Pepperstone

2018 ANNUAL FINANCIAL REPORT

For the year ended 30 June 2018

Pepperstone Limited

Table of contents

Profile

Pepperstone Limited (the "Company") is a limited company registered in England and Wales. The Company is a wholly owned subsidiary of Pepperstone Group Limited ("Pepperstone" or the "Parent", and collectively, the "Group"). Pepperstone is a provider of online over-the-counter trading services based in Australia, offering a wide range of financial products to professional and retail investors.

Directors

Philip Horner	appointed 22 June 2017 resigned on 2 January 2018
Iain Rogers	appointed 19 July 2017
Savvakis Ioannou	appointed 19 July 2017
Tamas Szabo	appointed 9 January 2018

Auditor

Ernst & Young LLP
25 Churchill Place
London E14 5EY
United Kingdom

Registered office

68 Hanbury St
London, E1 5JL
United Kingdom

Registration number

08965105

The directors present their strategic report of the Company for the year ended 30 June 2018.

The Company is a wholly owned subsidiary of Pepperstone Group Limited (the "Parent"), which is also its immediate parent.

The Company's principal activity is to onboard retail and professional clients for the purpose of providing a platform for clients to buy and sell leveraged spot foreign exchange ("FX") and Contracts-For-Difference ("CFD") products. The Company has no traded market risk as all market risk is borne by the Parent. As part of this process, clients deposit monies directly with the Company.

Review of the business and future developments

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

The Company entered the market through a soft launch of its product and services during 2017. Following the soft launch, the Company suspended trading to focus on making the appropriate changes to its operations and enhance its systems, processes and controls. The Company recommenced business activities in August 2017.

The Company has had strong performance and a sustained period of growth during the year. The Company earned revenue from commissions and spreads against contract for differences ("CFDs") achieving revenues of £4,982,222 (2017: £32,952) across a client base of 4,689 as at 30th June 2018 (2017: 50).

The Companies profit before tax was £2,052,081 as at 30 June 2018 (2017: £278,364 loss).

At the year ended 30 June 2018 the balance of client funds held within segregated accounts was £14,598,353 (2017: £4,890).

Whilst future predictions and trends are currently hard to make, the Company is fully committed to developing an offering that appeals to professional traders and retail clients who are generally more experienced and better informed about derivatives and financial markets.

During the period the Company received a capital injection of £200,000 at £1 per share.

Principal risks and uncertainties

The Company is exposed to a variety of risks as a result of daily operations and the industry in which the Company operates. These risks are monitored constantly to ensure that the risk appetite of the Company is not exceeded. The risks faced by the Company are analysed below, in addition to those which are analysed in greater depth together with financials in Note 18 of these Financial Statements.

Foreign Exchange Risk
The Company incurs market risk on foreign currency movements on its own cash assets & liabilities held in foreign currencies. The Company monitors its exposure on a day to day basis and hedges its exposure if required.

Cash Flow Risk
The Company is in its infancy and one of the key risks is to ensure there is sufficient cash flow to maintain operations. The Company has the support of its Parent to ensure all financial liabilities and outgoings are met on a timely basis while maintaining sufficient capital adequacy.

Market Risk
The Company has no traded market risk as all market risk is borne by the Parent.

Credit Risk
Credit risk is one of the principal risks the Company faces. Credit risk exposure relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company and arises principally from the Company's receivables.

It is the Company's policy not to grant credit to clients. Insofar as that underlying contracts represent a leveraged trading service, the "credit" applicable to the client's account is limited to the amount of margin within that account, as such there is minimal exposure to the Company.

The Company has in place systems on its trading platforms that will not permit a client to trade in excess of the margin balance.

Operational Risk
Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as client money, customer detriment, reputational or regulatory consequences.

In addition, daily backups are being made on servers established outside the offices to be able to carry its core operations in cases of unforeseen events. Concentration risk is minimised through the use of multiple alternate service providers. Controls and governance frameworks are in place to minimise risk of human error.

The Company has Professional Indemnity Insurance in place to mitigate other operational risks.

Liquidity and Capital Risk
Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price. In order to maintain a liquidity position in line with FCA requirements, the Company measures liquidity risk with a variety of measures, including regular stress testing and cash flow monitoring, and reporting to both the Company and Group boards.

Cryptocurrency Risk
Pepperstone trades CFDs on various cryptocurrencies but not the underlying coins or tokens themselves. Clients speculate on the rise and fall of the prices of these instruments and do not ever take ownership of the underlying.

As such cryptocurrencies are subject to the same risks as any of the other CFD and FX products that Pepperstone offers. However, given the relative immaturity of cryptocurrencies, these may be magnified i.e. the underlying instruments will be considerably less liquid than other more established instruments and may, therefore, be more volatile and or thinly traded among fewer counterparties.

Interest Rate Risk
The Company has limited exposure to interest rate risk on its cash positions and any borrowings. Cash is held in non-interest-bearing current accounts. The Company has access to overdraft facilities, which are currently not being utilised.

Conduct Risk
Conduct risk is the risk of not delivering fair customer outcomes. The Company will be exposed to the financial costs and regulatory consequences of the need to take action to remedy any customer detriment arising from failures in areas such as designing products to meet customer needs, ensuring products are clearly and fairly described and are administered and perform in line with the way they have been marketed and sold to customers. Conduct risk is managed in line with the overall risk management framework as described in the Operational risk section above.

Reputation Risk
One of the most important factors in attracting clients in our sector is the reputation that each company has and how it is perceived. The risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Company.

