198)
Net assets		677,189	577,060
Capital and reserves			
Called up share capital	19	128,263	128,263
Special reserve	20	244,883	244,883
Profit and loss account		304,043	203,914
Shareholders' funds		677,189	577,060

Approved by the Board on 18 May 2017 and signed on its behalf by:

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C Aitkenhead

Director

The notes on pages 12 to 34 form an integral part of these financial statements.

Verizon UK Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Special reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2016	128,263	244,883	203,914	577,060
Profit for the year	-	-	100,129	100,129
At 31 December 2016	128,263	244,883	304,043	677,189

	Share capital £ 000	Special reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2015	128,263	244,620	152,336	525,219
Profit for the year	-	-	51,841	51,841
Transfers	-	263	(263)	-
At 31 December 2015	128,263	244,883	203,914	577,060

The notes on pages 12 to 34 form an integral part of these financial statements.

1 Authorisation of financial statements and statement of compliance

The financial statements of Verizon UK Limited (the "Company") for the year ended 31 December 2016 were authorised for issue by the board of directors on 18th May 2017 and the balance sheet was signed on the board's behalf by Clare Aitkenhead. Verizon UK Limited is a private limited by shares company, incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The company has taken advantage of the exemption under Section 401 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Verizon Communications Inc.

The results of Verizon UK Limited are included in the consolidated financial statements of Verizon Communications Inc which are available from 1095 Avenue of the Americas, New York, New York 10036 USA.

The principal accounting policies adopted by the Company are set out in note 2.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

2 Accounting policies (continued)

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

(i) the requirements of paragraph 17 of IAS 24 Related Party Disclosures

(ii) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

(iii) the requirements of IAS 7 Statement of Cash Flows

(iv) the requirements of paragraphs 45b and 46-52 of IFRS 2 Share Based Payment because the share based payment arrangement concerns the instruments of another group entity

(v) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

(vi) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1and paragraph 73(e) of IAS 16 Property Plant and Equipment

(vii) the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS 1 Presentation of Financial Statements

(viii) the requirements of paragraph 30 and 31 of IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors

(ix) the requirements of IFRS 7 Financial Instruments: Disclosures

(x) the requirements of paragraphs 6 and 21 of IFRS 1 First-time Adoption of International Financial Reporting Standards

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.

Revenue recognition

Revenue is recognised on the basis of usage of networks, facilities and equipment or the provision of services.

Usage of network

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.

Facilities and equipment

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.

2 Accounting policies (continued)

Provision of services

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 Statement of Profit or Loss. 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 Strategic report.

Foreign currency transactions and balances
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 Statement of Profit or Loss.

Tax
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised only to the extent that is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.
Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted substantively at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

2 Accounting policies (continued)

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. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes cost directly attributable to making the asset capable of operating as intended including internal employee costs which are directly attributable to capital activities of the Company. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

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

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

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.

Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Tangible fixed assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on derecognition of the asset is included in the Statement of Profit or Loss in the period of derecognition.

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.

2 Accounting policies (continued)

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of 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 IAS 37 "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.

Leases

Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

The Company has a number of subleases for commercial premises and these are accounted for as an operating lease and a provision is accrued to reflect the present value of the future losses arising from the difference between the lease paid to the lessor according to the master lease agreement and the lease collected from the sub-lessor according to the sublease agreement.

Company as a lessee

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Company as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Company transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

2 Accounting policies (continued)

Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the assets recoverable amount in order to determine the extent of the impairment loss. An assets recoverable amount is the higher of an assets or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment losses is recognised immediately in the income statement, unless the asset is carried at a revalued amount when it is treated as a revaluation increase.

Defined contribution pension obligation
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 income statement represents the contributions payable to the scheme in respect of the accounting period.

Share based payments
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 Statement of Profit or Loss for the period.

2 Accounting policies (continued)

Financial instruments

Financial Assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets or as derivatives designated as hedging instruments in an effective hedge as appropriate. The company determines the classification of its financial assets at initial recognition.

The company's financial assets are classified as loans and receivables and include cash, trade and other receivables.

Cash at bank and in hand
Cash in the balance sheet comprises cash at banks and in hand.

Trade and other debtors
Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Financial Liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designed as hedging instruments as appropriate. The company determines the classification of its financial liabilities at initial recognition.

The company's financial liabilities are classified as loans and borrowings and include trade and other creditors and loans and borrowings.

Trade and other creditors
Trade and other short term creditors are carried at the lower of their original invoiced value and payable amount.

Loans and borrowings
Loans and borrowings are measured initially at fair value, net of transaction costs and are measured subsequently at amortised cost using the effective interest method.

