Registration number: 2776038

# Verizon UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

# Verizon UK Limited

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# Verizon UK Limited

## Company Information

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

# Verizon UK Limited

## Strategic Report for the Year Ended 31 December 2020

The directors present their Strategic Report for the year ended 31 December 2020.

**Business review**

*Performance in the year*

Verizon UK Limited (the "Company") was incorporated on 23 December 1992. 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 activities for the foreseeable future.

Revenue has decreased from £306,785,000 in 2019 to £288,111,000 in 2020. This decrease in revenue of 6.1% was due to a decrease in Private IP and Ethernet revenue of 8.1%, together with a decrease in Strategic Communications and Professional Services revenue of 11.0%. These are partially offset by an increase in Core Voice and Data Networking Services revenue of 11.7% and an increase in Customer Premise Equipment revenue of 4.3%. The mix of Retail business decreased from 86.9% to 84.4% of total revenue in 2020 and the Strategic Services product mix decreased from 82.4% to 78.5%.

In comparison with the preceding year, the 2020 operating profit has increased by £14,746,000 to £32,214,000. This increase in operating profit is primarily due to an increase in Telecommunications Service Fees of £34,409,000. There is a decrease in revenue of £18,674,000 and an increase in operating expenses of £989,000. Operating expenses include a net foreign exchange gain in 2020 of £936,000 compared to a net foreign exchange loss of £9,544,000 in 2019.

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

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

*Telecommunications Services Agreement*

Effective as of 1 January 2007, the Company entered into a replacement Tier 2 agreement with Verizon European Holdings Limited ("VEHL"), which had entered into a replacement Tier 1 agreement reflecting the centralized U.S. management of the global telecommunications network following Verizon's 2006 acquisition of the MCI group. The other party to the Tier 1 agreement is MCI Communications Services LLC (formerly known as 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.

Effective as of 1 January 2019, the Company and VEHL amended the Tier 2 agreement to simplify the transfer pricing arrangements.

# Verizon UK Limited

## Strategic Report for the Year Ended 31 December 2020 (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.

**Impact of the Coronavirus (COVID-19) outbreak**
Subsequent to the end of the financial year, the COVID-19 outbreak has continued to impact businesses and society to varying degrees. The UK government's responses, in dealing with the pandemic, continue to affect normal activity levels across the community, the economy and business operations as they have done so since March 2020.
The rollout of several newly developed vaccines coupled with UK government measures should lead to a gradual and safe return to a more normal, pre pandemic situation. It is not possible to estimate the impact of the outbreak's near-term and longer effects or governments' varying efforts to combat the outbreak and support businesses.
The Company has not seen a significant impact on its business to date. The ongoing pandemic and associated economic effects are not expected to have a significant impact on the Company's ongoing results in the short term.

**Section 172 statement**
Verizon's culture, strategies and policies are identified and continually reviewed at group level by the senior executives of Verizon. Verizon and its group of companies ("Verizon Group"), which includes the Company, believes that it must effectively address and balance the interests of all of its stakeholders, including its shareholders, employees, customers, communities, suppliers and others, in order to put itself in the best position to serve its customers, provide critical services to the community and grow profitably over the long term. This belief is reflected in the breadth and aspiration of the Verizon Group's corporate purpose to "create the networks that move the world forward". It is also reflected in the Verizon Group's values underlying all of the Verizon Group's decisions: integrity, respect, performance excellence, accountability and social responsibility.

The principal activities of the Company, as set out above, remain closely aligned with the Verizon Group and the directors of the Company continue to be guided by Verizon Group's culture, policies and strategies. The directors of the Company, however, recognise that their statutory duties are owed to the Company and believe when taking board decisions during the year ended 31 December 2020 that they have acted in a way that they consider, in good faith, would be most likely to promote the success of the Company with having regard to those matters set out in section 172 of the Companies Act 2006 ("CA 2006"). As a wholly-owned subsidiary of Verizon European Holdings Limited, the directors do not consider section 172(1)(f) of the CA 2006 (regard to the need to act fairly as between members) as relevant to the proper discharge of their duties.

In their capacity as executives of the Verizon Group, the directors receive a broad range of training, pertaining to their functional roles and more broadly to leadership and other personal skills. To better enable the directors to discharge their duties pursuant to the CA 2006, the directors are briefed specifically on their duties as directors of the Company, in particular when reviewing specific transactions that require careful analysis of their duties such as those related to solvency.

**Section 172 statement (continued)**

*Regard to the likely consequences of any decision in the long term*

The nature of the Company's activities during the year were such that the Company's business strategies, to achieve the Company's long term success, were aligned with the broader Verizon Group which has policies in place to guide the directors when considering the likely consequences of their decisions in the long term. Meetings of board directors were held on a regular basis to enable the directors to consider a range of topics and receive updates from the business including, but not limited to, financial performance and matters relating to tax, treasury, environment, health and safety and employment, and updates on Brexit and associated business continuity issues. In 2020, an additional meeting of board directors was held to enable key internal stakeholders to brief the directors on the impacts of the Covid-19 pandemic, how Covid-19 risks were being managed by the relevant functions and how stakeholders were being cared for in the context of the pandemic. Briefings included updates on both the operational and financial impact, including cash management, the various initiatives in place to care for employees and the working from home arrangements in place, business continuity and the impact on customers. Updates were also provided by: Environmental, Health and Safety, Real Estate, Legal and Regulatory.

During the year, the directors both at board meetings and in the course of their day to day management of the Company were supported by a number of corporate functions, including Legal, Accounting, Treasury, Tax, and business functions covering the provision of services to customers, and the procurement of services from vendors.

*Regard to the interests of the Company's employees*

The directors, in conjunction with the wider functions within Verizon, including in particular its HR and Compensation and Benefits teams, recognise the need to engage with employees and have regard to their interests. The Company's employee engagement statement in the Directors' Report provides examples as to how the directors engaged with its employees.

Group wide employee benefits, including employee pension schemes, health insurance, income protection insurance and death in service insurance, and other measures such as market rate compensation packages, are in place and the directors believe that these ensure that its employees' interests are well cared for.

A specific example of a decision in which the directors considered the interests of employees is set out under the heading 'Key Decision' in this section 172 statement.

