# AEGON EDC LIMITED

## STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

## COMPANY NUMBER SC367146

# AEGON EDC LIMITED

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# AEGON EDC LIMITED

## COMPANY INFORMATION

| | |
|---|---|
| Directors | Greig Bishop<br>Norbertus Maria Herkströter<br>Mark James Linklater<br>Dorinda Ann Gordon |
| Secretary | James K MacKenzie, LLB, Dip LP, NP |
| Company Number | SC367146 |
| Registered Office | Aegon EDC Limited<br>Lochside Crescent<br>Edinburgh Park<br>Edinburgh<br>EH12 9SE |
| Independent Auditors | PricewaterhouseCoopers LLP<br>Atria One<br>144 Morrison Street<br>Edinburgh<br>EH3 8EX |

**Principal activity**
The principal activity of Aegon EDC Ltd (hereinafter the "Company") is the provision of IT Infrastructure Services to fellow Aegon group companies. The directors anticipate no change to the principal activity in the foreseeable future. The Company is incorporated and domiciled in Scotland.

**Legal Form**
Aegon EDC Limited is a private limited company formed under the incorporation guidelines of the Companies Act 2006.

**Review of business and future developments**
Together the Company and the IT Infrastructure entity Aegon Global Services (AGS; a fellow Aegon N.V. subsidiary based in the U.S.A.) operate under the organisational name Aegon Global Technology (AGT). On January 3rd 2018, the new wholly owned subsidiary of the Company; AGT Hungary IT Service Kft was incorporated to facilitate the Company's expansion into Central and Eastern Europe (CEE).

In reviewing the performance of the Company in 2018 it is important to look at the following pillars that form the Company's strategic view:

*Availability and Security*
As an IT infrastructure company it is important that the Company provides a service that is reliable and secure. The reliability, availability and security of our service is especially vital for the financial industry that the Company's customers operate within. The Company used two categories of performance services metrics to measure operational performance in 2018: Service Level Management Key Performance Indicators (KPIs) and Critical and Core system availability.

The Service Level Management KPIs include metrics to measure service levels, availability and incident reduction. Statistics compiled highlighted that in 2018 the performance of the Company was not considered as successful as it can be. The attainment of these service levels was between 85%-94%.

Critical and Core system availability is a measure of the overall availability of the Company's IT infrastructure to its customer. System availability is based on 24/7/365 agreed service uptime. Overall the Company's performance during 2018 was considered satisfactory. Critical and Core system availability was at a level of 99%-99.7% availability throughout 2018.

Due to the mixed performance of the service levels and availability, as well as a constantly changing IT environment and changing requirements of the Company's customers the awareness of availability had to be further enhanced. During 2018 an organisational structure change was completed to address the need for further focus on these areas. This created a new support team within the Company; Availability and Service Management that focuses on all activities related to service management and availability of the Company's IT infrastructure services.

*Innovation & Transformation*
Due to the nature of changing business requirements it is important that our technologies not only reflect these changes but that we pioneer new technologies to allow our customers to be more efficient and effective within the financial services industry. This being the case, during 2018 the Company continued to develop and deploy new technologies to allow our customers to attain an efficient and reliable service.

During 2018, the Company continues to focus on its cloud capabilities; providing the foundation for customers to operate safely and effectively in the cloud environment. The cloud capability design organisation provides support and direction to customers who are looking to utilise cloud services provided by Amazon Web Services and Microsoft Azure as their choice of IT infrastructure.

In 2018 there was a focus, by some of the Company's customers (Transamerica and Aegon NL), to begin to analyse the movement of their current IT infrastructure from on premise data centres situated in Edinburgh and Cedar Rapids to the cloud. The Company is supporting these analyses and will then provide significant operational and service delivery support to aid the Company's customers cloud migrations.

Transamerica announced outsourcing activities with Tata Consulting Services (TCS) which commenced early in Q2 2018. This third party will administer legacy financial services provided by Transamerica. As a result of these announcements, the IT infrastructure that facilitates the provision of these legacy services will be transferred to TCS and will impact the Company. The Company is working closely with its customers to provide support on the migration of this IT infrastructure throughout the multi-year transition period.

