

Verizon UK Limited

Report and financial statements

Registered number 2776038

31 December 2013



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Strategic report

The directors present their strategic report for the year ended 31 December 2013.

Business review

Performance in the year

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

Turnover has decreased from £451,459,000 in 2012 to £440,090,000 in 2013. This decrease in turnover of 2.5% 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 86.1% of total revenue in 2013 and the Strategic Services product mix increased 2.7% to 71%.

The profit on ordinary activities before taxation was £27,136,000 (2012: £23,908,000). In comparison with the preceding year, the 2013 operating profit has increased by £3,476,000 to £27,686,000. This is driven by the operating profit impact from the revenue decrease of £11,369,000 being offset by an operating expense decrease of £7,107,000 and an increase in Telecommunication Service Fees of £7,738,000.

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.

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.

Strategic report (*continued*)

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.

By order of the Board



C Aitkenhead
Director

19 AUGUST 2014

Reading International Business Park
Basingstoke Road
Reading
Berkshire
RG2 6DA

Directors' report

The directors present their annual report and financial statements of Verizon UK Limited (the "Company") for the year ended 31 December 2013.

The audited financial statements for the year ended 31 December 2013 are set out on pages 8 to 26.

Foreign branches

Verizon UK Limited has two overseas branches, Abu Dhabi and Dubai.

Dividends

The directors do not recommend the payment of a final dividend (2012: *£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 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.

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' Indemnity

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

Directors' report (*continued*)

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.

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

19 August 2014

Reading International Business Park
Basingstoke Road
Reading
Berkshire
RG2 6DA

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, 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 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 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 31 December 2013 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 Strategic Report and 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: *20 August 2014*

Profit and loss account
for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Turnover	2	440,090	451,459
Net operating expenses	3	(473,662)	(480,769)
Other operating income	4	61,258	53,520
Operating profit	9	27,686	24,210
Profit on sale of tangible fixed assets		500	308
Profit on ordinary activities before interest and taxation		28,186	24,518
Other interest receivable and similar income	7	590	716
Interest payable and similar charges	8	(1,640)	(1,326)
Profit on ordinary activities before taxation		27,136	23,908
Tax on profit on ordinary activities	10	17,788	(123)
Profit for the financial year	21	44,924	23,785

All results were derived from continuing activities.

Statement of total recognised gains and losses
for the year ended 31 December 2013

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

Balance sheet
at 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Tangible assets	11	292,787	322,003
Investments	12	350	350
		<u>293,137</u>	<u>322,353</u>
Current assets			
Stocks	13	227	315
Debtors:			
- due within one year	14	241,014	185,082
- due after one year	14	79,106	69,029
Cash		10,503	15,166
		<u>330,850</u>	<u>269,592</u>
Creditors: amounts falling due within one year	15	<u>(127,470)</u>	<u>(140,860)</u>
Net current assets		<u>203,380</u>	<u>128,732</u>
Total assets less current liabilities		<u>496,517</u>	<u>451,085</u>
Creditors: amounts falling due after more than one year	16	(5,763)	(6,117)
Provisions for liabilities and charges	17	(16,180)	(15,318)
Net assets		<u>474,574</u>	<u>429,650</u>
Capital and reserves			
Called up share capital	19	128,263	128,263
Special reserve	20	244,188	243,756
Profit and loss account	20	102,123	57,631
Equity shareholders' funds	21	<u>474,574</u>	<u>429,650</u>

These financial statements were approved by the board of directors on 19 August 2014 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).

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 Strategic 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

	2013 £000	2012 £000
Other external charges	278,629	284,969
Salary and associated costs (Note 5)	139,194	148,772
Depreciation (Note 11)	55,839	47,028
	<u>473,662</u>	<u>480,769</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 2013 of £61,258,000 (2012: £53,520,000).

5 Staff costs

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

	Number of employees	
	2013	2012
Operations	433	448
Sales	641	699
Administration	385	437
	<u>1,459</u>	<u>1,584</u>

Notes (continued)

5 Staff costs (continued)

The aggregate payroll costs of these persons were as follows:

	2013 £000	2012 £000
Wages and salaries	115,892	124,365
Social security costs	14,715	15,618
Other pension costs (Note 24)	8,587	8,789
	<u>139,194</u>	<u>148,772</u>

Included in wages and salaries are redundancy costs of £2,380,000 (2012: £3,619,000).

