Registration number: 2776038

Verizon UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

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

Verizon UK Limited

Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

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 £384,627,000 in 2017 to £336,860,000 in 2018. This decrease in turnover of 12.4% was due to a reduction in Private IP and Ethernet sales of 11.8%, Core Voice and Data Networking Services of 30.8% (reflecting a strategic move by the Company away from low margin voice traffic services), together with a decrease in Professional Services of 9.3% and a decrease in Customer Premise Equipment sales of 28.6%. These are partially offset by an increase in Strategic Communications turnover of 15.9%. The mix of Retail business increased from 82.7% to 86.0% of total revenue in 2018 and the Strategic Services product mix increased from 73.2% to 78.5%.

The profit on ordinary activities before taxation was £120,146,000 (2017: £35,033,000). In comparison with the preceding year, the 2018 operating profit has increased by £28,381,000 to £59,581,000. This is driven by the operating profit impact from an operating expense decrease of £93,205,000 and a decrease in Telecommunication Service Fees of £17,057,000. The operating expense decrease is primarily due to foreign exchange gains.

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.

In August 2018, the Company received as cash dividend from MK International Limited of $70,000,000 (£54,217,000) and subsequently declared a cash dividend of $500,000,000 (£387,265,000) to its immediate parent company, Verizon European Holdings Limited. The dividends were translated using a spot rate of $1.2911 : £1.

Verizon UK Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

Telecommunications Services Agreement

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

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

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 20 September 2019 and signed on its behalf by:

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C Aitkenhead

Director

Verizon UK Limited

Directors' Report for the Year Ended 31 December 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

The audited financial statements for the year ended 31 December 2018 are set out on pages 10 to 43.

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

Branches outside the United Kingdom

Verizon UK Limited has an overseas branch in Dubai.

Dividends

The directors declared and paid a dividend of $500,000,000 (£387,265,000) to Verizon European Holdings Limited on 28th August 2018 (2017: £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.

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.

Events since the balance sheet date
There have been no significant events occurring after the balance sheet date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

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 20 September 2019 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' Responsibilities 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

Opinion

We have audited the financial statements of Verizon UK Limited for the year ended 31 December 2018 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 29, including a summary of significant accounting policies. 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' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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, 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Use of our report

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.

Ernst & Young LLP

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

20 September 2019

Verizon UK Limited

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	3	336,860	384,627
Net operating expenses	4	(406,534)	(499,739)
Other operating income	5	129,255	146,312
Operating profit	6	59,581	31,200
Income from shares in group undertakings	7	54,217	-
(Loss)/Profit on sale of tangible fixed assets		(942)	(20)
Profit on ordinary activities before interest and taxation		112,856	31,180
Other interest receivable and similar income	8	11,359	7,460
Interest payable and similar charges	9	(4,069)	(3,607)
Profit on ordinary activities before taxation		120,146	35,033
Tax on profit on ordinary activities	12	(2,295)	1,206
Profit for the year		117,851	36,239
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		117,851	36,239

The above results were derived from continuing operations.

The notes on pages 13 to 43 form an integral part of these financial statements.

Verizon UK Limited

Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Tangible assets	13	216,007	221,087
Current assets			
Stock	15	83	88
Debtors - amounts falling due within one year	16	376,462	634,754
Debtors - amounts falling due after one year	16	29,101	29,657
Cash at bank and in hand		7,286	14,127
		412,932	678,626
Creditors: Amounts falling due within one year	17	(158,571)	(151,185)
Net current assets		254,361	527,441
Total assets less current liabilities		470,368	748,528
Creditors: Amounts falling due after more than one year	18	(12,795)	(10,732)
Provisions for liabilities	19	(10,458)	(19,708)
Net assets		447,115	718,088
Capital and reserves			
Called up share capital	20	128,263	128,263
Special reserve	21	-	244,883
Reserves		318,852	344,942
Shareholders' funds		447,115	718,088

Approved by the Board on 20 September 2019 and signed on its behalf by:

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C Aitkenhead
Director

The notes on pages 13 to 43 form an integral part of these financial statements.