Pepperstone

2018 ANNUAL FINANCIAL REPORT

For the year ended 30 June 2018

Pepperstone Limited

Table of contents

Profile

Pepperstone Limited (the "Company") is a limited company registered in England and Wales. The Company is a wholly owned subsidiary of Pepperstone Group Limited ("Pepperstone" or the "Parent", and collectively, the "Group"). Pepperstone is a provider of online over-the-counter trading services based in Australia, offering a wide range of financial products to professional and retail investors.

Directors

Philip Horner	appointed 22 June 2017 resigned 2 January 2018
Joseph Davenport	appointed 30 October 2015 resigned 1 March 2018
Iain Rogers	appointed 19 July 2017
Savvakis Ioannou	appointed 19 July 2017
Tamas Szabo	appointed 9 January 2018

Auditor

Ernst & Young LLP
25 Churchill Place
London E14 5EY
United Kingdom

Registered office

68 Hanbury St
London, E1 5JL
United Kingdom

Registration number

08965105

The directors present their strategic report of the Company for the year ended 30 June 2018.

The Company is a wholly owned subsidiary of Pepperstone Group Limited (the "Parent"), which is also its immediate parent.

The Company's principal activity is to onboard retail and professional clients for the purpose of providing a platform for clients to buy and sell leveraged spot foreign exchange ("FX") and Contracts-For-Difference ("CFD") products. The Company has no traded market risk as all market risk is borne by the Parent. As part of this process, clients deposit monies directly with the Company.

Review of the business and future developments

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

The Company entered the market through a soft launch of its product and services during 2017. Following the soft launch, the Company suspended trading to focus on making the appropriate changes to its operations and enhance its systems, processes and controls. The Company recommenced business activities in August 2017.

The Company has had strong performance and a sustained period of growth during the year. The Company earned revenue from commissions and spreads against contract for differences ("CFDs") achieving revenues of £4,982,222 (2017: £32,952) across a client base of 4,689 as at 30th June 2018 (2017: 50).

The Companies profit before tax was £2,052,081 as at 30 June 2018 (2017: £278,364 loss).

At the year ended 30 June 2018 the balance of client funds held within segregated accounts was £14,598,353 (2017: £4,890).

Whilst future predictions and trends are currently hard to make, the Company is fully committed to developing an offering that appeals to professional traders and retail clients who are generally more experienced and better informed about derivatives and financial markets.

During the period the Company received a capital injection of £200,000 at £1 per share.

Principal risks and uncertainties

The Company is exposed to a variety of risks as a result of daily operations and the industry in which the Company operates. These risks are monitored constantly to ensure that the risk appetite of the Company is not exceeded. The risks faced by the Company are analysed below, in addition to those which are analysed in greater depth together with financials in Note 18 of these Financial Statements.

Foreign Exchange Risk
The Company incurs market risk on foreign currency movements on its own cash assets & liabilities held in foreign currencies. The Company monitors its exposure on a day to day basis and hedges its exposure if required.

Cash Flow Risk
The Company is in its infancy and one of the key risks is to ensure there is sufficient cash flow to maintain operations. The Company has the support of its Parent to ensure all financial liabilities and outgoings are met on a timely basis while maintaining sufficient capital adequacy.

Market Risk
The Company has no traded market risk as all market risk is borne by the Parent.

Credit Risk
Credit risk is one of the principal risks the Company faces. Credit risk exposure relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company and arises principally from the Company's receivables.

It is the Company's policy not to grant credit to clients. Insofar as that underlying contracts represent a leveraged trading service, the "credit" applicable to the client's account is limited to the amount of margin within that account, as such there is minimal exposure to the Company.

The Company has in place systems on its trading platforms that will not permit a client to trade in excess of the margin balance.

Operational Risk
Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as client money, customer detriment, reputational or regulatory consequences.

In addition, daily backups are being made on servers established outside the offices to be able to carry its core operations in cases of unforeseen events. Concentration risk is minimised through the use of multiple alternate service providers. Controls and governance frameworks are in place to minimise risk of human error.

The Company has Professional Indemnity Insurance in place to mitigate other operational risks.

Liquidity and Capital Risk
Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price. In order to maintain a liquidity position in line with FCA requirements, the Company measures liquidity risk with a variety of measures, including regular stress testing and cash flow monitoring, and reporting to both the Company and Group boards.

Cryptocurrency Risk
Pepperstone trades CFDs on various cryptocurrencies but not the underlying coins or tokens themselves. Clients speculate on the rise and fall of the prices of these instruments and do not ever take ownership of the underlying.

As such cryptocurrencies are subject to the same risks as any of the other CFD and FX products that Pepperstone offers. However, given the relative immaturity of cryptocurrencies, these may be magnified i.e. the underlying instruments will be considerably less liquid than other more established instruments and may, therefore, be more volatile and or thinly traded among fewer counterparties.

Interest Rate Risk
The Company has limited exposure to interest rate risk on its cash positions and any borrowings. Cash is held in non-interest-bearing current accounts. The Company has access to overdraft facilities, which are currently not being utilised.

Conduct Risk
Conduct risk is the risk of not delivering fair customer outcomes. The Company will be exposed to the financial costs and regulatory consequences of the need to take action to remedy any customer detriment arising from failures in areas such as designing products to meet customer needs, ensuring products are clearly and fairly described and are administered and perform in line with the way they have been marketed and sold to customers. Conduct risk is managed in line with the overall risk management framework as described in the Operational risk section above.

Reputation Risk
One of the most important factors in attracting clients in our sector is the reputation that each company has and how it is perceived. The risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Company.

Events after the balance sheet date

Details of material events since the balance sheet date are contained in note 20 to the financial statements.