*Expansion of Services to existing customers*
During the year the Company continued to expand the level of service provided to our customers. To expand its service provision AGT regularly improves its existing service offerings as well as developing new services that align with the company's customers service requirements. During 2018 AGT continued to develop its level of service by increasing its functionality and tooling in its application hosting services to enable the progress of the company's customers' digital initiatives. The Company continues to work with our customers to identify opportunities where insourcing external Aegon spend could result in efficiencies for both our customers and therefore Aegon as a whole.

*Expansion of geographic footprint*
As an organisation, a key objective of AGT is to continue to integrate more Aegon country units into the global IT support model. During 2018, several Central and Eastern European country units were integrated into the network and security IT infrastructure model of the Company. Aegon Poland, Aegon Hungary, Aegon Czech Republic, Aegon Slovakia and Aegon Turkey are now part of the Company's customers that receive the network and security services. Further analysis will continue to discuss if further integration of CEE county units IT infrastructure is in the best interest of Aegon.

*Partnering with external vendors*
In 2018 the Company also continued to investigate opportunities that may exist for outsourcing services where the service could be more effectively and efficiently managed by third parties. A key part of this strategy involves partnering with providers of cloud services to enhance the Company's cloud offering. AGT partners with such cloud providers such as Microsoft Azure and Amazon Web Services. During 2018 cloud usage by the Company's customers continued to increase as they take advantage of the scalability of the cloud for their data and applications.

**Financial performance**
The Company performed as expected in 2018 producing the required profit in accordance with agreed Transfer Pricing Agreements.

**Financial Obligations, corporate governance, capital management and financial instruments**
*Financial Obligations*
The Company has no loan obligations as at the end of 2018 (2017: nil).

*Corporate Governance*
The Aegon Group, of which the Company is a part of, has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business across the group that includes a clearly stated corporate organisational structure, appropriate delegated authorities and independent internal audit and risk management functions. Risk management for the Company operates within this governance framework.

*Capital Management*
The Company's objective in managing its capital is to ensure that there are adequate resources to meet the Company's external liabilities as they fall due, and to allocate capital efficiently to support growth and repatriate excess capital where appropriate. The Company's capital is managed in conjunction with that of other companies in the Aegon Group. The Company manages its capital by measuring its resources and cash available on a regular basis. The Company's capital position is disclosed within the Statement of Changes in Equity. The Company has no externally imposed capital requirements.

*Financial Instruments*
The Company's exposure to financial instrument risk is in the form of credit risk. Credit risk is significantly reduced as assets are primarily trade and other receivables being prepayments of hardware and software maintenance and receivables from other Aegon Group companies. Cash and short term deposits are placed with high quality banks or invested through the parent company.

**EU Referendum**
In June 2016 a national referendum was held in the United Kingdom (UK) on whether the UK should remain a member of the European Union. The result was that the people of the UK decided to leave the EU. There are still many uncertainties following the vote, however the specific uncertainty in relation to the Company is whether or not EU data will be allowed to reside or be hosted in the UK post the official leave date. The Company continues to work closely with Aegon Corporate risk and legal teams to monitor the position. The most recent legal advice received suggests that this risk has been mitigated due to the requirements to comply with the new EU General Data Protection Regulations (GDPR) which were implemented in May 2018.

On behalf of the Board

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**Greig Bishop**
**Director**
**Aegon EDC Limited**
**Lochside Crescent**
**Edinburgh**
**EH12 9SE**

**27th September 2019**

The Directors present their report and the audited financial statements for the year to 31 December 2018.

**Future development of the Company**

The Company's future development is outlined within the Strategic report on pages 2-4.

**Structure of these financial statements**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2018 and applied in accordance with the Companies Act 2006.

**Results and dividends**

The results for the year are set out on page 11.

The Company did not pay a dividend during the year (2017: nil).

**Directors and their interests**

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 1.

Each of the Directors has been granted a qualifying third party indemnity by the Company, in terms of the relevant sections of the Companies Act 2006. The third party indemnity was in force during the financial year and at the date of approval of the financial statements.

**Political contributions**

No political contributions were made during the year (2017: nil).

**Creditor payment policy**

The objective is to treat our suppliers fairly and in accordance with good commercial practice. Suppliers' invoices are settled in accordance with agreed contractual terms or, if no terms are scheduled, generally within 30 days of the appropriate invoice date.