Verizon UK Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Special reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	128,263	244,883	344,942	718,088
Effect of adoption of IFRS 15 (Note 29)	-	-	(184)	(184)
At 1 January 2018 (as restated)	128,263	244,883	344,758	717,904
Profit for the year	-	-	117,851	117,851
Dividends distributed	-	-	(387,265)	(387,265)
Transfer to Retained earnings	-	(244,883)	244,883	-
Share based payment transactions	-	-	(1,375)	(1,375)
At 31 December 2018	128,263	-	318,852	447,115

	Share capital £ 000	Special reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	128,263	244,883	304,043	677,189
Profit for the year	-	-	36,239	36,239
Share based payment transactions	-	-	4,660	4,660
At 31 December 2017	128,263	244,883	344,942	718,088

The notes on pages 13 to 43 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 2018 were authorised for issue by the board of directors on 20 September 2019 and the balance sheet was signed on the board's behalf by C 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.

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities which are fair valued in accordance with respective guidance.

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 1 and 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 110, 113(a), 114, 115, 118, 119(a) to (c), 120 to 127, and 129 of IFRS 15 Revenue from Contracts with Customers

(xi) the requirements of IFRS 9 Financial Instruments

(xii) the requirements of paragraphs 130(f)(ii), 130 (f)(iii), 134(d) - 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets.

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 financial statements.

New standards, amendments and IFRIC interpretations

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described under the 'Revenue recognition' and 'Financial instruments' sections below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2 Accounting policies (continued)

Revenue recognition
The company has applied IFRS 15 with effect from 1 January 2018 and going forward.

The company has availed of the disclosure exemptions available in accordance with FRS 101 as mentioned in the summary of disclosure exemptions.

None of the company's contracts with customers at the date of adoption of IFRS 15 contained a significant financing component or incurred significant costs to obtain such contracts and as such it was not necessary for the company to avail of any of the practical expedient options available under IFRS 15 upon adoption of the standard.

The company has adopted IFRS 15 Revenue from contracts with Customers in these financial statements for the first time. The company applied IFRS 15 on a modified retrospective basis by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings.

Accordingly the comparative information has not been restated and continues to be reported under IAS18.

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

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.

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.

Installation Revenue

The Company defers circuit and CPE related installation revenue and related costs over the contract term.

The adoption of IFRS 15 required the deferral of the installation revenue and related costs which resulted in an adjustment to increase retained earnings as per note 29.

Costs to obtain a contract
The company recognizes incremental direct costs of obtaining a contract, which consist of sales commissions and incremental fringe benefits, are deferred and amortized over the weighted-average contract term. The adoption of IFRS 15 required the capitalization of these costs which resulted in an adjustment to increase retained earnings as per note 29.

2 Accounting policies (continued)

Accounts receivable and contract balances

The timing of revenue recognition may differ from the time of billing to our customers. Receivables presented in our Balance Sheet represent an unconditional right to consideration. Contract balances represent amounts from an arrangement when either the company has performed, by transferring goods or services to the customer in advance of receiving all or partial consideration for such goods and services from the customer, or the customer has made payment to the company in advance of obtaining control of the goods and/or services promised to the customer in the contract.

Contract assets primarily relate to our rights to consideration for goods or services provided to the customers but for which we do not have an unconditional right at the reporting date.

Contract liabilities arise when we bill our customers and receive consideration in advance of providing the goods or services promised in 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.

2 Accounting policies (continued)

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 Statement of Profit or Loss.

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

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

Leases
Operating lease rentals are charged to the Statement of Profit or Loss 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 to the Statement of Profit or Loss 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 Statement of Profit or Loss so as to achieve a constant rate of return on the remaining net investment in the lease.

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 Statement of Profit or Loss 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 Statement of Profit or Loss, unless the asset is carried at a revalued amount when it is treated as a revaluation increase.

2 Accounting policies (continued)

Dividends

Dividend income from investments is recognised when the shareholders rights to receive payment have been established (providing that it is probable that the economic benefits will flow to the company and the amount can be measured reliably).

Dividend received from the subsidiary undertakings is recognised directly in current year's income statement.