Pillar 3

Pillar 3 is a regulatory required disclosure of the Company's capital, risk exposures and risk management policies per Part 8 Title 1 of the Capital Requirements Regulation 575/2013.

The Pillar 3 disclosures are publicly available from www.pillar3.eu.

Approval

This report was approved by the Board and signed on its behalf by:

Savvakis Ioannou
Director
22 October 2018

68 Hanbury St, London,
E1 5JL, United Kingdom

The directors present their annual report and the audited financial statements for the year ended 30 June 2018.

Directors

The directors, who served throughout the year were as follows:

Philip Horner	appointed 22 June 2017 resigned 2 January 2018
Joseph Davenport	appointed 30 October 2015 resigned 1 March 2018
Iain Rogers	appointed 19 July 2017
Savvakis Ioannou	appointed 19 July 2017
Tamas Szabo	appointed 9 January 2018

Dividends

No interim dividends were paid during the year (2017: NIL). No final dividends were declared or paid during the year (2017: NIL).

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic report on page 2 and form part of this report by cross-reference.

Brexit Strategy

The Company has carefully considered the Brexit issues and the potential impact to its business strategy going forward. Given the considerable risk that the passporting rights may not be available even in a transition period post 29 March 2019 when the UK formally leaves the EU, the Parent has established a German entity and has embarked on a full license application under BaFin. The office is currently staffed with two members and the application is in advanced stages with an expectation that approval will be granted before the deadline.

The BaFin license will enable all EU (non UK) clients to be onboarded and serviced via this entity and therefore provides for Pepperstone to expand its European operations and servicing of all UK and EEA clients via the two offices.

Research and development

The Company did not enter into any research and development activities during the year.

Existence of branches outside the UK

The Company had no branches in existence outside the United Kingdom.

Going concern

The Directors have prepared the financial statements on a going concern basis. In recognising that the Company is in its start-up phase, the Parent has provided ongoing support to the Company and will continue to do so to ensure that the Company maintains adequate liquidity and profitability.

The longer-term prospects of the Company are assessed through a review of the business plan, medium-term budgets and assessing and stress testing its capital and liquidity position. The Board reviews and challenges the Internal Capital Adequacy Assessment Process ("ICAAP") which is prepared at least annually.

As a result, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they should have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

Savvakis Ioannou
Director
22 October 2018

68 Hanbury St, London
E1 5JL, United Kingdom

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 Reduced Disclosure Framework.

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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework have been followed subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS101 used in the preparation of 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.

The directors confirm that the Company has complied with the above requirements in preparing the financial statements.

Approved by the Board and signed on its behalf by:

Savvakis Ioannou
Director
22 October 2018

68 Hanbury St, London
E1 5JL, United Kingdom

Opinion

We have audited the financial statements of Pepperstone Limited for the year ended 30 June 2018 which comprise the Statement of Profit and Loss, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 22, 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 including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

James Hitchings (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 October 2018

Pepperstone Limited
Statement of profit and loss for the year ended 30 June 2018

	Note	30 June 2018 (£)	30 June 2017 (£)
Trading revenue		4,982,222	32,952
Trading expenses		(1,359,458)	(19,931)
Gross profit		**3,622,764**	**13,021**
Employee expenses	3	(898,668)	(269,833)
Legal & compliance		(294,572)	(18,976)
Marketing expenses		(27,787)	-
Depreciation and amortisation		(36,936)	(3,832)
Other expenses		(363,845)	(6,814)
Other income		51,125	8,070
Operating profit / (loss) before income tax		**2,052,081**	**(278,364)**
Income tax credit/(expense)	4	(335,292)	(1,798)
Profit / (Loss) for the financial year from continuing activities		**1,716,789**	**(280,162)**

The above statement should be read in conjunction with the accompanying notes.

All amounts are from continuing operations. There were no items of other comprehensive income for 2018 or 2017 and therefore no Statement of Comprehensive income has been presented.

Pepperstone Limited
Statement of financial position as at 30 June 2018

	Note	30 June 2018 (£)	30 June 2017 (£)
Fixed assets			
Intangible assets	5	106,989	77,960
Property, plant and equipment	6	28,053	8,021
Current assets			
Cash and cash equivalents	7	16,264,389	435,232
Trade and other receivables	8	885,251	39,877
Prepayments and accrued income	9	26,139	4,576
Creditors - amounts falling due within one year	10	(14,901,169)	(83,675)
Net current assets		2,274,610	396,010
Total assets less current liabilities		**2,409,652**	**481,991**
Provisions for liabilities	11	(17,080)	(6,208)
Net assets		**2,392,572**	**475,783**
Equity			
Called-up share capital	12	956,380	756,380
Retained earnings/(losses)		1,436,192	(280,597)
Total shareholders' funds		**2,392,572**	**475,783**

The above statement should be read in conjunction with the accompanying notes.

These financial statements were approved and authorised for issue by the Board on 22 October 2018 and were signed on behalf of the Board by:

Savvakis Ioannou
Director
22 October 2018

Pepperstone Limited
Statement of changes in equity for the year ended 30 June 2018

	Called-up share capital (£)	Retained earnings/(losses) (£)	Total (£)
Balance as at 1 July 2016	125,000	(435)	124,565
Loss for the year	-	(280,162)	(280,162)
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	**-**	**(280,162)**	**(280,162)**
Issue of share capital	631,380	-	631,380
Balance as at 30 June 2017	**756,380**	**(280,597)**	**475,783**
Balance as at 1 July 2017	756,380	(280,597)	475,783
Profit for the year	-	1,716,789	1,716,789
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	**-**	**1,716,789**	**1,716,789**
Issue of share capital	200,000	-	200,000
Balance as at 30 June 2018	**956,380**	**1,436,192**	**2,392,572**

The above statement should be read in conjunction with the accompanying notes.