**Going concern**

The financial statements have been prepared on a going concern basis.

The Strategic Report includes a review of the Company's business and a description of the Company's risk and capital management (including interest risk and credit risk). In addition, the financial statements include notes on capital and solvency (note 12) and risk management (note 13).

After making enquiries, which include considering the liquidity of the Company's assets and the Company's ability to manage business risks successfully during the continued uncertain economic outlook, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of this report). Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**Independent Auditors**

An elective resolution was passed on 18 December 2002 to (a) dispense with the requirement to lay the Report and financial statements before the Company in the general meeting, (b) to dispense with the holding of an Annual General Meeting for 2002 and subsequent years, and (c) to dispense with the obligation to appoint auditors annually.

**Disclosure of information to auditors**

The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and each director has taken all steps that they ought to have taken as director to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

On behalf of the Board

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**Greig Bishop**
**Director**
**Aegon EDC Limited**
**Lochside Crescent**
**Edinburgh**
**EH12 9SE**

**27th September 2019**

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union, and have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

## Report on the audit of the financial statements

### Opinion

In our opinion, Aegon EDC Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## Responsibilities for the financial statements and the audit

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

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

*Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Other required reporting

## Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Gillian Alexander

Gillian Alexander (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
27th September 2019

# AEGON EDC LIMITED
# INCOME STATEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | £000 | £000 |
| **Revenue** | | | |
| Revenue from rendering of services | 2 | 60,649 | 59,709 |
| Cost of Sales | 3 | (59,336) | (57,092) |
| **Gross Profit** | | **1,313** | **2,617** |
| Finance revenue | 4 | 43 | 24 |
| **Profit before tax** | | **1,356** | **2,641** |
| Tax Charge | 5 | (307) | (478) |
| **Profit for the year** | | **1,049** | **2,163** |

The profit for the year is attributable to the equity holders of the Company.

The results for the year relate wholly to continuing activities.

Profit for the year is consistent with total comprehensive income and there were no other items of comprehensive income not already reflected within the profit for the year.

Notes to the financial statements are on pages 15 to 25.

# AEGON EDC LIMITED
# BALANCE SHEET
# AS AT 31 DECEMBER 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | £000 | £000 |
| **Non-Current Assets** | | | |
| Investment in subsidiary | 6 | 1,009 | 0 |
| Fixtures and equipment | 7 | 550 | 1,083 |
| Deferred tax asset | 8 | 1,378 | 1,567 |
| | | **2,937** | **2,650** |
| **Current Assets** | | | |
| Trade and other receivables | 9 | 16,000 | 10,678 |
| Cash and cash equivalents | 10 | 11,090 | 13,446 |
| | | **27,090** | **24,124** |
| **Total Assets** | | **30,027** | **26,774** |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | 6,531 | 4,060 |
| Corporation Tax payable | 11 | 0 | 267 |
| | | **6,531** | **4,327** |
| **Net Assets** | | **23,496** | **22,447** |
| **Capital and reserves** | | | |
| Issued capital | 12 | 12,600 | 12,600 |
| Retained earnings | | 10,896 | 9,847 |
| **Total equity** | | **23,496** | **22,447** |

Notes to the financial statements are on pages 15 to 25.

The financial statements on pages 11 to 25 were approved by the Board of Directors on 27th September 2019 and signed on its behalf by

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**Greig Bishop 27th September 2019**

# AEGON EDC LIMITED
# STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 31 DECEMBER 2018

| | Issued Capital £000 | Retained Earnings £000 | Total Equity £000 |
|---|---|---|---|
| As at 1 January 2018 | 12,600 | 9,847 | 22,447 |
| Profit for the year | - | 1,049 | 1,049 |
| **As at 31 December 2018** | **12,600** | **10,896** | **23,496** |

| | Issued Capital £000 | Retained Earnings £000 | Total Equity £000 |
|---|---|---|---|
| As at 1 January 2017 | 12,600 | 7,684 | 20,284 |
| Profit for the year | - | 2,163 | 2,163 |
| **As at 31 December 2017** | **12,600** | **9,847** | **22,447** |

The Company did not recognise any income or expense directly in equity.

Notes to the financial statements are on pages 15 to 25.