The company recognises a liability to pay dividend when the distribution of dividend is authorised by the shareholders, as per the UK law. A corresponding amount is recognised directly in retained earnings.

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 Statement of Profit or Loss represents the contributions payable to the scheme in respect of the accounting period.

Share based payments

Fair value of the share based compensation is established initially at the award grant date and at each balance sheet date thereafter until the share awards are settled using an appropriate option pricing model.

Share based compensation is paid in cash upon vesting by the company's ultimate parent company, Verizon Communications Inc. The company has no obligation to settle the transaction and therefore accounts for the transaction as equity settled, recognising a corresponding credit in equity.

The company does have an obligation to settle the employee's tax obligations incurred as a result of the transaction and therefore recognises a liability relating to this element of the award.

From the end of the vesting period until settlement the combined equity and liability elements represent 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.

2 Accounting policies (continued)

Financial instruments

The company has applied IFRS 9 with effect from 1 January 2018 and going forward.

The company has availed of the disclosure exemptions available in accordance with FRS 101 as mentioned in the summary of disclosure exemptions.

Following review of the company's financial assets and financial liabilities, no material recognition, measurement or transition impacts from the application of IFRS 9 have been identified with financial assets and liabilities being recognised in the same manner under IFRS 9 as was recognised under the previously applicable standard IAS 39, Financial Instruments.

Derivative Financial Instruments

The Company uses forward contracts to mitigate the effects of changes in foreign exchange relating to certain of the Company's intercompany receivables and payables. These derivative instruments are not formally designated as hedges and the terms of these instruments generally do not exceed three months. The fair values of these instruments are included in the Balance Sheet in Current assets or Current liabilities, with changes in the fair value recognized in the Statement of Income. The Company has classified these derivative instruments as fair value through profit and loss ("FVTPL").

2 Accounting policies (continued)

Financial instruments (continued)

Financial Assets

Initial recognition and measurement
Financial assets within the scope of IFRS 9 are classified as financial assets at amortized cost and financial assets at fair value through profit or loss.

Derecognition of financial assets:

A financial asset (or, where applicable, a part of a financial asset) is primarily derecognised (i.e. removed from the company's statement of financial position) when:
· The rights to receive cash flows from the asset have expired
or
· The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third-party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

The Company's financial assets include Cash, Trade and Other Receivables including Intercompany and Loans.

The subsequent measurement of cash, loans and receivables is as follows:

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

2 Accounting policies (continued)

Financial instruments (continued)

Trade and other receivables

The company impairs trade receivables using the IFRS 9 simplified impairment approach, which involves calculating at an amount equal to lifetime expected credit losses.

The company impairs intercompany receivables using the IFRS 9 general impairment approach, which involves calculating an amount equal to 12 months expected credit losses where the Credit Risk is assessed below.

Changes in the credit risk associated with these assets are assessed on both an individual and collective basis. To date, there has been no indication of impairment on a collective basis.

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.

An additional credit loss allowance is recognized if there has been a significant increase in the credit risk associated with a given customer (payment default at maturity, insolvency proceedings, etc.), such that the amount owed by the customer is likely to be written off.

Financial Liabilities

Initial recognition and measurement
Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the company retains continuing involvement, financial guarantee contracts, commitments to provide a loan at a below market interest rate, and contingent consideration recognized by an acquirer in accordance with IFRS 3, Business Combinations.

Derecognition of financial liabilities:

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

The Company's financial liabilities consist of Trade and Other Creditors, including Intercompany Payables.

The Company determines the classification of its financial liabilities at initial recognition.

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

2 Accounting policies (continued)

Financial instruments (continued)

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.

Estimates and assumptions
The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustments to the carrying amount of assets or liabilities affected in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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 12.

3 Revenue

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

	2018 £ 000	2017 £ 000
By area of activity		
Core voice and data networking services	47,803	68,901
Customer premise equipment	24,653	33,631
Private IP and Ethernet	144,359	162,782
Strategic communications and professional services	120,045	119,313
	336,860	384,627

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

	2018 £ 000	2017 £ 000
Contract Assets - Current		
Deferred installation costs (see note 16)	2,697	-
Deferred commissions (see note 16)	980	-
Contract Assets - Non-current		
Deferred installation costs (see note 16)	1,872	-
Deferred commissions(see note 16)	863	-
Contract liabilities - Current		
Deferred revenue (see note 17)	(6,196)	(3,596)
Contract liabilities - Noncurrent		
Deferred revenue (see note 17)	(3,437)	(1,131)

No impairment losses have been recognised on any receivables or contract assets from the company's contracts with customers.