1. General information

Pepperstone Limited is a private limited company limited by shares incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the business review on page 2.

The Company has applied Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") issued by the Financial Reporting Council ("FRC") incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

2. Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently in dealing with items which are considered material in relation to the Company's financial statements throughout the year.

a) Basis of accounting

The financial statements have been prepared on the historical cost basis, except for derivatives, which have been measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

As permitted by FRS 101, the Company has taken advantage of the following disclosure exemptions available under that standard as indicated below:

- The requirement of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 10(d), 10(f), 16, 38(c)-(d), 40(a)-(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- Exemptions conferred by FRS 101: 8(j) and (k) "Related party disclosures", the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures, and transactions with other wholly owned group companies are not disclosed separately.
- The requirements of paragraphs 134 and 135 of IAS 36.

All shareholders were notified in writing of the intention to take these exemptions, and no objections were made. Where required, equivalent disclosures are given in the group accounts of Pepperstone Group Limited. Pepperstone Group Limited is registered at Level 5, 530 Collins Street, Melbourne, Victoria 3000 Australia, while the accounts of the Group are publicly available via the Australian Securities and Investments Commission (ASIC) website at https://asic.gov.au/.

The financial statements are presented in Pound Sterling and all values are rounded to the nearest whole pound unless otherwise stated.

b) Going concern

The financial statements are prepared on a going concern basis as disclosed in the Directors' report.

c) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. When the Company applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be presented.

d) Fair value measurement

Fair value is the amount for which an asset could be exchanged or liability settled, between willing parties in an arm's length transaction.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Company has immediate access.

Fair value for a net open position that is a financial liability quoted on an active market is the current offer price, and for a financial asset the bid price.

Where no active market exists for a particular asset or liability, the Company uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow

2. Significant accounting policies (continued)

d) Fair value measurement (continued)
analyses, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date.

In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

e) Financial instruments
The Company determines the classification of its financial instruments at initial recognition in accordance with the categories outlined below and re-evaluates this designation at each financial year-end. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Financial assets and financial liabilities at fair value through profit or loss
Financial assets and financial liabilities classified as held for trading, or designated as such on inception, are included in this category and relate to the trading derivative open positions as shown in the statement of financial position and related notes. Financial instruments are classified as held for trading if they are expected to settle in the short-term. All financial instruments at fair value through the profit or loss are carried in the statement of financial position at fair value with gains and losses recognised in the income statement.

Determination of fair value
Financial instruments arising from open client positions and the Company's hedging positions are stated at fair value and disclosed according to the valuation hierarchy required by IFRS 7.

According to IFRS 13 'Fair value Measurement', fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at measurement date.

The best evidence of fair value is a quoted market price in an active market. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible or rely on inputs which are reasonable assumptions based on market conditions.

Under IFRS 13 all financial assets and liabilities measured or disclosed at fair value are categorised into one of the following levels:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Derecognition of financial instruments
A financial asset or financial liability is recognised in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument, which is generally on trade date.

The Company derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

A financial liability is derecognised from the Statement of Financial Position when the Company has discharged its obligation or the contract is cancelled or expires.

Financial assets and liabilities are offset and the net amount is presented in the Statement of Financial Position when the Company has a legal right to offset the amounts and intends to

2. Significant accounting policies (continued)

e) Financial instruments (continued)
settle on a net basis or to realise the asset and settle the liability simultaneously.

f) Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less which are convertible to a known amount of cash and subject to an insignificant risk of change in value, bank overdrafts and client funds held on segregated client accounts.

Cash held on segregated client accounts are client monies held in trust for the purposes of client trading in financial instruments. These amounts are restricted from the Company's personal use under the regulations set out by its Financial Conduct Authority Licence No. 684312.

g) Client funds
As part of its business, the Company receives deposits from clients to secure their trading positions, held on segregated client accounts.

Assets or liabilities resulting from profits or losses on open positions are carried at fair value. Client funds are netted against, or presented with, the valuation of financial derivative positions, resulting in a net payable by the Company.

h) Trade and other receivables
Trade and other receivables comprise interest accrued on investments which is received on maturity and other sundry debtors.

Trade and other receivables are initially recorded at fair value including transaction costs. At reporting date, trade and other receivables are measured at amortised cost using the effective interest method, less any allowance for impairment.

Recoverability of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The impairment loss is calculated as the carrying amount less the present value of estimated future cash flows, discounted at the original effective interest rate.

i) Property, plant & equipment
Each class of property, plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the asset.

Depreciation
The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a diminishing value basis over the asset's useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Office equipment	20%
Computer equipment	33.3%
Leasehold improvements	20%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of profit and loss.

j) Intangibles
Intangible assets include purchased computer software and software licenses. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Company, and where it is probable that future economic benefits will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

2. Significant accounting policies (continued)

j) Intangibles (continued)
Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Capitalised software costs and other intangible assets are amortised on a diminishing value basis. The amortisation rates used for each class of intangible assets are:

Class of intangible asset	Depreciation rate
Computer software	33.3%
Licences	10%

The assets' residual values, amortisation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

k) Impairment of financial assets
Objective evidence that a financial asset is impaired includes default by a debtor, evidence that the debtor is likely to enter bankruptcy or adverse economic conditions. At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. Where a subsequent event causes the amount of the impairment loss to decrease (e.g. payment received), the reduction in the allowance account (provision for impairment of receivables) is taken through profit or loss.