2 Accounting policies (continued)

Judgements

The following judgements have had the most significant effect on amounts recognised in the financial statements:

Finance and operating lease commitments

The company supplies equipment for exclusive use by customer's on their premises via sales type lease agreements with financing of the equipment provided by a 3rd party. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 11.

3 Turnover

The analysis of the company's turnover for the year, exclusive of VAT, from continuing operations is as follows:

	2016 £ 000	2015 £ 000
By area of activity		
Core voice and data networking services	75,416	88,010
Customer premise equipment	24,792	15,608
Private IP and Ethernet	174,781	188,592
Strategic communications and professional services	130,631	120,488
	405,620	412,698

Turnover of the Company for the year has been derived from its principal continuing activity which is wholly undertaken in the United Kingdom.

4 Net operating expenses

	2016 £ 000	*2015* £ 000
Other external charges	59,690	102,957
Network access and roaming costs	140,825	156,362
Owned network expenses	28,189	19,639
Salary and associated costs (see note 9)	132,569	136,373
Depreciation (see note 12)	34,231	38,599
	395,504	453,930

5 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2016 £ 000	2015 £ 000
Telecommunications services agreement	91,497	92,391
Subsidiary dissolution net gain	-	485
Intangible asset sale proceeds	-	193
	91,497	93,069

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 income statement.

In accordance with this service agreement, the Company received net income in 2016 of £91,497,000 (2015: £92,391,000).

On 21st August 2015 the company's subsidiary company MCI Worldphone Limited was dissolved. The company recorded a gain of £485,000 recognising the net impact of the final distribution dividend received (£835,000) and the subsequent write down of the investment value held (£350,000).

During 2015 the company's ultimate parent company divested Verizon's Public Trust business (also known as Certificate Authority, or CA) which was a combination of digital certificate business (SSL certificate) and public root business (Omniroot). Verizon's CA business was initially acquired through the CyberTrust acquisition before subsequently forming part of Verizon security portfolio under identity and access management.

As a result of this divesture the company received a payment of £193,000 relating to intangible assets associated to the public root business (Omniroot). The company had never previously recognised intangible assets relating to the public root business obtained as part of the Cybertrust acquisition.

6 Operating profit

Operating profit is stated after charging / (crediting):	2016 £ 000	2015 £ 000
Depreciation on tangible fixed assets - owned	34,231	38,599
Auditor's remuneration		
- audit of the financial statements (i)	579	570
- statutory audit (ii)	1,058	922
- other services (iii)	1,596	1,266
Operating lease payments		
- plant and machinery	1,371	1,367
- other minimum lease payments	29,060	44,816
- sublease payments	(2,844)	(2,722)
Net foreign exhange (gain)	(66,262)	(15,687)

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.

7 Other interest receivable and similar income

	2016 £ 000	2015 £ 000
Interest income on bank deposits	50	51
Finance charges received under finance leases	270	64
Interest receivable from group undertakings	3,401	1,415
	3,721	1,530

8 Interest payable and similar charges

	2016 £ 000	2015 £ 000
Interest payable to group undertakings	918	504
Discounted provisions - unwinding of discount (see note 18)	1,488	1,080
Finance charges payable under finance leases	477	34
Other	464	58
	3,347	1,676

9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	111,347	114,687
Social security costs	13,063	13,117
Pension and other post-employment benefit costs (see note 24)	8,159	8,569
	132,569	136,373

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2016 No.	2015 No.
Administration	254	278
Sales	780	828
Operations	216	232
	1,250	1,338

Included in wages and salaries are costs of £2,226,000 (2015: £4,237,000) relating to redundancy payments and £4,499,000 (2015: £3,448,000) relating to cash settled share based payment transactions.

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2016 £ 000	2015 £ 000
Remuneration	511	535

In respect of the highest paid director:

	2016 £ 000	2015 £ 000
Remuneration	282	290

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.

11 Tax

Tax (charged)/credited in the profit and loss account

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	(640)	-
Withholding tax	(92)	(243)
Total current income tax	(732)	(243)
Deferred taxation		
Arising from origination and reversal of temporary differences	(824)	982
Arising from changes in tax rates and laws	(362)	(706)
Tax (charge)/credit in the profit and loss account	(1,918)	33

Reconciliation of the Total Tax Charge

	2016 £ 000	2015 £ 000
Profit from continuing operations before taxation	102,047	51,808
Tax at UK statutory rate of 20% (2015: 20.25%)	20,409	10,491
Expenses/(income) not deductible/(taxable)	31	(10)
Tax losses utilised	-	(786)
Group relief surrendered	-	939
Withholding tax	92	243
Deferred tax (recognised)/unrecognised in the year	(18,976)	(11,616)
Change in tax laws and rate	362	706
Total tax charge/(credit)	1,918	(33)

Change in Corporation Tax Rate

The Finance Act 2015 reduced the main rate of UK corporation tax from 20% to 19% from 1 April 2017. The main rate of UK corporation tax will further reduce to 17% effective from 1 April 2020 as enacted in the Finance Act 2016.