4 Net operating expenses

	2018 £ 000	2017 £ 000
Other external charges	105,643	114,259
Network access and roaming costs	121,962	141,680
Salary and associated costs (see note 10)	140,620	131,982
Owned network expenses	35,653	39,500
Net foreign exchange (gain)/loss	(27,702)	37,953
Depreciation (see note 13)	30,358	31,150
Loss on disposal of cloud-managed hosting services	-	3,215
	406,534	499,739

In 2017, certain assets were sold as part of a global transaction, which resulted in a loss of £3,215,000. This impact was compensated as part of the Telecommunications Services Agreement within Other operating income.

5 Other Operating income

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

	2018 £ 000	2017 £ 000
Telecommunications services agreement	129,255	146,312

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 2018 of £129,255,000 (2017: £146,312,000).

6 Operating profit

Operating profit is stated after charging / (crediting):	2018 £ 000	2017 £ 000
Depreciation on tangible fixed assets - owned	30,358	31,150
Auditor's remuneration		
- audit of the financial statements (i)	548	596
- statutory audit (ii)	968	1,051
- other services (iii)	1,022	1,157
Operating lease payments		
- plant and machinery	1,114	1,019
- other minimum lease payments	33,333	24,912
- sublease payments	(1,524)	(2,863)
Net foreign exchange (gain)/loss	(27,653)	38,004

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 Income from shares in group undertakings

The company received an ordinary dividend of $70,000,000 from its subsidiary MK International Ltd on the 28th August 2018.

	2018 £ 000	2017 £ 000
Income from shares in group undertakings	54,217	-

8 Other interest receivable and similar income

	2018 £ 000	2017 £ 000
Interest income on bank deposits	44	13
Finance charges received under finance leases	718	297
Interest receivable from group undertakings	10,597	7,150
	11,359	7,460

9 Interest payable and similar charges

	2018 £ 000	2017 £ 000
Interest payable to group undertakings	2,384	1,422
Discounted provisions - unwinding of discount (see note 19)	775	1,047
Finance charges payable under finance leases	210	391
Other	700	747
	4,069	3,607

10 Staff costs

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

	2018 £ 000	2017 £ 000
Wages and salaries	117,962	110,250
Social security costs	14,515	13,851
Pension and other post-employment benefit costs (see note 25)	8,143	7,881
	140,620	131,982

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

	2018 No.	2017 No.
Administration	220	219
Sales	705	695
Operations	272	280
	1,197	1,194

Included in wages and salaries are costs of £3,025,000 (2017: £2,053,000) relating to redundancy payments and £2,762,000 (2017: £4,316,000) relating to cash settled share based payment transactions.

11 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	644	627

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Remuneration	354	344

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

12 Tax

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

	2018 £ 000	2017 £ 000
Current taxation		
UK-Adjustments in respect of prior years	-	72
Withholding tax	(3)	(7)
Total current income tax	(3)	65
Deferred taxation		
Arising from origination and reversal of temporary differences	(2,292)	1,141
Tax (charge)/credit in the profit and loss account	(2,295)	1,206

Reconciliation of the Total Tax (Credit)/Charge

	2018 £ 000	2017 £ 000
Profit from continuing operations before taxation	120,146	35,033
Tax at UK statutory rate of 19% (2017: 19.25%)	22,828	6,744
Expenses not deductible	105	28
Group relief claimed	(15,670)	(4,849)
Income from subsidiary undertakings	(10,301)	-
Withholding tax	3	7
Deferred tax recognised in the year	5,330	(3,136)
Total tax charge/(credit)	2,295	(1,206)

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.