Impairment losses are recognised through an allowance account for loans and receivables in the Statement of Profit and Loss.

l) Impairment of non-financial assets
At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying value. Value in use is calculated by discounting the estimated future cash flows of the asset at a pre-tax discount rate reflecting the specific risks in the asset. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit and Loss.

Impairment testing is performed annually for intangible assets with indefinite lives. Assets that have an allocated impairment loss are reviewed for reversal indicators at the end of each reporting period. After recognition of an impairment loss, the amortisation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Impairment losses are recognised as an expense immediately.

m) Trade and other payables
Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Company during the reporting period which remain unpaid. The balance is recognised as a liability with the amounts paid within the stipulated payment terms.

n) Provisions
Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the Statement of Profit and Loss.

o) Revenue recognition
The Company makes markets for customers trading in FX spot and contract for difference markets. Trading revenue represents related brokerage activities for establishing these markets, including spread; commission and funding charges made to clients in respect of the opening, holding and closing of contracts.

Transactions are recorded on the trade date and open client and hedging positions are carried at fair market value, with positions marked to market daily and resulting gains and losses arising recognised in trading revenue together with gains and losses realised on client positions that have closed. The policies and methodologies associated with the determination of fair value have been discussed above under Financial Instruments.

2. Significant accounting policies (continued)

o) Revenue recognition (continued)
Trading revenue is reported gross of introductory broker commissions and is the net of amounts collected on behalf of client trading activity. Introductory broker commissions, along with other fees associated with trading activity, are disclosed as trading expenses within the statement of comprehensive income.

The prior year trading revenue represented the fixed fee income earned on traded volume on a daily basis and took into consideration the trades which had been opened under consideration by the Company's clients. These fees earnt were accrued and invoiced on a monthly basis.

Trading revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured.

p) Cost of sales
Cost of sales are charged to the profit and loss when the associated revenue is recognised and is disclosed as a deduction from total revenue in deriving gross profit.

Cost of sales is primarily comprised of bank and payment provider fees, platform volume fees and client and introducing broker commissions paid.

q) Income tax
Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities/assets are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting year. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. To the extent there is uncertainty over the recoverability of a deferred tax amount, no asset will be recognised.

r) Leases
Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. The lease is not recognised in the Statement of Financial Position.

s) Foreign currency translation and balances

i. Functional and presentation currency
The functional currency of the Company is measured using the currency of the primary economic environment in which it operates.

The financial statements are presented in Pound sterling which is the Company's functional and presentation currency.

ii. Transaction and balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the Statement of Profit and Loss, within other income. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity;

2. Significant accounting policies (continued)

s) Foreign currency translation and balances (continued)

otherwise the exchange difference is recognised in the Statement of Profit and Loss, within other income.

t) Accounting estimates and judgements

The preparation of the financial report requires the making of accounting judgements, estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses.

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

i. Estimation of useful lives

The estimation of useful lives, residual values and depreciation methods require significant management judgement and are reviewed annually. Any changes to useful lives may affect prospective depreciation rates and asset carrying values.

ii. Litigations and other claims

From time to time the Company may receive customer complaints or be subject to various litigation or regulatory claims.

Where a claim is considered to be more likely than not to result in a cost to the Company, a provision has been made based on management's best estimate of the cost to the Company of settling such claims.

u) Employee benefits

i. Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed in the Statement of Profit and Loss as a component of the profit or loss as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans and outstanding annual leave balances if the Company has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

ii. Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

3. Employee expenses

	30 June 2018 (£)	30 June 2017 (£)
Employee expenses		
Wages and salaries	609,581	184,109
Social security costs	275,451	85,724
Contribution to pension schemes	13,636	-
Total employee expenses	**898,668**	**269,833**

	No.	No.
The average number of employees (including executive directors) was:		
Management	3	3
Other	9	4
Total average employees	**12**	**7**

4. Tax on profit and ordinary activities

	30 June 2018 (£)	30 June 2017 (£)
Tax charge comprises:		
Current tax		
UK Corporation tax expense/(credit)	277,942	-
Deferred tax		
Deferred tax expense for the current year	2,971	1,798
Total tax expense/(credit)	**280,913**	**1,798**
Tax on items not charged/(credited) to the income statement		
UK tax expense/(credit) for the year at 19% (2017: 19%)	390,261	(52,889)
Disallowable items and other permanent differences	245	
Utilisation of unrecognised tax losses	(54,379)	-
Tax losses not recognised for deferred tax purposes		54,687
Deferred tax impact on reduced tax rate	(835)	-
Total income tax expense/(credit)	**335,292**	**1,798**

The Company has not recognised a deferred tax asset in 2018 (2017: accumulated losses of £280,162).

A reduction in the UK corporation tax rate to 17% effective from 1 April 2020 was substantively enacted on 6 September 2016.

The effect of this reduction has been considered in calculating the company's tax position.

4. Tax on profit and ordinary activities (continued)

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances (£)	Total (£)
At 1 July 2016	-	-
Credit/(charge) to the income statement	(1,798)	(1,798)
At 30 June 2017	**(1,798)**	**(1,798)**
Credit/(charge) to the income statement	(2,971)	(2,971)
At 30 June 2018	**(4,769)**	**(4,769)**

5. Intangible assets

	30 June 2018 (£)	30 June 2017 (£)
Computer software	2,180	1,250
Less accumulated amortisation	(1,215)	(190)
Carrying amount of computer software	**965**	**1,060**
Platform licences	124,658	76,900
Less accumulated amortisation	(18,634)	-
Carrying amount of platform licences	**106,024**	**76,900**
Total intangibles	**106,989**	**77,960**

Reconciliation of intangibles
Movement in the carrying amounts for each class of intangible asset between the beginning and the end of the current financial year.