*Regard to the need to foster business relationship with suppliers and customers*

The directors have a broad understanding of the multitude of group policies and initiatives in place to support supplier and customer relationships and which they, with the support of the relevant internal functions, have regard to where applicable when taking board decisions. The Company's statement of engagement with customers and suppliers in the Directors' Report sets out some of the group's policies and initiatives in this respect. A specific example of a decision in which the directors considered the interests of customers and suppliers is set out under the heading 'Key Decision' in this section 172 statement.

*Regard to the impact of the Company's operations on the community and environment*

During the year, Verizon took a three-pillared approach to Corporate Social Responsibility, sustainability and employee volunteering. These three pillars are Climate Protection, Digital Inclusion, and Human Prosperity. With regards to sustainability, Verizon continued to take a multi-faceted approach with teams across the Group to minimize the environmental footprint of its own operations, improve the energy efficiency of the components and equipment that comprise its network, continue upgrading and hardening its infrastructure to be prepared for a changing climate, and develop solutions that enable Verizon's customers to minimize their environmental footprint and transition smoothly to a low-carbon economy.

**Section 172 statement (continued)**

The Verizon Group provides a framework within which the directors can, where relevant, have regard to the impact of the Company's operations on the community and environment. That framework includes:

- investment in on-site and off-site renewable energy across Verizon's operations to source or generate renewable energy equivalent to 50% of Verizon's total annual electricity consumption by 2025;
- a 15% reduction of Verizon's overall water usage by 2025;
- the plantation of 10 million trees globally by 2035;
- a structured employee volunteering program with volunteering champions throughout the business; and
- a Verizon Green Team made up of more than 30,000 employees who work to help reduce Verizon's environmental impact at work and in the home through specific events and education.

In 2020, Verizon became a member of Business in the Community (BITC) - the Prince's Responsible Business Network - a business-led membership organisation dedicated to responsible business within the United Kingdom, and has contributed to that community for example by supporting charities as part of the BITC's National Business Response Network during the pandemic. The Verizon Business Group in the United Kingdom, which includes the Company, worked with BITC to review various Verizon policies and initiatives in place, which the Company adheres to, to ensure these were aligned with wider responsible business practices and developed a plan to ensure the Company continues to provide responsible business leadership. A new employee volunteering platform was also launched in 2020, targeting all UK employees with 8 hours volunteering per employee per year to maximise organisational impact.

*Key Decision*

A specific example of how the directors have had regard to the matters set out in section 172 of the CA 2006 when discharging their duties during the year was the directors' decision on 26 October 2020, by which they approved the acquisition of the business of Blue Jeans Network Limited, being the business of marketing and sales support in relation to the provision of cloud based conferencing services in the United Kingdom, as part of an integration plan and to support efficiencies within the Verizon Group (the "Business Transfer"). The directors considered in particular the following: (i) the consequences of approving the Business Transfer such that the Company would, in addition to its current business activities, provide marketing and sales support services in relation to the provision of the Blue Jeans cloud based conferencing services; (ii) that the relevant business functions had reviewed Blue Jeans Network Limited's existing suppliers and identified which, if any, of those suppliers were still needed to support the business and, where necessary, plans were in place to communicate with suppliers accordingly; (iii) that various business groups were working to ensure that the interests of Blue Jeans customers, including those based in the United Kingdom, were cared for as part of the integration plan and the Company's existing customers are expected to benefit from a broader product range; (iv) the roles of the UK employees would remain substantially unchanged and the HR, Compensation and Benefits, Payroll and Legal Employment teams, in conjunction with the wider business functions, were significantly involved with, and advised on, the transition of Blue Jeans Network Limited's employees and various consultations, inductions, and training sessions had been implemented or scheduled to provide all Blue Jeans employees with the best transitional and onboarding experience possible as part of the overall integration plan; (v) that the employees based in the UK would retain, at a minimum, their existing terms, and would be entitled to additional benefits following their transfer to the Company; and (vi) the Company's current employees would not be affected by the Business Transfer.

Approved by the Board on 27 September 2021 and signed on its behalf by:

Clare Aitkenhead

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C Aitkenhead

Director

# Verizon UK Limited

## Directors' Report for the Year Ended 31 December 2020

The directors present their report and the financial statements for the year ended 31 December 2020.

The audited financial statements for the year ended 31 December 2020 are set out on pages 17 to 51.

**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 do not recommend the payment of a final dividend for 2020 (2019:£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 has not seen a significant impact on its business to date from COVID-19. The ongoing pandemic and associated economic effects are not expected to have a significant impact on the Company's ongoing results and cash flows in the short term.

In addition, in the unlikely event that it is called upon, the directors have assessed future profit forecasts, including sensitised forecasts, indicating that the Company would still have sufficient cash. While the directors do not deem it necessary, should it be required, additional support is available to the Company through financial support available from Verizon European Holdings Limited. The level of support covering 12 months from the approval of these financial statements. The directors 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 12 months from the date of approval of these financial statements.

**Events since the balance sheet date**
On 21 May 2021, the Company agreed to make available a loan facility of up to £2,000,000 to a not-for-profit industry association. No advances have been made under that loan facility.

There were no other significant events after the end of the reporting period.

**Directors' liabilities**
The Company has granted indemnity to its directors against liability in respect of proceedings brought by third parties, subject to those conditions as 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.

# Verizon UK Limited

## Directors' Report for the Year Ended 31 December 2020 (continued)

**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 Engagement Statement**

The Verizon Group is committed to creating a workplace which is diverse, inclusive and inspiring. The Group's priorities remain focused on building a culture of engagement which enables employees to thrive and grow in their careers. The directors of the Company are committed to ensuring its employees are engaged and recognise that such engagement is fundamental to how the Company achieves success as a business. It drives Verizon's purpose of creating the networks that move the world forward. In addition to continuing to build on existing initiatives in place, examples of engagement with the Company's employees during 2020 are set out below.