Deferred Tax	2018 £ 000	2017 £ 000
The deferred tax asset included in the balance sheet is as follows:		
Differences between accumulated depreciation and capital allowances	18,981	21,273
Total deferred tax asset	18,981	21,273

12 Tax (continued)

	2018 £ 000	2017 £ 000
Disclosed on the balance sheet		
Amounts falling due within one year	6,322	7,079
Amounts falling due after one year	12,659	14,194
	18,981	21,273

As at 31 December 2018 a deferred tax asset of £51 million at a rate of 17% (2017: £52 million at a rate of 17%) 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 2018 of £590 million (2017: £571 million).

	2018 £ 000	2017 £ 000
Deferred tax in the income statement		
Difference between accumulated depreciation and capital allowances	2,292	(1,141)
Deferred tax charge/(credit)	2,292	(1,141)

13 Tangible assets

	Assets under construction £ 000	Telecomms network £ 000	Leasehold improvements, fixtures and fittings £ 000	Total £ 000
Cost				
At 1 January 2018	24,578	1,241,175	386,197	1,651,950
Additions	17,167	7,962	1,279	26,408
Transfers	(25,007)	20,828	4,179	-
Disposals	-	(33,509)	(4,641)	(38,150)
At 31 December 2018	16,738	1,236,456	387,014	1,640,208
Accumulated depreciation				
At 1 January 2018	-	1,067,512	363,351	1,430,863
Charge for the year	-	25,552	4,806	30,358
Disposal	-	(33,229)	(3,791)	(37,020)
At 31 December 2018	-	1,059,835	364,366	1,424,201
Net book value				
At 1 January 2018	24,578	173,663	22,846	221,087
At 31 December 2018	16,738	176,621	22,648	216,007

Capitalised borrowing costs
The amount of borrowing costs capitalised during the year ended 31 December 2018 was £469,034 (2017: £155,301). The average rate used to determine the amount of borrowing costs eligible for capitalisation was 2.26% which is the effective rate of borrowing used to finance the construction.

14 Investments

Subsidiary undertakings	**£ 000**
Cost at 1 January 2018	653,125
Disposals	-
At 31 December 2018	653,125
Amounts provided for at 1 January 2018	653,125
At 31 December 2018	653,125
Carrying value at 31 December 2018	-
At 31 December 2017	-

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Address of registered office	Proportion of ownership interest and voting rights held 2018	2017
MK International	Investment Holding Company	Basingstoke Road, Reading, RG2 6DA, United Kingdom	100%	100%
Fox Court Nominees	Holding minority shareholdings in certain undertakings of the Verizon group	Basingstoke Road, Reading, RG2 6DA, United Kingdom	100%	100%

15 Stock

	2018 £ 000	2017 £ 000
Network equipment and items for resale	83	88

16 Trade and other debtors

	2018 £ 000	2017 £ 000
Amounts falling due within one year:		
Trade debtors	58,359	63,076
Amounts owed by group undertakings	264,203	520,153
Accrued income	22,352	21,826
Prepayments	18,530	21,744
Other debtors	3,473	2,305
Deferred tax (see note 12)	6,322	7,079
Finance Lease receivable (see note 24)	4,162	4,097
Deferred installation costs and commissions (see note 3)	3,677	-
	381,078	640,280
Allowance for expected credit losses	(4,616)	(5,526)
Total current trade and other debtors	376,462	634,754

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Included within the balance is an amount of £539,000 (2017 : £nil) relating to forward contracts. See note 26.

Amounts falling due after one year:	2018 £ 000	2017 £ 000
Deferred tax (see note 12)	12,659	14,194
Deposits	1,220	1,199
Finance lease receivable (see note 24)	7,147	10,102
Other long term debtors	5,340	4,162
Deferred installations costs and commissions (see note 3)	2,735	-
	29,101	29,657

17 Creditors: amounts falling due within one year

	2018 £ 000	2017 £ 000
Trade creditors	23,710	21,307
Accrued expenses	62,088	59,901
Deferred revenue (see note 3)	6,196	3,596
Amounts due to group undertakings	52,507	52,055
Social security and other taxes	5,597	5,089
Other creditors	3,094	4,903
Obligations under finance leases (see note 24)	2,708	2,524
Cash settled share-based payments (see note 22)	2,671	1,810
	158,571	151,185

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.