	30 June 2018 (£)	30 June 2017 (£)
Computer software		
Carrying amount at beginning of year	1,060	-
Additions	930	1,250
Disposals	-	-
Amortisation	(1,025)	(190)
Carrying amount at end of year	**965**	**1,060**
Platform licences		
Carrying amount at beginning of year	76,900	76,900
Additions	47,758	-
Disposals	-	-
Amortisation	(18,634)	-
Carrying amount at end of year	**106,024**	**76,900**
Total intangibles	**106,989**	**77,960**

6. Property, plant & equipment

	30 June 2018 (£)	30 June 2017 (£)
Computer hardware	42,955	11,152
Less accumulated depreciation	(19,211)	(3,604)
Carrying amount of computer hardware	**23,744**	**7,548**
Furniture & fittings	6,017	511
Less accumulated depreciation	(1,708)	(38)
Carrying amount of furniture & fittings	**4,309**	**473**
Total property, plant & equipment	**28,053**	**8,021**

Reconciliation of property, plant & equipment
Movement in the carrying amounts for each class of property, plant & equipment between the beginning and the end of the current financial year.

	30 June 2018 (£)	30 June 2017 (£)
Computer hardware		
Carrying amount at beginning of year	7,548	-
Additions	31,803	11,152
Disposals	-	-
Depreciation	(15,607)	(3,604)
Carrying amount at end of year	**23,744**	**7,548**
Furniture & fittings		
Carrying amount at beginning of year	473	-
Additions	5,506	511
Disposals	-	-
Depreciation	(1,670)	(38)
Carrying amount at end of year	**4,309**	**473**
Total property, plant & equipment	**28,053**	**8,021**

7. Cash and cash equivalents

	30 June 2018 (£)	30 June 2017 (£)
Cash at bank - own cash	1,666,036	430,342
Cash at bank - segregated client money	14,598,353	4,890
Total cash and cash equivalents	**16,264,389**	**435,232**

8. Trade and other receivables

Amounts due from payment providers	825,030	30,638
Client funds receivable	17,740	-
Intercompany receivables	33,388	-
Other assets	9,093	9,239
Total trade and other receivables	**885,251**	**39,877**

9. Prepayments and accrued income

Prepayments	26,139	4,576
Total prepayments	**26,139**	**4,576**

10. Creditors

Amounts falling due within one year		
Client funds*	(14,148,239)	(4,890)
IB funds	(58,838)	-
Trade payables	(154,473)	(76,987)
Intercompany liabilities	(261,929)	-
Deferred tax liabilities	(4,769)	(1,798)
Corporation tax	(68,694)	-
Other liabilities	(204,227)	-
Total amounts falling due within one year	**(14,901,169)**	**(83,675)**
Total creditors	**(14,901,169)**	**(83,675)**

*Client funds is comprised of the following:

Client funds	(17,706,607)	(4,890)
Financial derivative open positions:		
Gross amount of assets**	3,887,701	-
Gross amount of liabilities**	(329,333)	-
Total financial liabilities	**(14,148,239)**	**(4,890)**

10. Creditors (continued)

*Client funds represent the outstanding liability of the Company to its clients, which includes deposits with the Company for the purpose of trading net of any realised gains or losses resulting from closed transactions. The above amounts are all quoted in GBP.

**The financial derivative open positions were originally recorded at fair value based on the particular quoted market price and subsequent price movements are reflected in profit and loss. These open derivative positions held on behalf of clients across eleven currencies generate exposure to currency rate movement. This market risk is offset with the Parent company, where all positions are held back to back.

11. Provisions for liabilities

	30 June 2018 (£)	30 June 2017 (£)
Annual leave		
Balance at beginning of year	(6,208)	-
Utilised during the year	35,094	13,200
Additional provisions	(45,966)	(19,408)
Balance at end of year	**(17,080)**	**(6,208)**
Bonus		
Balance at beginning of year	-	-
Utilised during the year	-	-
Additional provisions	(50,000)	-
Balance at end of year	**(50,000)**	**-**
Total provisions	**(67,080)**	**(6,208)**
Current	(67,080)	(6,208)
Non-current	-	-
Total provisions	**(67,080)**	**(6,208)**

Annual leave provisions relate to employee entitlements expected to be paid or settled within 12 months of employees rendering service.

12. Called-up share capital

	30 June 2018 Number of shares	30 June 2018 (£)	30 June 2017 Number of shares	30 June 2017 (£)
Ordinary shares, allotted, authorised and fully paid				
Balance at beginning of year	756,380	756,380	125,000	125,000
Issue of shares at £1 per share	200,000	200,000	631,380	631,380
Balance at end of year	**956,380**	**956,380**	**756,380**	**756,380**

On 11 September 2017, 200,000 ordinary shares were issued for £200,000 at £1 per share.

The Company has one class of ordinary shares which carry no right to fixed income. In the event of liquidation, assets would be distributed among the holders of ordinary shares in proportion to the amounts paid up on the ordinary shares. All ordinary shares rank pari passu in all respects.

13. *Financial and capital commitments*

Operating lease commitments
Non-cancellable operating leases contracted for but not capitalised in the financial statements.

	30 June 2018 (£)	30 June 2017 (£)
Payable - minimum lease payments		
No later than 1 year	138,600	124,168
Between 1 year and 5 years	16,351	143,071
Greater than 5 years	-	-
Balance at end of year	**154,951**	**267,239**

14. Contingent liabilities

Legal and regulatory matters may give rise to a material future outflow of economic benefit, however, the Company currently does not consider that there are any matters where an economic outflow is probable.