11 Tax (continued)

Deferred Tax	**2016 £ 000**	**2015 £ 000**
The deferred tax asset included in the balance sheet is as follows:		
Differences between accumulated depreciation and capital allowances	20,132	21,318
Total deferred tax asset	20,132	21,318

	2016 £ 000	**2015 £ 000**
Disclosed on the balance sheet		
Amounts falling due within one year	6,701	7,012
Amounts falling due after one year	13,431	14,306
	20,132	21,318

As at 31 December 2016 a deferred tax asset of £55 million at a rate of 17% (2015: £74 million at a rate of 18%) relating to timing differences has not been recognised. A 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 sufficient suitable taxable profits will be generated, and therefore the deferred tax asset on this amount has not been recognised.

The Company estimates that it has unclaimed capital allowances as at 31 December 2016 of £590 million (2015: £700 million).

	2016 £ 000	**2015 £ 000**
Deferred tax in the income statement		
Difference between accumulated depreciation and capital allowances	1,186	(276)
Deferred tax (credit)	1,186	(276)

12 Tangible assets

	Assets under construction £ 000	Telecomms network £ 000	Leasehold improvements, fixtures and fittings £ 000	Total £ 000
Cost				
At 1 January 2016	9,453	1,276,882	383,330	1,669,665
Additions	10,772	5,407	505	16,684
Transfers	(8,888)	6,285	2,603	-
Disposals	-	(28,039)	(2,470)	(30,509)
At 31 December 2016	11,337	1,260,535	383,968	1,655,840
Accumulated depreciation				
At 1 January 2016	-	1,072,839	356,654	1,429,493
Charge for the year	-	27,929	6,302	34,231
Disposal	-	(28,037)	(2,470)	(30,507)
At 31 December 2016	-	1,072,731	360,486	1,433,217
Net book value				
At 1 January 2016	9,453	204,043	26,676	240,172
At 31 December 2016	11,337	187,804	23,482	222,623

Capitalised borrowing costs
The amount of borrowing costs capitalised during the year ended 31 December 2016 was £49,861 (2015: £48,699). The average rate used to determine the amount of borrowing costs eligible for capitalisation was 0.68% which is the effective rate of borrowing used to finance the construction.

13 Investments

Subsidiary undertakings	£ 000
Cost at 1 January 2016	653,125
Disposals	-
At 31 December 2016	653,125
Amounts provided for at 1 January 2016	653,125
At 31 December 2016	653,125
Carrying value at 31 December 2016	-
At 31 December 2015	-

Details of the subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held 2016	2015
MK International	Investment Holding Company	England and Wales	100%	100%
Fox Court Nominees	Holding minority shareholdings in certain undertakings of the Verizon group	England and Wales	100%	100%

14 Stock

	2016 £ 000	2015 £ 000
Network equipment and items for resale	86	82

15 Trade and other debtors

	2016 £ 000	2015 £ 000
Amounts falling due within one year:		
Trade debtors	50,459	42,179
Amounts owed by group undertakings	498,971	392,240
Accrued income	25,920	25,294
Prepayments	19,738	15,476
Other debtors	1,054	315
Deferred tax (see note 11)	6,701	7,012
Finance Lease receivable (see note 23)	1,898	76
Total current trade and other debtors	604,741	482,592

Trade receivables are non-inerest bearing and are generally on terms of 30 to 90 days.

Amounts falling due after one year:	2016 £ 000	2015 £ 000
Deferred tax (see Note 11)	13,431	14,306
Deposits	386	390
Finance lease receivable (see Note 23)	9,494	2,233
Other debtors	2,611	2,706
	25,922	19,635

16 Creditors: amounts falling due within one year

	2016 £ 000	2015 £ 000
Trade creditors	24,710	21,540
Accrued expenses	56,000	62,812
Amounts due to group undertakings	54,832	46,774
Social security and other taxes	5,456	6,136
Corporation tax payable	640	-
Other creditors	4,574	1,379
Obligations under finance leases (see note 23)	1,518	285
Cash settled share-based payments (see note 21)	6,316	3,398
	154,046	142,324

Trade creditors are non-interest bearing and are normally settled on 60 day terms. Other Creditors are non-interest bearing and have an average term of six months.