- An annual PULSE+ survey launched in 2020 seeking feedback on the Verizon Group's culture of engagement and inclusion. Responses were reviewed by people leaders across the business and appropriate action plans were identified from the responses received and communicated to employees. These action plans continue to drive improvements across the business and included by way of example, re-launching good news stories with an emphasis on cross functional teams.
- The Company raised awareness of unconscious bias and the impact it can have on business decisions through online training sessions for all UK employees.
- Employee Resource Groups continued to engage regularly with employees incorporating support from the Verizon senior leadership team, partnering on a number of initiatives and topics around career conversations, development, growth and an inclusive culture.
- Career development programs supporting the Company's commitment to the UK Gender Pay Gap continued with Verizon's Women of the World (WOW) program aimed at supporting women's career growth and the development of future leaders.
- Employees received regular communications on health and wellbeing resources available to support them through the pandemic, including an Employee Assistance Programme, on demand webinars, guided meditation sessions and a COVID 19 resource site. Employees were also invited to attend live webcasts with senior leaders on topics such as 'World Mental Health Day', 'Mental Health - Continuing the conversation', 'Domestic Violence Awareness' and 'Fostering Human Connections & Community in Challenging Times'.
- During the Coronavirus pandemic all employees were offered work flexibility to support their families and children at home as well as being supported and empowered in their roles. Extra paid leave was implemented for those who were unable to work for a variety of reasons such as childcare being unavailable.
- All Hands Meetings: employees of the Company were invited to attend all hands meetings held by senior executives and departmental managers. These provided employees with an opportunity to engage with the strategies and initiatives of the business and raise questions. The contribution made by employees to the success of the business was also recognised.

**Statement of Engagement with suppliers, customers and others**
The directors recognise that it is critical for the ongoing success of the business to foster strong relationships with its customers, suppliers and wider stakeholders and a framework of Verizon Group policies and procedures are in place to strengthen those relationships. The need to continually engage effectively to better understand stakeholder needs and to adapt accordingly has always been important, but has been even more significant in 2020 as a consequence of the pandemic.

Group policies and initiatives which continued to strengthen customer relationships in 2020 included:
• a service delivery organisation which helped ensure customer services were delivered in line with customer expectations. In 2020, a Covid response programme was established to support customers in relation to different working practices and technology as a consequence of the pandemic and to deliver expedited responses to customers' short term needs;
• executive briefings to consult with customers wanting to expedite their digital operating models for the post-pandemic new normal;
• customer account management which focused on customers' key business imperatives;
• life cycle management of customer contracts;
• customer satisfaction surveys conducted by a third party provider which actively sought anonymous customer feedback and provided an opportunity to improve customer services resulting from such feedback; and
• online and on-site service demonstrations with customers.

Group policies and initiatives which continued to strengthen supplier relationships in 2020 included:
• migrating to a world-class procurement and supply chain collaboration solution to streamline interaction with suppliers through the launch and implementation of the 1Sourcing (Ariba) Platform;
• continued commitment to dedicated Supplier Risk Management processes and integration into sourcing tools and processes, to ensure continuity and adherence to all supplier risk processes;.
• a supplier code of conduct that contains principles to promote ethical conduct in the workplace, safe working conditions, the protection of sensitive information, the treatment of workers with respect and dignity, and responsible supply chains;
• pre-contract supplier due diligence processes to assess any supplier risks, including as to financial viability and legal compliance around issues such as data privacy and the protection of proprietary information;
• Verizon's sourcing policies and business process guidelines, outlining the requirements that apply internally when Verizon functions procure products and/or services, which helped to ensure the fair and consistent treatment of suppliers; and
• continued commitment to working with a diverse set of suppliers to ensure customers have access to superior service and experience.

UK Government Departments and Regulators:
The Company continued to foster its relationships with relevant UK Government departments, such as the Department for Digital, Culture, Media and Sport; Department for International Trade; and Department for Business, Energy and Industrial Strategy, as well as with its regulators, Ofcom and ICO.

In 2020, Verizon worked closely with the Department for Digital, Culture, Media and Sport on the response to Covid-19 in the early stages of the pandemic and continued to interact with Ofcom, for example on its transposition of the European Electronic Communications Code into UK regulation.

**Streamlined Energy and Carbon Reporting (SECR) Disclosure**
The SECR disclosure presents our carbon footprint within the United Kingdom across Scope 1, 2 and to some extent scope 3 emissions, an appropriate intensity metric, the total energy use of electricity, gas and transport fuel and an energy efficiency actions summary taken during the relevant financial year.

Year to 31 December 2020

| | **Location based approach** | **Market based approach** |
|---|---|---|
| Energy consumption used to calculate emissions (kWh) | 57,336,249 | 57,336,249 |
| Emissions from combustion of gas (Scope 1) $tCO_2e$ | 415 | 415 |
| Emissions from combustion of fuel for transport purposes (Scope 1) $tCO_2e$ | 408 | 408 |
| Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3) $tCO_2e$ | 840 | 840 |
| Emissions from purchased electricity (Scope 2, location-based) $tCO_2e$ | 11,578 | 608 |
| Emissions from purchased electricity (Scope 2, market-based) $tCO_2e$ | - | 0 |
| Total gross $tCO_2e$ based on above | 13,241 | 2,271 |
| Intensity ratio ($tCO_2e$/square feet) | 0.026574 | 0.004558 |

**Energy Efficiency Action Summary**
Year to 31 December 2020

Verizon UK Limited continues to achieve direct savings in energy and associated carbon emissions, through operational and technological improvements, including replacement of the following internal systems on several sites to be more energy efficient:

- DC Power systems
- Heating, ventilation and air conditioning systems
- UPS

Additional indirect energy and carbon emission savings have also been achieved through a range of measures, including implementation of a new enterprise-level software application which provides quality assurance and data capture capabilities in one energy and carbon management solution, including audited and verified data on the Company's GHG emissions.

The Company monitors its GHG emissions and will publish its future usage in the Directors' Report as part of the UK Government's Streamlined Energy and Carbon reporting scheme.