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 £680,000 (2012: £533,000).

The aggregate remuneration of the highest paid director was £366,000 (2012: £243,000).

7 Other interest receivable and similar income

	2013 £000	2012 £000
Bank interest	51	50
Loans to fellow group undertakings	539	666
	<u>590</u>	<u>716</u>

Notes (continued)

8 Interest payable and similar charges

	2013 £000	2012 £000
Loans from fellow group undertakings	428	561
Other	259	-
Discounted provisions: Unwinding of discount	953	765
	<u>1,640</u>	<u>1,326</u>

9 Operating profit

	2013 £000	2012 £000
<i>Operating profit is stated after charging:</i>		
Depreciation on tangible fixed assets - owned	55,839	47,028
Auditors' remuneration		
- audit of the financial statements (i)	850	850
- statutory audit (ii)	866	1,434
- other services (iii)	1,623	1,419
Operating lease rentals		
- plant and machinery	1,834	1,368
- other	30,924	33,840
Net foreign exchange loss	5,915	4,468
	<u></u>	<u></u>

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

	2013 £000	2012 £000
<i>UK corporation tax at 23.25% (2012: 24.5%)</i>		
Current tax	-	-
Withholding tax	(13)	(123)
	<hr/>	<hr/>
Total current tax charge	(13)	(123)
<i>Deferred tax (see Note 18)</i>		
Adjustments to the estimated recoverable amount of deferred tax assets arising in previous periods.	17,801	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	17,788	(123)
	<hr/>	<hr/>

The table shown reconciles the UK current tax charge to the Company's profit on ordinary activities before taxation:

	2013 £000	2012 £000
Profit on ordinary activities before tax	27,136	23,908
Current tax at 23.25% (2012: 24.5%)	6,309	5,857
Effects of:		
Expenses / (income) not deductible / (taxable)	73	77
Fixed asset timing differences	2,967	11,555
Other timing differences	129	(907)
Tax losses utilised	(9,478)	(16,582)
Withholding tax	13	123
	<hr/>	<hr/>
Total current tax charge	13	123
	<hr/>	<hr/>

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 2013	20,072	1,315,803	375,943	1,711,818
Additions	15,853	6,763	4,608	27,224
Transfers	(17,514)	15,474	2,040	-
Disposals	-	(41,124)	(2,091)	(43,215)
At 31 December 2013	18,411	1,296,916	380,500	1,695,827
<i>Depreciation</i>				
At 1 January 2013	-	1,059,624	330,191	1,389,815
Charge for year	-	43,154	12,685	55,839
Disposals	-	(40,524)	(2,090)	(42,614)
At 31 December 2013	-	1,062,254	340,786	1,403,040
<i>Net book value</i>				
At 31 December 2013	18,411	234,662	39,714	292,787
At 31 December 2012	20,072	256,179	45,752	322,003

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%

Subsidiary undertakings £000

Cost

At 1 January 2013 653,475

At 31 December 2013 653,475

Amounts provided for

At 1 January 2013 653,125

At 31 December 2013 653,125

Net book value

At 31 December 2013 350

At 31 December 2012 350

Notes (continued)

13 Stocks

	2013 £000	2012 £000
Network equipment and items for resale	227	315

14 Debtors

	2013 £000	2012 £000
<i>Amounts falling due within one year:</i>		
Trade debtors	62,399	52,810
Amounts owed by group undertakings	136,112	98,902
Other debtors	20	13
Prepayments	18,653	16,921
Accrued income	17,999	16,436
Deferred tax (see Note 18)	5,831	-
	<u>241,014</u>	<u>185,082</u>
<i>Amounts falling due after one year:</i>		
Amounts owed by group undertakings	65,517	66,736
Other debtors	1,619	2,293
Deferred tax (see Note 18)	11,970	-
	<u>79,106</u>	<u>69,029</u>

Notes (continued)

15 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	15,646	7,020
Amounts owed to group undertakings	42,392	53,795
Taxation and social security	5,731	5,465
Accruals and deferred income	54,724	59,606
Other creditors	2,759	4,176
Cash settled share-based payments	6,218	10,798
	<u>127,470</u>	<u>140,860</u>

16 Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Deferred income	231	1,016
Cash settled share-based payments	5,532	5,101
	<u>5,763</u>	<u>6,117</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% (2012: 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% (2012: 5.5%).

