



# Hargreaves Lansdown plc Report and Financial Statements

For the year ended 30 June 2013

## The Directors' report and business review

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**We aim to help investors make more of their investments. We do this by providing the best information, the best service and the best prices.**

Our clients saved more than £234 million on investment charges last year.

On average that's a saving of more than £870 for each of the 268,000 clients who purchased an investment through us in the year.

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**At a glance...**

We have been helping clients choose and manage investments since 1981 and are now the UK's largest direct to investor 'investment supermarket' with an annual turnover in excess of £292 million. We administer more than £36 billion of investments in our ISA, SIPP and Investment accounts for over 507,000 clients, and have arranged investments for over a million clients.

Our success is built around providing our clients a high quality service tailored to their needs. Our knowledgeable and helpful staff, technology and experience enable us to provide a high quality and convenient service to our clients.

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# Highlights

Profit before tax increased by 28% to £195.2m

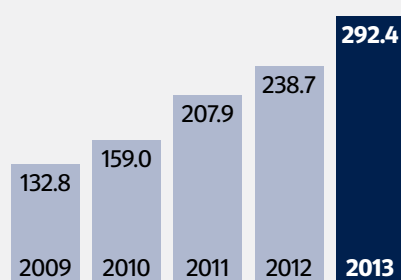
Continued strong organic growth in Assets Under Administration

18% increase in the number of clients

Total dividend up 31% at 29.59 pence per share

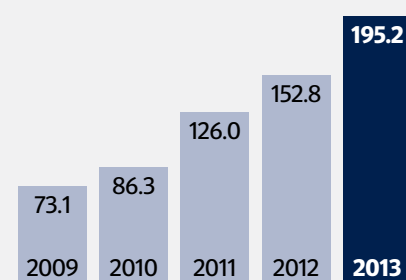
Revenue (£m)

**£292.4m**



Profit before tax (£m)

**£195.2m**



**£36.4 billion**

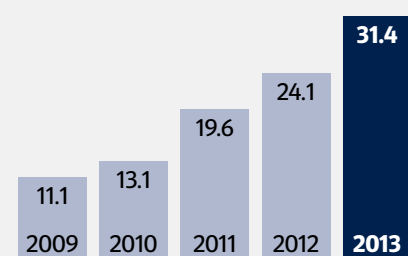
Value of investments administered for clients, a 38% increase.

**7 million**

Number of trades dealt for clients in the year, a 25% increase.

Diluted earnings per share (pence)

**31.4p**



Dividend per share (pence)

**29.59p**



**£5.1 billion**

Value of net new business inflows, a 59% increase.

**507,000**

Number of clients, up by 76,000, an 18% increase.

Visit the website for the full range of services:

[www.hl.co.uk/investment-services](http://www.hl.co.uk/investment-services)

# Our services

Hargreaves Lansdown aims to help each client make more of their money throughout their life. We have established a reputation for providing high quality service and value-for-money products to private investors, whether they are making their own investment decisions or looking for an advisory or discretionary service.

## Vantage

### Revenue

**£227.2m +22%**

Vantage is a one-stop shop for investments. Clients can hold all their funds, shares, ETFs, bonds, investment trusts, ISAs and self-invested personal pensions (SIPPs) in a single, low cost, easy-to-manage place.

Whether a first time investor or wanting to improve the way that existing investments are managed, our aim is to give our clients all the tools, help and information they need to make their own investment decisions and save money. In effect we want to help people become their own financial adviser.

The Vantage Service allows clients to bring all their ISAs, Pensions (SIPPs), and funds and share accounts into one easy to manage place. It puts them in control. Clients can consolidate their investments – for example, pensions accumulated in previous employment – into the Vantage service to keep track of their investments and manage them in one place. Clients can manage their investments by telephone, post, online or mobile. Either way, by dealing with us directly, they can save time and money.

“Massively impressed. Changed all my small pension plans gathered over the years to HL. They fully kept me informed of each stage of the process and progress. Any questions I had were dealt with quickly and efficiently - would highly recommend.”

**Mr Wade**  
Norwich

### Corporate Vantage

In addition to services for private individuals we are a leading provider and broker of corporate pension and wrap solutions. Our corporate wrap allows employees to benefit from the Hargreaves Lansdown Vantage service via their workplace. Corporate Vantage includes award-winning SIPP, ISA, Fund and Share accounts.