**Streamlined Energy and Carbon Reporting (SECR) Disclosure (continued)**

**Methodology Notes**

| | |
|---|---|
| Reporting Period | 1 January 2020 – 31 December 2020 |
| Boundary (consolidation approach) | Operational approach |
| Alignment with financial reporting | SECR disclosure has been prepared in line with Verizon UK Limited's financial reporting period from 1 January 2020 to 31 December 2020. |
| Reporting method | GHG Emissions reporting are in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard |
| Emissions factor source | DEFRA, 2020 for all emissions factors https://www.gov.uk/government/publications/greenhouse-gas-reporting -conversion-factors-2020 |
| Conversion factor source | Natural Gas and gasoline: Federal Register EPA; 40 CFR Part 98; e-CFR, June 13, 2017<br>EPA GHG Emission Factors Hub<br>Diesel<br>U.S. Energy Information Administration – British Thermal Unit Conversion factors 2020 |
| Calculation method | Activity Data x Emission Factor = GHG emissions<br>Activity Data x Conversion Factor = kWh consumption |
| Other relevant information on calculation | Where applicable consumption was converted to kWh using conversion factors linked above, while emissions were calculated with the DEFRA emission factors. Transport data was calculated from USD to GBP with the annual average value of currency, then mileage data to kWh to liters and GHG emissions using the calculation method above. Not having the exact vehicle types, we have used the Vehicles statistics' table VEH0203, issued by the Department for Transport to separate the diesel and petrol cars. In absence of the exact engine sizes of the vehicles average conversion factors were used to calculate emissions. |
| Reason for the intensity measurement choice | Based on the nature of the Company's business, as well as following the recommendations of the SECR legislation, the Company chose the following intensity metric: floor area. This metric reflects the total $CO_2$ emitted in line with the floor area that shows the development of the Company's energy efficiency. Through comparison of future financial years this metric should show a trend of Verizon UK Limited's energy efficiency. |
| Estimation | As we shared a building together with Verizon Media UK Limited and we have the total energy consumption of the building, we have split the electricity consumption based on our occupied floor area. The report contains an estimated electricity and gas consumption. Depending on the nature of the missing data the following estimation methods were used: Average value of +/-2 surrounding months; Average value from past 3 months; Value from same month of prior year. |

| | |
|---|---|
| Amount of renewable electricity (kWh) imported from the grid and backed by REGOs. | 47,052,471 |
| Information on renewable electricity | Verizon UK Limited has the SSE Business Energy of 100% renewable electricity, valid between 01/10/2019-30/09/2021. SSE electricity is sourced from wind generation and hydro assets, these technologies all receive Renewable Energy Guarantee of origin (REGO) certificates. Using the GHG Protocol Corporate Standards' market based approach the above enables us to report "0" emissions under Scope 2 . |

**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.

**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.

Approved by the Board on 27 September 2021 and signed on its behalf by:

Clare Aitkenhead
.........................................
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 2020 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 28, 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 FRS 101 'Reduced Disclosure Framework'.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 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. 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## 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 contained within the annual report.

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.

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 course of 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 themselves. 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 matters 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 12), 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

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

Our approach was as follows:
• We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, data protection and anti-bribery and corruption.

• We understood how Verizon UK Limited is complying with those frameworks by making enquiries of management to understand how the Company maintains and communicates its policies and procedures in these areas, and to understand the culture and whether there is a strong emphasis placed on fraud prevention, which may reduce opportunities for fraud to take place as well as fraud deterrence. We corroborated our enquiries through our inspection of Board minutes, inquiry and, if any, review of correspondence with relevant authorities. We made consideration of the results of our audit procedures performed to either corroborate or provide contrary evidence which was then followed up.

• Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved a review of the Board minutes to identify any non-compliance with laws and regulation, enquiries of management and testing of journal postings by specific risk criteria.

• We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, through internal team discussions and through enquiry of management and those charged with governance, to understand where it considered there was susceptibility of fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. We determined that there is a potential for management override to achieve revenue targets via topside manual journal entries posted to revenue, further identifying revenue to be a fraud risk area. We specifically linked this risk of management override of controls to the fraud risk on improper accounting of non-standard and complex contracts for Strategic communications and professional services revenue. We performed procedures such as contracts testing in order to ensure that the revenue recognition on these non-standard and complex contracts are in line with the contractual documentation and recognised in line with the applicable accounting standards.

We used data analytics tools to perform a correlation analysis on revenue and revenue-related accounts. Our procedures were designed to corroborate our assessment that revenue should be correlated closely to debtors, and, to identify those revenue journals for which the corresponding entry was not to debtors. These entries related to deferred revenue, unbilled revenue and credit note provision, where we separately performed substantive test of details.

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.

### 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

......................................
San Gunapala (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
RG1 1YE

Date: 27 September 2021

# Verizon UK Limited

## Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2020

| | Note | 2020 £ 000 | 2019 £ 000 |
|---|---|---|---|
| Revenue | 3 | 288,111 | 306,785 |
| Net operating expenses | 4 | (425,055) | (424,066) |
| Other operating income | 5 | 169,158 | 134,749 |
| Operating profit | 6 | 32,214 | 17,468 |
| (Loss)/Profit on sale of tangible fixed assets | | (21) | 29 |
| Profit on ordinary activities before interest and taxation | | 32,193 | 17,497 |
| Other interest receivable and similar income | 7 | 3,503 | 6,780 |
| Interest payable and similar charges | 8 | (5,785) | (7,338) |
| Profit on ordinary activities before taxation | | 29,911 | 16,939 |
| Tax on profit on ordinary activities | 11 | (997) | (4,794) |
| Profit for the year | | 28,914 | 12,145 |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year | | 28,914 | 12,145 |

The above results were derived from continuing operations.

The notes on pages 20 to 51 form an integral part of these financial statements.

# Verizon UK Limited

## Balance Sheet as at 31 December 2020

| | Note | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 12 | 192,087 | 212,185 |
| Right-Of-Use assets | 13 | 72,887 | 85,003 |
| | | 264,974 | 297,188 |
| **Current assets** | | | |
| Stock | | 1,955 | 2,408 |
| Debtors - amounts falling due within one year | 17 | 437,680 | 403,270 |
| Debtors - amounts falling due after one year | 17 | 14,827 | 19,969 |
| Cash at bank and in hand | | 14,541 | 8,180 |
| | | 469,003 | 433,827 |
| **Creditors:** Amounts falling due within one year | 18 | (157,027) | (173,063) |
| **Net current assets** | | 311,976 | 260,764 |
| **Total assets less current liabilities** | | 576,950 | 557,952 |
| **Creditors:** Amounts falling due after more than one year | 19 | (75,924) | (84,639) |
| **Provisions for liabilities** | 20 | (12,021) | (13,549) |
| **Net assets** | | 489,005 | 459,764 |
| **Capital and reserves** | | | |
| Called up share capital | 21 | 128,263 | 128,263 |
| Retained earnings | | 360,742 | 331,501 |
| Shareholders' funds | | 489,005 | 459,764 |

Approved by the Board on 27 September 2021 and signed on its behalf by:

Clare Aitkenhead.........................
C Aitkenhead
Director

The notes on pages 20 to 51 form an integral part of these financial statements.