	Onerous leases £000	Dilapidations £000	Total £000
At 1 January 2013	5,261	10,057	15,318
Amounts provided	902	-	902
Unwinding of discount factor	398	555	953
Utilised during the year	(993)	-	(993)
At 31 December 2013	<u>5,568</u>	<u>10,612</u>	<u>16,180</u>

Notes (continued)

18 Deferred tax

The elements of recognised deferred tax are as follows:

	2013 £000	2012 £000
Difference between accumulated depreciation and capital allowances	17,801	-
Total deferred tax	17,801	-
Movements in recognised deferred tax		
At beginning of the year	-	-
Credit to the profit and loss account for the year	17,801	-
At end of the year	17,801	-
Deferred tax asset (see Note 14)		
Amounts falling due within one year	5,831	-
Amounts falling due after one year	11,970	-
	17,801	-

As at 31 December 2013 a deferred tax asset of £109 million at a rate of 20% (2012: £153 million at a rate of 23%) 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 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 2013 of £858 million (2012: £875 million).

On 17 July 2012 a reduction in the corporation tax rate from 24% to 23% was enacted and effective from 1 April 2013.

On 20 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 a further reduction in the UK corporate tax rate to 20% effective from 1 April 2015. These changes were enacted on 17 July 2013.

Notes (continued)

19 Called up share capital

	2013 £000	2012 £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	Profit and loss account	Total
	£000	£000	£000
At 1 January 2013	243,756	57,631	301,387
Profit for the financial year	-	44,924	44,924
Transfers	432	(432)	-
At 31 December 2013	244,188	102,123	346,311

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

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

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

In 2013, this resulted in a transfer of £432,000 (2012: £432,000) from the profit and loss reserve to the special reserve.

Notes (continued)

21 Reconciliation of movements in equity shareholders' funds

	2013 £000	2012 £000
Profit for the year	44,924	23,785
Opening equity shareholders' funds	429,650	405,865
	<hr/>	<hr/>
Closing equity shareholders' funds	474,574	429,650
	<hr/>	<hr/>

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 2013:

Grant award year	Grant date	Number of RSUs	Fair value at grant date (£000)	Number of PSUs	Fair value at grant date (£000)
2011	03/02/2011	62,600	1,425	93,891	2,138
2012	02/03/2012	70,890	1,778	106,326	2,667
2013	08/03/2013	55,624	1,750	83,429	2,624

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 £6,774,000 (2012: £10,893,000).

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 2013 is £11,750,000 (2012: £15,899,000). Cash settled share based payments valued at £10,910,000 vested and were settled during 2013 (2012: £5,492,000).

Movements in RSUs and PSUs during the period

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

	2013		2012	
	Number of RSUs	Number of PSUs	Number of RSUs	Number of PSUs
Balance at 1 January	210,863	316,267	227,672	341,380
Granted during the year	55,624	83,429	70,890	106,326
Settled during the year	(77,373)	(116,050)	(87,699)	(131,439)
Balance at 31 December	189,114	283,646	210,863	316,267

Notes (continued)

23 Financial commitments

a) Capital commitments are as follows:

	2013 £000	2012 £000
Contracted but not provided for	2,547	5,699

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

	2013		2012	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	301	8,659	21	7,209
Between one and five years	289	3,930	657	4,377
After more than five years	15,537	102	15,805	56
	<u>16,127</u>	<u>12,691</u>	<u>16,483</u>	<u>11,642</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 £3,835,000 (2012: £4,516,000). Further telecommunications circuits contracts, which cannot be cancelled and last for a duration of over 5 years, have an annual lease charge of £55,000 (2012: £56,000).

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 £8,587,000 (2012: £8,789,000).

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.