# AEGON EDC LIMITED
# CASH FLOW STATEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | £000 | £000 |
| **Operating activities** | | | |
| **Profit before tax** | | **1,356** | **2,641** |
| *Adjustments to reconcile profit before tax to net cash flow from operating activities* | | | |
| Finance revenue | 4 | (43) | (24) |
| Depreciation of fixtures and equipment | 3 | 533 | 571 |
| (Increase)/decrease in trade and other receivables | 9 | (5,208) | (1,841) |
| Increase/(decrease) in trade and other payables | 11 | 2,471 | 599 |
| Interest received | | 43 | 24 |
| Corporation Tax Paid | | (499) | (275) |
| **Net cash flow generated from operating activities** | | **(1,347)** | **1,695** |
| **Investing activities** | | | |
| Investment in subsidiary | 6 | (1,009) | (0) |
| **Net cash flow used in investing activities** | | **(1,009)** | **(0)** |
| **Financing activities** | | | |
| **Net cash generated from financing activities** | | **0** | **0** |
| **Net increase in cash and cash equivalents** | | **(2,356)** | **1,695** |
| Cash and cash equivalents at beginning of year | | 13,446 | 11,751 |
| **Cash and cash equivalents as at 31st December** | | **11,090** | **13,446** |

The cash flow statement is prepared according to the indirect method.

Notes to the financial statements are on pages 15 to 25.

## 1. Accounting Policies

### 1.1. Basis of preparation

*1.1.1. Introduction*

The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2018 and in accordance with the Companies Act 2006. The financial statements have been prepared in accordance with the historical cost convention as modified by those financial instruments and financial liabilities that have been measured at fair value.

Aegon EDC has made use of the CA 2006 S400 exemption from preparing consolidated financial statements.

The financial statements of Aegon EDC Limited for the year ended 31 December 2018 were authorised for issue, in accordance with a resolution of the directors, on 27th September 2019.

*1.1.2 Adoption of new IFRS accounting standards*

New standards and amendments to standards become effective at the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2018, the following amendments to existing standards issued by the IASB became mandatory but are not currently relevant or do not significantly impact the financial position or financial statements:

| Accounting Standard / Amendment / Interpretation | IASB effective date | Endorsed by EU | Impact on Company |
|---|---|---|---|
| IFRS 9 *Financial Instruments* | 1 January 2018 | Yes | Low |
| IFRS 15 Revenue from Contracts with Customers, including clarifications to IFRS 15 as issued in 2016 | 1 January 2018 | Yes | Low |
| IFRS 2 *Clarifications of Classification and Measurement of Share-based Payment Transactions* | 1 January 2018 | Yes | Low |
| IAS 40 *Investment Property*, amendments regarding the transfer of property | 1 January 2018 | Yes | Low |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 | Yes | Low |
| Annual Improvements 2014-2016 | 1 January 2018 | Yes | Low |

*1.1.3 Future adoption of new IFRS accounting standards*

The following standards, amendments to existing standards and interpretations, published prior to 1 January 2019, were not early adopted by the Company, but will be applied in future years:

| Accounting Standard / Amendment / Interpretation | IASB effective date | Endorsed by EU | Impact on Company |
|---|---|---|---|
| IFRS 16 *Leases* | 1 January 2019 | Yes | None |
| IFRS 17 *Insurance Contracts* | 1 January 2022 | No | None |
| IFRIC 23 Uncertainty over Tax Treatments | 1 January 2019 | Yes | Low |
| Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures | 1 January 2019 | Yes | Low |
| Annual Improvements 2015-2017 | 1 January 2019 | Yes | Low |
| Amendments to 19 Plan Amendment, curtailment or settlement | 1 January 2019 | Yes | Low |
| Amendments to references to The Conceptual Framework in IFRSs | 1 January 2020 | Yes | Low |
| Amendments to IFRS 3 Business Combinations | 1 January 2020 | No | Low |
| Amendments to IAS 1 and IAS 8 Definition of Material | 1 January 2020 | No | Low |

### 1.2. Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences on monetary items are recognised in the income statement when they arise.

### 1.3. Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

*Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

### 1.4. Revenue recognition

Revenue is recognised when services are transferred to customers and the Company has satisfied performance obligations of the contract. Revenue is measured at the fair value of the consideration received, excluding VAT. The following specific recognition criteria must also be met before revenue is recognised:

*Rendering of services*

Fees are recognised as revenue over the year in which related services are provided.