# Verizon UK Limited

## Statement of Changes in Equity for the Year Ended 31 December 2020

| | Share capital £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|
| At 1 January 2020 | 128,263 | 331,501 | 459,764 |
| Profit for the year | - | 28,914 | 28,914 |
| Share based payment transactions | - | 327 | 327 |
| At 31 December 2020 | 128,263 | 360,742 | 489,005 |

| | Share capital £ 000 | Retained earnings £ 000 | Total £ 000 |
|---|---|---|---|
| At 1 January 2019 | 128,263 | 318,852 | 447,115 |
| Profit for the year | - | 12,145 | 12,145 |
| Share based payment transactions | - | 504 | 504 |
| At 31 December 2019 | 128,263 | 331,501 | 459,764 |

The notes on pages 20 to 51 form an integral part of these financial statements.

# Verizon UK Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020

### 1 Authorisation of financial statements and statement of compliance

The financial statements of the Company for the year ended 31 December 2020 were authorised for issue by the board of directors on 27 September 2021 and the Balance Sheet was signed on the Board's behalf by Clare Aitkenhead. The Company is a private company limited by shares, 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 where otherwise indicated.

The Company has taken advantage of the exemption under Section 401(1)(b) of the Companies Act 2006 not to prepare group accounts as it is a 99.77% owned indirect subsidiary of Verizon Communications Inc., which includes the Company in its group accounts, and has approval from its indirect minority shareholders.

The results of the Company 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**

(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

(xiii) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

## 2 Accounting policies (continued)

### 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. The Company has not seen a significant impact on its business to date from COVID-19. The ongoing pandemic and associated economic effects are not expected to have a significant impact on the Company's ongoing results and cash flows in the short term.

In addition, in the unlikely event that it is called upon, the directors have assessed future profit forecasts, including sensitised forecasts, indicating that the Company would still have sufficient cash. While the directors do not deem it necessary, should it be required, additional support is available to the Company through financial support available from Verizon European Holdings Limited. The level of support covering 12 months from the approval of these financial statements. The directors 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 12 months from the date of approval of these financial statements.

### New standards, amendments and IFRIC interpretations

The Company has not yet early adopted any standards, interpretations or amendments that have been issued but which are not yet effective.

### 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.

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.

## 2 Accounting policies (continued)

*Costs to obtain a contract*
The company recognises 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.

*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. Effective as of 1 January 2019, the Company and VEHL amended the Tier 2 agreement to simplify the transfer pricing arrangements.

**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 gain 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 enforceable 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.

## 2 Accounting policies (continued)

**Fixed asset investments**
Fixed asset investments are shown at cost less provision for impairment.

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

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

*Telecommunications network*

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

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

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

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

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

## 2 Accounting policies (continued)

**Provisions**

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

Provision is made for onerous leases where the unavoidable costs of meeting the obligation under the lease exceed the economic benefits to be received under it in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Costs provided for represent the minimum obligation under the lease, net of any contributions where the property is sub-let, and are discounted.

**Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has 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*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets are as follows:

| | |
|---|---|
| Land and buildings | 3 - 25 years |
| Other equipment | 2 - 24 years |

## 2 Accounting policies (continued)

**Leases (continued)**

If ownership of the leased asset were to transfer to the Company at the end of the lease term or the cost reflects exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

*Lease Liabilities*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

*Short-term leases*

The Company applies the short-term lease recognition exemption to its short-term leases of buildings and other equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

*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.

## 2 Accounting policies (continued)

### Impairment of non-financial assets

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

### Dividends

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

Dividend income received from subsidiary undertakings is recognised directly in the current year's Statement of Profit or Loss.

The Company recognises a liability to pay a dividend when the dividend is authorised and the dividend is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity.

### 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 Profit or Loss. The Company has classified these derivative instruments as fair value through profit and loss ("FVTPL").

*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.

## 2 Accounting policies (continued)

**Financial instruments (continued)**
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.

*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 recognised 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 recognised 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.

## 2 Accounting policies (continued)

**Financial instruments (continued)**
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.

*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 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.

*Leases - Estimating the incremental borrowing rate*
The Company cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Verizon Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available, or when they need to be adjusted to reflect the terms and conditions of the leases. The Verizon Group estimates the IBR using observable inputs, such as market interest rates, when available.

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

*Determining the lease term of contracts with renewal and termination options - Company as Lessee*
The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

*Property lease classification - Company as Lessor*
The Company has determined, that in relation to its subleases, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

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

## 3 Revenue

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

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| **By area of activity** | | |
| Core voice and data networking services | 38,703 | 34,659 |
| Customer premise equipment | 22,910 | 21,966 |
| Private IP and Ethernet | 122,508 | 133,333 |
| Strategic communications and professional services | 103,990 | 116,827 |
| | 288,111 | 306,785 |

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

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| **Contract Assets - Current** | | |
| Deferred installation costs (see note 17) | 2,309 | 2,699 |
| Deferred commissions (see note 17) | 1,099 | 998 |
| **Contract Assets - Non-current** | | |
| Deferred installation costs (see note 17) | 1,773 | 2,197 |
| Deferred commissions (see note 17) | 812 | 822 |
| **Contract liabilities - Current** | | |
| (see note 18) | (10,170) | (13,538) |
| **Contract liabilities - Non-current** | | |
| (see note 19) | (5,924) | (4,699) |

No impairment losses have been recognised on contract assets from the Company's contracts with customers.

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

Incremental direct costs of obtaining a contract, which consist of sales commissions and incremental fringe benefits, are deferred and amortized over the respective period of expected benefit.

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

## 4 Net operating expenses

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Other external charges | 76,599 | 82,630 |
| Network access and roaming costs | 110,782 | 115,046 |
| Salary and associated costs (see note 9) | 152,082 | 144,011 |
| Owned network expenses | 34,971 | 26,166 |
| Net foreign exchange (gain)/loss | (936) | 9,544 |
| Depreciation of tangible assets (see note 12) | 38,497 | 30,993 |
| Depreciation on right of use assets (see note 13) | 13,060 | 15,676 |
| | 425,055 | 424,066 |

## 5 Other Operating income

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

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Telecommunications services agreement | 169,158 | 134,749 |

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 Statement of Profit or Loss.

In accordance with this service agreement, the Company received net income in 2020 of £169,158,000 (2019: £134,749,000).