18 Creditors: amounts falling due after more than one year

	2018 £ 000	2017 £ 000
Deferred rent	6,237	3,456
Deferred revenue (see note 3)	3,437	1,131
Obligations under finance leases (see note 24)	1,629	4,100
Cash settled share based payments (see note 22)	1,492	2,045
	12,795	10,732

19 Provisions

	Onerous lease £ 000	Dilapidations £ 000	Total £ 000
At 1 January 2018	6,400	13,308	19,708
Increase/(decrease) in existing provisions	(3,046)	(5,442)	(8,488)
Provisions used	(2,608)	1,071	(1,537)
Discounted provision - unwinding of discount	222	553	775
At 31 December 2018	968	9,490	10,458

19 Provisions (continued)

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% (2017: 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% (2017: 5.5%).

20 Share capital

Authorised shares

	No. 000	2018 £ 000	No. 000	2017 £ 000
Ordinary shares of £1 each	255,304	255,304	255,304	255,304

Allotted, called up and fully paid shares

	No. 000	2018 £ 000	No. 000	2017 £ 000
Ordinary shares of £1 each	128,263	128,263	128,263	128,263

21 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).

On 28th August 2018, £244,883,000 was transferred from the special reserve to retained earnings.

22 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 will be time-vested with one third vesting on each one year anniversary of the grant date over a three year period.

The RSUs are paid in cash upon vesting by the company's ultimate parent company, Verizon Communications Inc. The company has no obligation to settle the transaction and therefore accounts for the transaction as equity-settled, recognising a corresponding credit in equity.

The company does have an obligation to settle the employee's tax obligations incurred as a result of the transaction and therefore recognises a liability relating to this element of the award.

The split of the transaction recognition between equity and liability is approximately 55%/45% respectively.

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. The equity element is measured at grant date at fair value.

22 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 paid in cash upon vesting by the company's ultimate parent company, Verizon Communications Inc. The company has no obligation to settle the transaction and therefore accounts for the transaction as equity-settled, recognising a corresponding credit in equity.

The company does have an obligation to settle the employee's tax obligations incurred as a result of the transaction and therefore recognises a liability relating to this element of the award.

The split of the transaction recognition between equity and liability is approximately 55%/45% respectively.

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. The equity element is measured at grant date at fair value. 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 2018:

Grant award year	Grant date	Number of RSUs	Fair value at grant date (£ 000)	Number of PSUs	Fair value at grant date (£ 000)
2016	04/03/2016	35,416	1,281	53,116	1,922
2017	03/03/2017	24,888	995	49,534	1,981
2018	06/03/2018	30,436	1,061	44,017	1,535

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 £2,762,000 (2017: £4,316,000).

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 equity element relating to the units at 31 December 2018 is £3,285,000 (2017: £4,660,000).

The carrying amount of the liability relating to the cash settled options at 31 December 2018 is £4,163,000 (see notes 17 and 18) (2017: £3,855,000). Share based payments valued at £4,107,000 vested and were settled during 2018 (2017: £6,055,000).

Movements in RSUs and PSUs during the period

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

22 Share-based payments (continued)

	2018 Number of RSUs	2018 Number of PSUs	2017 Number of RSUs	2017 Number of PSUs
Balance at 1 January	132,629	198,358	167,262	253,306
Granted during the year	30,436	44,017	37,009	52,505
Settled during the year	(72,251)	(92,707)	(71,642)	(107,453)
	90,814	149,668	132,629	198,358

Verizon Special Award

In addition, on 1 February 2018 employees were issued the Verizon Special Award grant of Restricted Stock Units ("RSUs"). Eligible full-time employees received 50 RSUs and eligible part-time employees receive 25 RSUs. Employees will receive a cash bonus opportunity based on the value of Verizon Communications Inc's stock price at the vesting date plus any dividend payments.

If an employee satisfies the vesting requirements for the award, 50% of the award vests on 31 January 2019 and the remaining 50% vests on 31 January 2020.

The RSUs are paid in cash upon vesting by the Company and the award is recognised as a liability.