### 1.6. Functional currency

The financial statements have been prepared in £ sterling, the functional currency of the Company, as represented by the primary economic environment in which the Company operates and generates net cash flows.

### 1.7. Other assets and receivables

Other assets include trade and other receivables, prepaid expenses and equipment. Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost. Equipment is initially carried at cost, depreciated on a straight-line basis over its useful life to its residual value and is subject to impairment testing.

### 1.8. Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements.

### 1.9. Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired.

*Impairment of non-financial assets*

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties

### 1.10. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on property and equipment is calculated on a straight line basis over the expected useful life as follows:

| | | |
|---|---|---|
| Fixtures, fittings | - | 10% - 25% |
| Computer equipment & software | - | 25% - 33.33% |

Depreciation and impairment losses are recognised in the income statement within cost of sales. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the de-recognition of the asset is included in the income statement in the year of derecognition.

### 1.11. Taxes

**Current income tax**

Income tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

**Deferred income tax**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax and liabilities are recognised for all taxable temporary differences except:

– When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and

– In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

– When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognised directly in other comprehensive income is recognised directly in other comprehensive income and not in the income statement. Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relate to the same taxable entity and the same taxation authority.

### 1.12. Commissions and expenses

Aegon UK Corporate Services Limited, Aegon Global Services, Aegon NL as well as Central and Eastern Europe that includes Aegon Spain, Aegon Hungary, Aegon Slovakia, Aegon Czech Republic, Aegon Poland and Aegon Romania, are related parties of Aegon EDC Limited. These related parties provide services to the Company and in particular employ those personnel who provide services to the Company. Therefore, the Company has no employees under contracts of service. All administrative expenses are recharged by these service companies to the Company.

## 2. Revenue from rendering of services

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Operating Income | 60,649 | 59,709 |
| **Total Sales reported in the income statement** | **60,649** | **59,709** |

Revenue represents charges receivable from other Aegon group companies in respect of the provision of IT infrastructure services by the Company.

## 3. Cost of sales

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Hardware and software costs | 19,765 | 19,083 |
| Depreciation of fixtures and equipment | 533 | 571 |
| Staff costs | 28,288 | 28,613 |
| Rent and Shàred Services | 2,756 | 2,446 |
| Contractors and Consultants | 6,238 | 5,010 |
| Other costs | 1,757 | 1,369 |
| **Cost of sales** | **59,336** | **57,092** |

Cost of sales represents amounts invoiced to the Company by suppliers and a depreciation charge of £533k (2017: £571k).

The audit fees are £40,200 (2017: £36,000).

All staff costs of the company are incurred by either Aegon CS for UK based resources, Aegon NL for NL based resources and AGS for US based resources. These resource charges are invoiced monthly to the company by the respective Aegon group companies. There are no employees that are contracted directly by the Company. Charges from other Aegon group companies in relation to staff costs are as follows: Aegon Corporate Services Limited £7,802k (2017: £8,376k), Aegon Global Services (AGS) £14,412k (2017: £13,205k), Aegon Nederland N.V £5,780k (2017: £5,760k) and Aegon Spain and Central Eastern Europe £294k (2017: £nil). Other staff costs relating to travel and training, incurred from the previously mentioned group companies, totalled £1,227k (2017: £941k).

The breakdown of the staff costs are as follows; Wages and salaries £23,796k (2017: £24,439k), Social security costs £3,124k (2017: £3,113k) and other pension costs £141k (2017: £119k). Other Staff cost relating to travel and training £1,227k (2017: £942k) were incurred during the year.

During 2018 the company incurred charges £2,695k (2017: £343k) in relation to its new Hungarian subsidiary, AGT Hungary IT Service Kft, prior to its incorporation on 3rd January 2018.

During 2017, the company did incur charges for the use of equipment and software from Money Services Inc. This charge to the company from Money Services Inc. in 2018 is £11,931k (2017: £17,557k).

The total amount paid by the company for Directors compensation in respect of services provided to the Company in the year was £232k (2017: £200k).