15. Related party transactions

The Company has adopted the disclosure exemptions in IAS 24 – Related Party Disclosures.

15. Related party transactions (continued)

	30 June 2018 (£)	30 June 2017 (£)
Pepperstone Group		
Amounts due to Group undertakings	(244,166)	-
Total:	**(244,166)**	
Pepperstone GmbH		
Amounts due from Group undertakings	15,625	-
Total:	**15,625**	**-**
Total	**(228,541)**	**-**

As at 30 June 2018, the balance due to Pepperstone Group was £244,166 (2017: NIL), and balance due from Pepperstone GMBH was £15,625 (2017: NIL). There were no provisions for doubtful debts or any expenses recognised in relation to doubtful debts due from related parties for the year ended 30 June 2018 (2017: NIL).

Other than transactions entered into between the Parent and the Company, there have been no transactions with other related parties, or loans to related parties outstanding as at 30 June 2018 (2017: NIL).

In 2017 an arrangement existed such that the payment of certain Company expenses were covered by the Parent a letter of support arrangement. This arrangement ended in 2018.

16. Dividends and distributions

No interim or final dividends were paid or declared for the year ended 30 June 2018 (2017: NIL).

17. Auditor's remuneration

	30 June 2018 (£)	30 June 2017 (£)
Audit of the financial statements	32,950	24,000
Other audit related fees	49,450	30,000
Tax advisory service	11,700	-
Other non-audit	11,500	-
Total auditor's remuneration	**105,600**	**54,000**

Other audit related fees relate to the Client Asset report in line with the requirements of SUP 3.10 "Duties of auditors: notification and report on client assets" of the FCA Handbook and an interim review (profit verification).

Other non-audit fees relate to a review of the Company's ICAAP.

Audit fees are shown net of VAT.

18. Financial instruments

Categories of financial instruments at fair value
As a financial services business, financial instruments are central to the Company's activities. The risk associated with financial instruments represents a significant component of those faced by the Company and is analysed in more detail below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

a) Classification
The following tables analyse the Company's assets and liabilities in accordance with the categories of financial instruments in IAS 39.

	Loans & receivables (£)	Other financial instruments at amortised cost (£)
At 30 June 2018		
Assets		
Cash and cash equivalents	16,264,389	-
Trade and other receivables	885,251	-
Total assets	**17,149,640**	**-**
Liabilities		
Client funds*	-	(14,148,239)
IB funds	-	(58,838)
Trade payables	-	(4,769)
Other liabilities	-	(204,227)
Total liabilities	**-**	**(14,416,073)**

	Loans & receivables (£)	Other financial instruments at amortised cost (£)
At 30 June 2017		
Assets		
Cash and cash equivalents	435,232	-
Trade and other receivables	39,877	-
Total assets	**475,109**	**-**
Liabilities		
Client funds	-	(4,890)
Trade payables	-	(1,798)
Total liabilities	**-**	**(6,688)**

* Client funds includes net derivative assets of £3,558,368 at 30 June 2018 (2017: Nil), which are recorded at fair value. These financial instruments are classified as Level 2 within the fair value hierarchy and there have been no transfers between the levels in the fair value hierarchy in 2018.

18. Financial Instruments (continued)

b) Valuation

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values. The Company holds no financial instruments that are measured at fair value subsequent to initial recognition.

c) Credit risk

Credit risk exposure relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company and arises principally from the Company's receivables.

It is the Company's policy not to grant credit to clients. Insofar as that underlying contracts represent a leveraged trading service, the "credit" applicable to the client's account is limited to the amount of margin within that account, as such there is minimal exposure to the Company.

The Company has in place systems on its trading platforms that will not permit a client to trade in excess of the margin balance on their account as described below.

Maximum exposure to credit risk

The following table analyses the Company's maximum exposure to credit risk, at their carrying amounts and includes individual client funds held in segregated client accounts.

	30 June 2018 (£)	30 June 2017 (£)
Cash and cash equivalents	16,264,389	435,232
Amounts due from payment providers	825,030	30,638
Amounts due from Group undertakings	33,388	-
Other assets	9,093	9,239
Total maximum exposure to credit risk	**17,131,900**	**475,109**

i) Neither past due nor impaired

These financial assets reflect the application of consistent and conservative lending criteria on inception and the quality and level of security held. The contractual repayments are individually monitored to ensure that classification as neither past due nor impaired remains appropriate.

The following table shows the credit quality of financial assets which are neither past due nor impaired.

18. Financial Instruments (continued)

c) Credit risk (continued)

	Cash and cash equivalents (£)	Amounts due from payment providers (£)	Intercompany (£)	Other assets (£)	Total (£)
At 30 June 2018					
AAA - A2	16,264,389	-	-	-	**16,264,389**
Unrated	-	825,030	33,388	9,093	**867,511**
Total carrying amount	**16,264,389**	**825,030**	**33,388**	**9,093**	**17,131,900**
At 30 June 2017					
AAA - A2	435,232	-	-	-	**435,232**
Unrated	-	30,638	-	9,239	**39,877**
Total carrying amount	**435,232**	**30,638**	-	**9,239**	**475,109**

ii) Past due but not impaired
As at the year ended 30 June 2018, there are no financial assets that are past due but not impaired (2017: NIL).

iii) Impaired
As at the year ended 30 June 2018, there are no financial assets that are considered impaired (2017: NIL).

Concentration of credit risk
Concentration of credit risk is defined as the risk exposure to a counterparty with a loss potential which is large enough to threaten the solvency or the financial position of the Company.