## 6 Operating profit

| Operating profit is stated after charging / (crediting): | 2020 £ 000 | 2019 £ 000 |
|---|---|---|
| Depreciation on tangible fixed assets-owned | 38,496 | 30,993 |
| Depreciation of right-of-use assets (see note 13) | 13,060 | 15,676 |
| **Auditor's remuneration** | | |
| - audit of the financial statements (i) | 535 | 500 |
| - statutory audit (ii) | 946 | 884 |
| - other services (iii) | 1,919 | 2,069 |
| **Operating lease payments** | | |
| - plant and machinery | 684 | 765 |
| - other minimum lease payments | 13,109 | 15,881 |
| - sublease payments | (649) | (844) |
| Net foreign exchange (gain)/loss | (936) | 9,464 |

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 for the Company and other group entities.

## 7 Other interest receivable and similar income

| | 2020 £ 000 | 2019 £ 000 |
|---|---|---|
| Interest income on bank deposits | 45 | 39 |
| Finance charges received under finance leases | 687 | 1,012 |
| Interest receivable from group undertakings | 2,699 | 5,719 |
| Other | 72 | 10 |
| | 3,503 | 6,780 |

# Verizon UK Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 8 Interest payable and similar charges

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Interest payable to group undertakings | 995 | 2,074 |
| Discounted provisions - unwinding of discount (see note 20) | 702 | 555 |
| Finance charges payable under finance leases | 31 | - |
| Lease liability interest | 3,552 | 4,169 |
| Other | 505 | 540 |
| | 5,785 | 7,338 |

### 9 Staff costs

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

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Wages and salaries | 127,390 | 120,774 |
| Social security costs | 15,664 | 14,876 |
| Pension and other post-employment benefit costs (see note 25) | 9,028 | 8,361 |
| | 152,082 | 144,011 |

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

| | 2020<br>No. | 2019<br>No. |
|---|---|---|
| Administration | 237 | 214 |
| Sales | 749 | 732 |
| Operations | 254 | 258 |
| | 1,240 | 1,204 |

Included in wages and salaries are costs of £2,052,000 (2019: £777,000) relating to redundancy payments and £5,302,000 (2019: £6,439,000) relating to cash settled share based payment transactions.

**10 Directors' remuneration**

The directors' remuneration for the year was as follows:

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Remuneration | 735 | 709 |

In respect of the highest paid director:

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Remuneration | 392 | 381 |

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.

# Verizon UK Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 11 Tax

Tax charged to the profit and loss account

| | 2020 £ 000 | 2019 £ 000 |
|---|---|---|
| **Current taxation** | | |
| Withholding tax | (3) | - |
| Total current income tax | (3) | - |
| **Deferred taxation** | | |
| Arising from origination and reversal of temporary differences | (2,509) | (4,794) |
| Arising from changes in tax rates and laws | 1,515 | - |
| Tax charge in the profit and loss account | (997) | (4,794) |

Reconciliation of the Total Tax Charge

| | 2020 £ 000 | 2019 £ 000 |
|---|---|---|
| Profit before tax | 29,911 | 16,939 |
| Tax at UK statutory rate of 19% (2019:19%) | 5,683 | 3,218 |
| Expenses not deductible | 77 | 204 |
| Group relief surrendered/(claimed) | (2,394) | 1,529 |
| Withholding Tax | 3 | - |
| Deferred Tax recognised in the year | (857) | (157) |
| Changes in tax laws and rate | (1,515) | - |
| Total tax charge | 997 | 4,794 |

**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. A further reduction to 17% was due to take effect from 1 April 2020 as enacted in the Finance Act 2016. However this was subsequently reversed and the 19% rate reintroduced. As the reintroduction of the 19% rate with effect from 1 April 2020 was substantively enacted on 17 March 2020 deferred tax balances have been calculated at 19 % as at 31 December 2020 and at 17% as at 31 December 2019.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end.

# Verizon UK Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 11 Tax (continued)

| **Deferred Tax** | **2020 £ 000** | **2019 £ 000** |
|---|---|---|
| **The deferred tax asset included in the balance sheet is as follows:** | | |
| Differences between accumulated depreciation and capital allowances | 13,193 | 14,188 |
| Total deferred tax asset | 13,193 | 14,188 |

| | **2020 £ 000** | **2019 £ 000** |
|---|---|---|
| **Disclosed on the balance sheet** | | |
| Amounts falling due within one year | 4,525 | 4,891 |
| Amounts falling due after one year | 8,668 | 9,297 |
| | 13,193 | 14,188 |

As at 31 December 2020 a deferred tax asset of £57 million at a rate of 19% (2019: £51 million at a rate of 17%) 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 2020 of £504 million (2019: £542 million).

| | **2020 £ 000** | **2019 £ 000** |
|---|---|---|
| **Deferred tax in the Statement of Profit or Loss** | | |
| Difference between accumulated depreciation and capital allowances | 994 | 4,794 |
| Deferred tax charge | 994 | 4,794 |

# Verizon UK Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 12 Tangible assets

| | Assets under construction £ 000 | Telecomms network £ 000 | Leasehold improvements, fixtures and fittings £ 000 | Total £ 000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2020 | 24,967 | 1,214,697 | 392,086 | 1,631,750 |
| Additions | 14,841 | 2,946 | 645 | 18,432 |
| Transfers | (28,352) | 25,659 | 2,693 | - |
| Disposals | - | (42,589) | (5,553) | (48,142) |
| At 31 December 2020 | 11,456 | 1,200,713 | 389,871 | 1,602,040 |
| **Accumulated depreciation** | | | | |
| At 1 January 2020 | - | 1,054,687 | 364,878 | 1,419,565 |
| Charge for the year | - | 31,117 | 7,380 | 38,497 |
| Disposal | - | (42,556) | (5,553) | (48,109) |
| At 31 December 2020 | - | 1,043,248 | 366,705 | 1,409,953 |
| **Net book value** | | | | |
| At 1 January 2020 | 24,967 | 160,010 | 27,208 | 212,185 |
| At 31 December 2020 | 11,456 | 157,465 | 23,166 | 192,087 |

Capitalised borrowing costs
The amount of borrowing costs capitalised during the year ended 31 December 2020 was £123,649 (2019: £307,798). The average rate used to determine the amount of borrowing costs eligible for capitalisation was 2.14% which is the effective rate of borrowing used to finance the construction.