17 Creditors: due more than one year

	2016 £ 000	2015 £ 000
Deferred income	3,381	840
Obligations under finance leases (see note 23)	7,394	1,379
Cash settled share-based payments (see note 21)	5,796	5,929
	16,571	8,148

18 Provisions

	Onerous lease £ 000	Dilapidations £ 000	Total £ 000
At 1 January 2016	12,384	11,814	24,198
Decrease in provision	(214)	-	(214)
Provisions used	(3,539)	-	(3,539)
Discounted provision - unwinding of discount	837	651	1,488
At 31 December 2016	9,468	12,465	21,933

Onerous lease
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% (2014: 7.5%).

Dilapidation provision
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% (2014: 5.5%).

19 Share capital

Authorised shares

	No. 000	2016 £ 000	No. 000	2015 £ 000
Ordinary shares of £1 each	255,304	255,304	255,304	255,304

Allotted, called up and fully paid shares

	No. 000	2016 £ 000	No. 000	2015 £ 000
Ordinary shares of £1 each	128,263	128,263	128,263	128,263

20 Special reserve

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 retained earnings 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 retained earnings 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 2016, this resulted in a transfer of £nil (2015: £263,000) from retained earnings to the special reserve.

21 Share-based payments

Details of 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.

21 Share-based payments (continued)

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.

The following share-based payment arrangements were in existence at 31 December 2016:

Grant award year	Grant date	Number of RSUs	Fair value at grant date (£ 000)	Number of PSUs	Fair value at grant date (£ 000)
2014	07/03/2014	71,642	2,035	107,453	3,052
2015	06/03/2015	55,592	1,741	83,381	2,829
2016	04/03/2016	37,293	1,349	55,931	2,024

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.

The charge for the year amounted to £4,499,000 (2015: £3,448,000).

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 2016 is £12,112,000 (see notes 16 and 17) (2015: £9,328,000). Cash settled share based payments valued at £3,102,000 vested and were settled during 2016 (2015: £4,861,000).

21 Share-based payments (continued)

Movements in RSUs and PSUs during the period

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

	2016 Number of RSUs	2016 Number of PSUs	2015 Number of RSUs	2015 Number of PSUs
Balance at 1 January	182,588	276,296	198,156	297,208
Granted during the year	37,293	55,931	55,592	83,381
Settled during the year	(52,619)	(78,921)	(71,160)	(104,293)
	167,262	253,306	182,588	276,296

22 Capital Commitments

Property, plant and equipment

At 31 December 2016, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £1,817,000 (2015: £1,421,000).

23 Obligations under leases and hire purchase contracts

Finance leases

The company supplies equipment for exclusive use by customers on their premises via sales type lease agreements with financing of the equipment provided by a 3rd party. Due to the nature of these agreements the equipment in substance does not meet the definition of an asset and therefore does not form part of tangible assets. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

As a lessee	**2016 £ 000**	**2015 £ 000**
Future minimum lease payments due		
Not later than one year	2,205	419
After one year but not more than five years	8,797	1,700
	11,002	2,119
Less finance charges allocated to future periods	(2,090)	(455)
Present value of minimum lease payments	8,912	1,664

The present values of future finance lease payments are analysed as follows:

	2016 £ 000	**2015 £ 000**
Not later than one year	1,518	285
After one year but not more than five years	7,394	1,379

23 Obligations under leases and hire purchase contracts (continued)

	2016	2015
As a lessor	**£ 000**	**£ 000**
Future minimum lease payments due		
Not later than one year	2,295	223
After one year but not more than five years	10,231	2,303
	12,526	2,526
Less unearned finance income	(1,134)	(217)
Present value of minimum lease payments	11,392	2,309

The present value of minimum lease payments is analysed as follows:

	2016 £ 000	2015 £ 000
Not later than one year	1,898	76
After one year but not more than five years	9,494	2,233

Annual commitments under non cancellatable operating leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Not later than one year	18,580	16,195	18,165	15,276
After one year but no more than five years	65,748	5,508	68,787	2,570
After five years	12,754	705	21,077	750
	97,082	22,408	108,029	18,596

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.

23 Obligations under leases and hire purchase contracts (continued)

Operating lease agreements where the company is the lessor

The company holds surplus office space which is let to third parties. These non-cancellable leases have remaining terms of between 3 and 5 years. Future minimum rentals receivable under these non-cancellable operating leases are as follows:

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Not later than one year	1,566	2,085
After one year but no more than five years	5,154	7,431
After five years	-	190
	6,720	9,706

24 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £8,159,000 (2015: £8,569,000).

As at 31 December 2016 there was a pension accrual relating to the Company contributions of £670,000 (2015: £710,000) which is included within the accruals figure in Note 16.

25 Parent and ultimate parent undertaking

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 1095 Avenue of the Americas, New York, New York 10036 USA 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

On 2nd May 2017 the Group announced it has entered into an agreement to sell it's cloud-enabled managed hosting services and operations, which represents approximately 3% of the Company turnover. The transaction is expected to close later this year.