In addition to providing qualifying services to the Company, two of the directors in Aegon EDC limited also provide services to the IT Infrastructure division of fellow group company Aegon Global Services (formerly part of TLIC) operating under the brand name Aegon Global Technology (AGT). The remuneration of these two directors is fully paid by TLIC however the remuneration note below discloses a proportion of the two directors' remuneration based upon an estimate of the time spent on qualifying services to this Company. This amounted to £332k (2017: £332k) of the total directors' remuneration.

| The amounts of Directors' remuneration was as follows: | 2018 £000 | 2017 £000 |
|---|---|---|
| Remuneration including bonuses | 564 | 532 |
| Total amounts of Directors' remuneration | **564** | **532** |

The above Directors' remuneration includes £273k (2017: £240k) in respect of the highest paid Director for his services to the Company.

Contributions were made for two directors of £17k (2017: £15k) to defined contribution schemes. There were no contributions made to defined benefits schemes.

## 4. Finance revenue

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Cash and short term deposits income | **43** | **24** |

For terms and conditions relating to related party transactions, refer to note 14.

## 5. Tax Charge

### (a) Current year tax charge

| | 2018 £000 | 2017 £000 |
|---|---|---|
| UK Current Tax | | |
| Corporation tax for the year | 116 | 241 |
| Adjustment in respect of prior years | 2 | (5) |
| Total Current Tax | **118** | **236** |
| | | |
| Deferred Tax | | |
| Original and reversal of temporary differences | 213 | 274 |
| Prior year adjustments | (1) | 0 |
| Effect of changes in tax rates | (23) | (32) |
| Total deferred tax | **189** | **242** |
| Total tax charge reported in the income statement | **307** | **478** |

**(b) Reconciliation of tax charge**

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Profit before tax | 1,356 | 2,641 |
| Profit before tax multiplied by the UK standard rate of corporation tax of 19.00% (2017 19.25%) | 258 | 508 |
| Adjustment in respect of prior years | 1 | (5) |
| Excess of capital allowance over depreciation | 10 | 10 |
| Non-deductible expenses | 65 | 0 |
| Utilisation of tax losses | (4) | (3) |
| Effect of changes in tax rates | (23) | (32) |
| Total tax charge reported in the income statement | **307** | **478** |

The weighted average applicable tax rate for 2018 is 19.00% (2017:19.25%).

The Finance (No.2) Act 2015, substantively enacted on the 26 October 2015, included future reductions to the corporation tax rate from 20% to 19% with effect from 1 April 2017 and then to 18% from 1 April 2020. This was subsequently amended by the Finance Act 2016, substantively enacted on 6 September 2016, the corporation tax rate will now reduce from 19% to 17% with effect from 1 April 2020.

The impact of these reductions in tax rates on the deferred tax balances have been included in the above figures and the deferred tax tables.

## 6. Investment in Subsidiary

In 2018, the EDC made a capital injection of £1,000k (2017: £9k) into its subsidiary, AGT Hungary IT Services Kft, taking its total investment to £1,009k.

| Name | Principle Activity | Registered Address | Holding |
|---|---|---|---|
| AGT Hungary IT Services Kft | Provision of IT Services | 1091 Budapest, Ulloi ut 1 | 100% |

## 7. Fixtures and Equipment

| | Computer equipment and software £000 | Fixtures and Fittings £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 343 | 5,182 | 5,525 |
| Reclassification | 0 | 0 | 0 |
| Disposals for the current year | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 |
| **As at 31 December 2018** | **343** | **5,182** | **5,525** |
| **Accumulated Depreciation and Impairment** | | | |
| At 1 January 2018 | 202 | 4,240 | 4,442 |
| Charge for the current year | 0 | 533 | 533 |
| Disposals in current year | 0 | 0 | 0 |
| **As at 31 December 2018** | **202** | **4,773** | **4,975** |
| **Net book value** | | | |
| At 31 December 2018 | **141** | **409** | **550** |
| **Net book value** | | | |
| At 31 December 2017 | **141** | **942** | **1,083** |

## 8. Deferred Tax Assets

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when income taxes relate to the same fiscal authority. The amounts are as follows:

| **Deferred tax assets comprise** | **2018 £000** | **2017 £000** |
|---|---|---|
| Capital allowances | 1,378 | 1,567 |
| Net deferred tax assets | **1,378** | **1,567** |

| **Deferred tax assets** | **2018 £000** | **2017 £000** |
|---|---|---|
| At 1 January 2018 | 1,567 | 1,809 |
| Amounts recorded in income statement | (189) | (242) |
| **At 31 December** | **1,378** | **1,567** |

A deferred tax asset is assumed for tax on the carry forward value for the capital allowances in excess of accounts value as these will be recognised in future accounting periods in which it is anticipated that taxable profits will arise.