The number of RSUs granted during 2018 was 60,225, with a fair value at grant date of £2,157,000.

23 Capital Commitments

Property, plant and equipment

At 31 December 2018, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £2,213,000 (2017: £2,508,000).

24 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	2018 £ 000	2017 £ 000
Future minimum lease payments due		
Not later than one year	2,827	2,733
After one year but not more than five years	1,659	4,241
	4,486	6,974
Less finance charges allocated to future periods	(149)	(350)
Present value of minimum lease payments	4,337	6,624

24 Obligations under leases and hire purchase contracts (continued)

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

	2018 £ 000	2017 £ 000
Not later than one year	2,708	2,524
After one year but not more than five years	1,629	4,100

	2018 £ 000	2017 £ 000
As a lessor		
Future minimum lease payments due		
Not later than one year	4,741	4,652
After one year but not more than five years	7,541	10,743
	12,282	15,395
Less unearned finance income	(973)	(1,196)
Present value of minimum lease payments	11,309	14,199

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

	2018 £ 000	2017 £ 000
Not later than one year	4,162	4,097
After one year but not more than five years	7,147	10,102

Annual commitments under non-cancellable operating leases

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

	2018 Land and buildings £000	2018 Other £000	2017 Land and buildings £000	2017 Other £000
Not later than one year	16,258	17,954	22,745	12,255
After one year but no more than five years	51,282	8,163	69,100	3,144
After five years	59,397	486	36,663	473
	126,937	26,603	128,508	15,872

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.

24 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:

	2018 £ 000	2017 £ 000
Not later than one year	409	2,573
After one year but no more than five years	613	5,009
	1,022	7,582

25 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 £8,143,000 (2017: £7,881,000).

As at 31 December 2018 there was a pension accrual relating to the Company contributions of £687,000 (2017: £641,000) which is included within the accruals figure in Note 17.

26 Financial instruments

Financial liabilities

Derivative financial liabilities at fair value through profit and loss held for trading

The following table presents the Company's outstanding forward contracts, notional amounts and related fair values at 31 December 2018. The fair values are based on market values of equivalent instruments at 31 December 2018. These financial instruments are classified as Level 2 based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices).

	Notional Amount		Fair values Assets/Liabilities	
	2018 £ 000	2017 £ 000	2018 £ 000	2017 £ 000
Foreign Currency Forward Contracts	59,285	-	539	-
Recognised in the statement of profit of loss	-	-	539	-

27 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.

28 Events since the balance sheet date

There have been no significant events occurring after the balance sheet date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

29 Adoption of IFRS 15

The cumulative effect of initially adopting IFRS 15 is detailed below:

	Original position 01-Jan-18 £'000	Deferred installation revenue Note 1 £'000	Deferred equipment installation costs Note 2 £'000	Deferred commission costs Note 3 £'000	Other operating income Note 4 £'000	Re-stated 01-Jan-18 £'000
Debtors - due within one year	634,754	-	3,001	635	(2,527)	635,863
Debtors - due after one year	29,657	-	1,549	1,270	-	32,476
Creditors - amounts falling due within one year	(151,185)	(2,384)	-	-	-	(153,569)
Creditors - amounts falling due after more than one year	(10,732)	(1,728)	-	-	-	(12,460)
Retained earnings	(344,942)	4,113	(4,550)	(1,905)	2,527	(344,757)

Note 1 - The Company defers circuit based and CPE related installation revenue over the contract term. The amount of revenue recognised in 2018 from the revenue deferrals made as at 1 January 2018 is £2,424,000.

Note 2 - The Company defers circuit based and CPE related installation costs over the contract term. The amount of the cost recognised in 2018 from the cost deferrals made at 1 January 2018 is £3,017,000.

Note 3 - IFRS 15 requires the deferral of incremental costs incurred to obtain a customer contract, which are then amortised to expense, over the respective period of expected benefit. As a result, an amount of sales commission costs, which were historically expensed have been deferred. The amount of amortisation in 2018 from the deferral commissions made as at 1 January 2018 is £1,229,000.

Note 4 - All of the above items are subject to operating income adjustments derived from the telecommunications service agreement with Verizon European Holdings Limited.