The Company has no significant concentration of credit risk with any single counterparty, however the Company's clients collectively do form its biggest group of counterparties, and as such the Company actively monitors the forward positions of its clients to ensure adequate collateral is held against these positions.

The Company maintains collateral in thirteen different currencies in order to minimise its credit risk against market volatility.

At 30 June 2018, all financials assets are neither past due nor impaired (2017:Nil).

d) Market risk
i) Interest rate risk
Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The Company has limited exposure to interest rate risk on its cash positions and any borrowings. Cash is held in non-interest-bearing current accounts. The Company has access to overdraft facilities, which are currently not being utilised.

The impact of an increase/decrease in interest rates would have an immaterial impact on pre-tax profits and/or equity. The net exposure at the end of the reporting period is representative of what the Company was and is expecting to be exposed to at the end of the next twelve months.

18. Financial Instruments (continued)

d) Market risk (continued)

ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Exposure to foreign currency risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in foreign currency will affect future cash flows or the fair value of assets and liabilities.

The Company has no traded market risk as all market risk is borne by the Parent.

Translational foreign currency risk

Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the Company's presentation currency. The Company does not hedge translational exposures as they do not have a significant impact on the Company's capital resources.

To manage this risk, the Company regularly analyses its currency groups by netting the currency's cash balances with the respective client liabilities. If the net position of a currency group is in deficit, funds from a currency group that is in surplus may be converted and transferred to bring the deficit currency group into surplus.

Sensitivity analysis

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the end of the reporting period.

The table below shows the pre-tax impact (£ GBP) of a change in foreign currency exchange rates as at 30 June assuming all other variables remain constant.

	30 June 2018 (£)	30 June 2017 (£)
+5% strengthening of sterling against other currencies	718,985	14,722
-5% weakening of sterling against other currencies	(718,985)	(14,767)

The net exposure at the end of the reporting period is representative of what the Company was and is expected to be exposed to at the end of the next twelve months.

Collateral

Notwithstanding that all traded market risk is borne by the Parent, the trading operations of the Company require a commitment of our capital and involve risk of loss because the potential that a client's losses may exceed the amount of cash in their account. As a result, we require that each trade must be collateralised in accordance with our margin policies.

e) Liquidity risk

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company manages this risk through the following mechanisms:

- preparing forecast cash flow analysis in relation to its operational, investing and financial activities, monitored on a quarterly basis;
- ensuring it holds sufficient excess cash above the regulatory requirement after excluding cash held under segregated client accounts; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

18. Financial Instruments (continued)

e) Liquidity risk (continued)
Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses by preparing quarterly 12-month cash flow forecasts.

The Company is required to maintain a minimum level of capital pursuant to the requirements of Basel II/CRD IV. This capital adequacy balance is monitored closely by the Board on a quarterly basis through a review of the Company's COREP returns. Further, the Board reviews the ICAAP document quarterly.

Maturity profile of financial liabilities
The tables below summarise the maturity profile of the Company's financial liabilities at balance sheet date based on contractual undiscounted repayment obligations as at 30 June 2018. The Company does not expect the majority of customers to request repayment on the earliest date that the Company could be required to pay, and the tables do not reflect the expected cash flows indicated by the Company's client deposit retention history.

	On demand (£)	0-3 months (£)	3-12 months (£)	1-5 years (£)	5+ years (£)	Total (£)
At 30 June 2018						
Client funds	(14,148,239)	-	-	-	-	**(14,148,239)**
Trade payables	-	(4,769)	-	-	-	**(4,769)**
Total	**(14,148,239)**	**(4,769)**	**-**	**-**	**-**	**(14,153,008)**
At 30 June 2017						
Client funds	(4,890)	-	-	-	-	**(4,890)**
Trade payables	-	(1,798)	-	-	-	**(1,798)**
Total	**(4,890)**	**(1,798)**	**-**	**-**	**-**	**(6,688)**

19. Directors' remuneration

	30 June 2018 (£)	30 June 2017 (£)
Directors' remuneration		
Emoluments	237,780	189,757
Company contributions to money purchase pension schemes	-	-
Total directors' remuneration	**237,780**	**189,757**
Remuneration of the highest paid director		
Emoluments	135,280	106,795
Company contributions to money purchase pension schemes	-	-
Total remuneration of the highest paid director	**135,280**	**106,795**

20. Subsequent event

On 12 September 2018, the CHAMP IV Funds (CHAMP) announced that they had entered into an agreement to exit their investment in Pepperstone. Going forward the business will be owned by Pepperstone's founders, its senior management team led by CEO Tamas Szabo and Fiona Lock.

21. Capital management

The legal and regulatory framework under which the Company operates, stipulates that the Company must maintain a minimum capital adequacy ratio of 8%. The method of calculation is determined in accordance with the provisions of the European Capital Requirements Regulation No. 595/2013. The Company aims to always maintain a high capital adequacy ratio well above the required minimum, which has been achieved during the year. The capital adequacy ratio is reported to the Company's regulatory authority on a quarterly basis, and disclosures have been made in accordance with the Capital Requirements Regulation (Pillar III).

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

The Company has complied with the capital adequacy ratio imposed under ECR through the year.

22. Controlling party

The Company's immediate parent company is Pepperstone Group Limited, a Company incorporated in Australia.

The Company's ultimate parent company and controlling party is FX HoldCo Pty Ltd, a Company incorporated in Australia. This is the parent undertaking of the largest group, which includes the Company and for which group accounts are prepared.

Pepperstone

68 Hanbury Street, London
E1 5JL, UNITED KINGDOM

Local Call +44 800 0465473