No deferred tax asset is recognised on the balance sheet in respect of non-trade losses carried forward of £931k with a potential tax value of £158k (2017: Loss £952k; Tax £162k) as there is insufficient certainty as to the availability of off settable profits.

## 9. Trade and other receivables

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Prepayments | 1,861 | 1,627 |
| Other Receivables | 738 | 771 |
| Corporation tax receivable | 114 | 0 |
| Amounts owed by group companies | 13,287 | 8,280 |
| | **16,000** | **10,678** |

For terms and conditions relating to related party transactions, refer to note 14.

## 10. Cash and cash equivalents

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Cash and cash equivalents | **11,090** | **13,446** |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The fair value of cash and short term deposits is £11,090k (2017: £13,446k). The Company only deposits cash surpluses with high quality financial institutions. Refer to note 13, Risk Management, for credit ratings.

## 11. Trade and other payables

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Payables to fellow Aegon N.V. subsidiary undertakings | 5,430 | 2,775 |
| Corporation Tax Payable | 0 | 267 |
| Accruals and deferred income | 1,101 | 1,285 |
| | **6,531** | **4,327** |

Terms and conditions of the above financial liabilities:

a. For terms and conditions relating to related parties, refer to note 14.
b. Other payables are non-interest bearing and are normally settled in 30-45 days.

## 12. Issued Capital

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| **Authorised share capital** | | |
| 12,600,100 Ordinary shares of £1 each | **12,600** | **12,600** |
| **Allotted, called up and fully paid** | | |
| 12,600,100 Ordinary shares of £1 each | **12,600** | **12,600** |

Information on capital management and risk management is included in the Directors' Report under 'Corporate governance, capital management and financial instruments'.

## 13. Risk Management

### 13.1 General

The Company is exposed to financial risks with the main financial risk being credit risk. An indication of the Company's exposure to credit risk is the quality of the counterparties with which it transacts. The Company manages credit risk exposure by individual counterparty including cash positions.

The Company is most exposed to credit risk on cash and cash equivalents. It also has exposure to credit risk on receivables. The following table gives an indication of the level of creditworthiness of the two bank accounts in which we hold cash that is exposed to credit risk, using principally ratings prescribed by major rating agencies and Aegon N.V.'s internal rating of the counterparty.

**13.1.1** The table below shows financial assets

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| BBB+ | 4,023 | 3,968 |
| A- | 7,067 | 9,478 |
| **Total assets by Credit Risk:** | **11,090** | **13,446** |

## 14. Related party transactions

**(a) Immediate and ultimate parent undertaking**
The immediate parent company is Aegon N.V. The ultimate parent undertaking and controlling party is Aegon N.V., a company incorporated in the Netherlands.

Aegon N.V. is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2018. The consolidated financial statements of Aegon N.V. are available from the Company Secretary, Aegon UK plc, Aegon, Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE.

**(b) Year end balances and transactions with related parties**
Cost of sales include some costs recharged by other group undertakings (see note 3 for total amount).

Investment income from deposits are held on our behalf by Aegon N.V.

Outstanding payables are unsecured, interest free and cash settlement is generally expected within 15 to 90 days of invoice. Outstanding receivables relate to unsecured, interest free intercompany transactions with no specified credit period. The company has not provided or benefitted from any guarantees from any related parties.

Year end balances related to related party transactions are detailed in notes 9 and 11.

As an internal supplier of IT infrastructure to other Aegon units, the credit risk on receivables is minimal. The Company's Accounts Receivable team are actively involved in tracking amounts owed by customers ensuring that any amounts due to the Company are paid promptly.

**(c) Compensation of key management personnel (including directors)**

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Short term employee benefits | 815 | 772 |
| Total compensation of key management personnel (including directors) | **815** | **772** |

## 15. Post Balance Sheet Events

In January 2019, Aegon N.V announced the sale of Aegon Czech and Aegon Slovakia. The Company is contracted to supply network and security services to both of these entities until December 31st 2019.