### 13 Right-of-use assets

Company as a Lessee

The Company has various lease contracts for real estate, vehicles and telecommunications equipment with varying remaining lease terms. The Company also has certain leases of £1,246,000 with lease terms of 12 months or less. The Company applies the 'short-term lease' recognition exemptions for these leases. Set out below are the carrying amounts of right-of-use assets recognised and the movement during the period:

| | Land & Buildings £ 000 | Other £ 000 | Total £ 000 |
|---|---|---|---|
| As at 1 January 2020 | 80,747 | 4,256 | 85,003 |
| Additions | 1,003 | 162 | 1,165 |
| Adjustments | (72) | - | (72) |
| Depreciation | (11,137) | (1,923) | (13,060) |
| Retirements | - | (149) | (149) |
| As at 31 December 2020 | 70,541 | 2,346 | 72,887 |

### 14 Investments

| **Subsidiary undertakings** | **£ 000** |
|---|---|
| Cost at 1 January 2020 | 653,125 |
| Disposals | - |
| At 31 December 2020 | 653,125 |
| Amounts provided for at 1 January 2020 | 653,125 |
| At 31 December 2020 | 653,125 |
| Carrying value at 31 December 2020 | - |
| At 31 December 2019 | - |

### 14 Investments (continued)

Details of the subsidiaries as at 31 December 2020 are as follows:

| Name of subsidiary | Principal activity | Address of registered office | Proportion of ownership interest and voting rights held 2020 | 2019 |
|---|---|---|---|---|
| MK International Limited | Investment Holding Company | Reading International Business Park, Basingstoke Road, Reading, RG2 6DA, United Kingdom | 100% | 100% |
| Fox Court Nominees Limited | Holding minority shareholdings in certain undertakings of the Verizon group | Reading International Business Park, Basingstoke Road, Reading, RG2 6DA, United Kingdom | 100% | 100% |

### 15 Common control business combination

Blue Jeans Network Limited transferred its business and most of its assets and liabilities, including the transition of its UK based employees, to the Company under an agreement dated 1 November 2020, for a cash consideration of £1,253,011. Blue Jeans Network Limited is a private limited company registered in England and Wales and provided sales and marketing support in relation to the provision of cloud based conferencing services in the United Kingdom to Blue Jeans Network, Inc. incorporated in Delaware in the United States of America.

The transaction was accounted for as a business combination under common control. The financial statements have therefore been prepared using the pooling of interests method from the date of business combination. The net assets acquired amounted to £1,253,011 as at the date of acquisition.

| **Net Assets Acquired** | **£** |
|---|---|
| Fixed Assets | 2,995 |
| Amounts owed by group undertakings | 1,302,274 |
| Debtors | 69,033 |
| Creditors: amounts falling due within one year | (121,291) |
| | 1,253,011 |

### 16 Stock

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| Network equipment and items for resale | 1,955 | 2,408 |

## 17 Trade and other debtors

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade debtors | 31,354 | 48,764 |
| Amounts owed by group undertakings | 368,221 | 307,281 |
| Accrued income | 15,815 | 19,114 |
| Prepayments | 13,424 | 14,260 |
| Other debtors | 19 | 4,806 |
| Deferred tax (see note 11) | 4,525 | 4,891 |
| Finance Lease receivable (see note 24) | 4,259 | 4,199 |
| Deferred installation costs and commissions (see note 3) | 3,408 | 3,697 |
| | 441,025 | 407,012 |
| Allowance for expected credit losses | (3,345) | (3,742) |
| Total current trade and other debtors | 437,680 | 403,270 |

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Included within the balance is an amount of £3,263,000 (2019 : £2,360,000) relating to forward contracts. See note 26.

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Credit loss allowance is recognised if there has been a significant increase in the credit risk associated with a given customer such that the amount owed by the customer is likely to be written off.

| | 2020 £ 000 | 2019 £ 000 |
|---|---|---|
| **Amounts falling due after one year:** | | |
| Deferred tax (see note 11) | 8,668 | 9,297 |
| Deposits | 120 | 120 |
| Finance lease receivable (see note 24) | 1,391 | 4,161 |
| Other long term debtors | 2,063 | 3,372 |
| Deferred installations costs and commissions (see note 3) | 2,585 | 3,019 |
| | 14,827 | 19,969 |

## 18 Creditors: amounts falling due within one year

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| Trade creditors | 22,788 | 21,453 |
| Accrued expenses | 52,895 | 63,634 |
| Deferred revenue (see note 3) | 10,170 | 13,538 |
| Amounts due to group undertakings | 46,523 | 50,243 |
| Social security and other taxes | 6,278 | 5,742 |
| Other creditors | 7,354 | 3,812 |
| Obligations under finance leases (see note 24) | 9,152 | 11,655 |
| Cash settled share-based payments (see note 22) | 1,867 | 2,986 |
| | 157,027 | 173,063 |

## 19 Creditors: amounts falling due after more than one year

| | 2020 £ 000 | 2019 £ 000 |
|---|---|---|
| Deferred revenue (see note 3) | 5,924 | 4,699 |
| Obligations under finance leases (see note 24) | 68,836 | 78,448 |
| Cash settled share based payments (see note 22) | 1,164 | 1,492 |
| | 75,924 | 84,639 |

## 20 Provisions

| | Dilapidations £ 000 |
|---|---|
| At 1 January 2020 | 13,549 |
| Decrease in existing provisions | (1,080) |
| Provisions used | (1,150) |
| Discounted provision - unwinding of discount | 702 |
| At 31 December 2020 | 12,021 |

**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 discount rate of 5.5% (2019: 5.5%).

# Verizon UK Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 21 Share capital

**Allotted, called up and fully paid shares**

| | No. | 31 December 2020 £ | No. | 31 December 2019 £ |
|---|---|---|---|---|
| Ordinary shares of £1 each | 128,263,262 | 128,263,262 | 128,263,262 | 128,263,262 |

### 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 2020:

| Grant award year | Grant date | Number of RSUs | Fair value at grant date (£ 000) | Number of PSUs | Fair value at grant date (£ 000) |
|---|---|---|---|---|---|
| 2018 | 06/03/2018 | 29,460 | 1,031 | 42,554 | 1,489 |
| 2019 | 08/03/2019 | 23,580 | 1,012 | 35,365 | 1,518 |
| 2020 | 02/03/2020 | 21,905 | 1,017 | 32,848 | 1,527 |

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 £3,616,000 (2019: £4,865,000).

**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 2020 is £3,152,000 (2019: £3,778,000).

The carrying amount of the liability relating to the cash settled options at 31 December 2020 is £2,451,000 (see notes 18 and 19) (2019: £3,039,000). Share based payments valued at £4,180,000 vested and were settled during 2020 (2019: £4,002,000).

**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)

| | 2020 Number of RSUs | 2020 Number of PSUs | 2019 Number of RSUs | 2019 Number of PSUs |
|---|---|---|---|---|
| Balance at 1 January | 60,293 | 136,270 | 90,814 | 149,668 |
| Granted during the year | 21,905 | 32,848 | 24,382 | 36,568 |
| Settled during the year | (31,705) | (58,392) | (54,903) | (49,966) |
| | 50,493 | 110,726 | 60,293 | 136,270 |

**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 received 25 RSUs. Employees receives 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 vested on 31 January 2019 and the remaining 50% vested on 31 January 2020.

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

The charge for the year amounted to £143,000 (2019: £1,574,000).

The carrying amount of the liability is £nil (see notes 18 and 19) (2019: £1,439,000).

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

## 22 Share-based payments (continued)

### Stock Together

From 2 March 2020, the Company participates in the Verizon Communications Inc. ("Verizon") Stock Together Plan ("the Stock Together Plan"). The Stock Together Plan permits the granting of restricted stock units (RSUs).

The Stock Together program is a broad-based equity award program that creates an opportunity for employees to share in the success of Verizon and the value created through a discretionary award of RSUs.

Eligible employees receive an award of RSUs in a fixed dollar amount based on their job level, work location, and scheduled hours on the grant date. The actual number of RSUs each employee will receive will be determined by dividing the employee's fixed dollar award amount by the closing price of a share of Verizon Communications Inc. common stock on the NYSE on the grant date.

The award will vest over a 3-year period, with 1/3 of the number of units vesting on 2 March 2021, 1/3 of units vesting on 2 March 2022, and the remaining 1/3 of units vesting on 2 March 2023. If an employee satisfies the vesting requirements for the award they will receive a cash payment equal to the value of the vested RSUs plus quarterly dividend equivalent units on the applicable vesting dates.

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 62%/38% 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 charge for the year amounted to £1,543,000 (2019: £nil).

The carrying amount of the liability is £580,000 (2019: £nil). The carrying amount of the equity element relating to the units at 31 December 2020 is £963,000 (2019: £nil).

The number of RSU's granted during 2020 was 108,161, with a fair value at grant date of £4,799,000.

## 23 Capital Commitments

*Property, plant and equipment*

At 31 December 2020, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £7,461,000 (2019: £1,741,000).

## 24 Obligations under leases and hire purchase contracts

**As a lessee**

The Company has lease contracts for various items of land and buildings and other equipment. Leases of land and buildings generally have lease terms between 3 and 25 years, while other equipment generally has lease terms between 2 and 24 years.

The Company has leases with lease terms of 12 months or less. The Company applies the short-term lease recognition exemption for these leases.

Set out below are the carrying amounts of lease liabilities and movements during the period for those included in notes 18 and 19.

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| As at 1 January | 90,103 | 105,862 |
| Additions | 1,164 | 4,685 |
| Adjustments | (72) | - |
| Accretion of interest | 2,369 | 4,070 |
| Payments | (15,506) | (24,033) |
| Retirements | (149) | (398) |
| Foreign exchange movement | 79 | (83) |
| As at 31 December | 77,988 | 90,103 |

**As a lessor**

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.

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| *Future minimum lease payments due* | | |
| Not later than one year | 4,809 | 4,661 |
| After one year but not more than five years | 1,660 | 4,393 |
| | 6,469 | 9,054 |
| Less unearned finance income | (819) | (694) |
| Present value of minimum lease payments | 5,650 | 8,360 |

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

## 24 Obligations under leases and hire purchase contracts (continued)

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Not later than one year | 4,259 | 4,199 |
| After one year but not more than five years | 1,391 | 4,161 |

### Annual commitments under non-cancellable operating leases

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

| | 2020<br>Land and buildings<br>£000 | 2020<br>Other<br>£000 | 2019<br>Land and buildings<br>£000 | 2019<br>Other<br>£000 |
|---|---|---|---|---|
| Not later than one year | - | 13,038 | - | 15,519 |
| After one year but no more than five years | - | 6,256 | - | 5,445 |
| After five years | - | 174 | - | 196 |
| | - | 19,468 | - | 21,160 |

Other operating lease commitments relate to equipment, office equipment and telecommunications circuits. The Company has applied the short-term leases recognition exemptions to equipment and office equipment, and these leases have been recognised as operating leases. Telecommunications circuits are recognised as operating leases as the supplier has the substantive right to substitute the asset throughout the period of use. IFRS 16 has been applied to leases relating to land and buildings and other equipment from the application date 1 January 2019.

### 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 less than one year. Future minimum rentals receivable under these non-cancellable operating leases are as follows:

| | 31 December 2020<br>£ 000 | 31 December 2019<br>£ 000 |
|---|---|---|
| Within one year | 205 | 409 |
| After one year but not more than five years | - | 204 |
| | 205 | 613 |

## 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 £9,028,000 (2019: £8,361,000).

As at 31 December 2020 there was a pension accrual relating to the Company contributions of £774,000 (2019: £730,000) which is included within the accruals figure in Note 18.

## 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 2020. The fair values are based on market values of equivalent instruments at 31 December 2020. 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 | |
|---|---|---|---|---|
| | 31 December 2020 £ 000 | 31 December 2019 £ 000 | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
| Foreign Currency Forward Contracts | 278,059 | 153,113 | 3,263 | 2,360 |
| Recognised in the statement of profit or loss | - | - | 3,263 | 2,360 |

## 27 Parent and ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of Verizon European Holdings Limited, a company incorporated in England & Wales.

The Company is a 99.77% owned indirect subsidiary of Verizon Communications Inc., a company incorporated in Delaware 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

On 21 May 2021, the Company agreed to make available a loan facility of up to £2,000,000 to a not-for-profit industry association. No advances have been made under that loan facility.

There were no other significant events after the end of the reporting period.