Aside from Vantage, Hargreaves Lansdown also provides other services to companies including a market-leading retirement and annuity broking service allowing employees to obtain a higher income via our annuity search engine. Our Corporate annuity and Corporate Vantage wrap services are provided to many household names:



## Discretionary service and managed funds

### Revenue

**£34.1m +25%**

#### Portfolio Management Service

If clients are not able to give their investment portfolio the attention it deserves, our solution is the Portfolio Management Service.

Our experienced investment managers work closely with our research analysts to continually find the best fund managers for our portfolios. The portfolios are constantly reviewed by the manager and

rebalanced to maintain the investment objectives. Where necessary, changes are made to the portfolios by the investment manager.

#### HL Multi-Manager Funds

HL Multi-Manager funds offer a broad, managed portfolio of funds through a single investment, for those who wish to leave the choice of underlying funds to our experts.

Whether they are a first time investor in need of a simple way to invest in the stock market or a more experienced investor looking for a broadly based fund around which to group specialised holdings, each HL Multi-Manager fund provides a professionally monitored portfolio of what we believe are some of the best fund managers in their field.

## Third party and other services

### Revenue

**£31.1m +21%**

The Third Party and Other services division distributes investment products that are not held in Vantage accounts.

#### Annuities service - a retirement service that could increase income by up to 40%

As the UK's number one annuity broker (source: MyTouchstone) we help individuals obtain a superior retirement income. Our annuity service enables clients to find a better pension income - in some health or lifestyle cases it can improve income by up to 40%. We provide instant personal no obligation quotes completely online in minutes, allowing clients to compare live annuity rates from the UK's top annuity

providers across the open market. The online annuity service is clear and simple to use, and is supported by our knowledgeable annuity specialists who are available to answer any query. We also make this annuity service available to employers for use by their employees.

For those who prefer more flexibility and accept a higher risk approach, we also offer a very competitive Vantage Income Drawdown service to be used alongside or as an alternative to a secured annuity income.

#### Certificated share dealing

Most clients prefer the convenience and cost of the Vantage share dealing service.

For those who prefer to hold paper share certificates our low cost, quick and easy Certificated Share Dealing Service allows clients to buy or sell shares in certificated form without fuss or inconvenience.

#### Other Services

We offer a foreign currency service to both private clients and companies and for more sophisticated investors we offer the ability to invest in Venture Capital Trusts (VCTs), Contracts For Difference and Financial Spread Betting.

# Why clients choose Hargreaves Lansdown

On this page we have set out some of the reasons why clients choose to use Hargreaves Lansdown. When choosing an investment service, the four most important considerations are:

1. Security
2. Excellent service
3. Convenience and ease
4. Value for money

Hargreaves Lansdown is a trusted brand and a financially secure business. We offer an exceptional range of investments and services, and have invested in skilled helpdesk staff and the latest technology to ensure that we provide a consistently high quality, accessible and convenient service. We do not set out to be the cheapest; instead we aim to offer the best value. We offer a range of information, tools and services for clients who prefer to choose their own investment as well as financial advice for those who want more help.

We aim to provide the best service, best information and best prices to ensure that we remain the best place in the UK to buy investments.



Helpdesk



iPhone App



Data security

"I am always impressed with the excellent service from HL. Whether online or by phone, transactions are always dealt speedily and efficiently. Your advisers are always helpful and knowledgeable and phones are answered immediately."

**Mr Elliot**

Newcastle-upon-Tyne

"I am most impressed with every aspect of the HL service. Queries have been answered promptly and courteously and processing of documentation has been speedy. 10/10."

**Mrs Dover**

Harrogate

### Trust and security



A recognised, trusted and financially secure **FTSE100 business**. Dedicated to keeping our clients' investments safe and secure.

### Excellent service



**96%\*** of clients rated our service as excellent, very good or good.

\*Based on a survey of 13,833 respondents in May 2013.

### Convenience and ease



Our mobile App has been downloaded **125,000+** times.

### Savings, value for money



In the last year we saved clients more than **£234 million** on investment charges.

### Helpful and knowledgeable staff



The average call response time of our helpdesks is **10 seconds**.

### Trusted source of useful, independent information



The number of visits to our website this year was **44.5 million**.

### Investment experts



We have been helping clients to make the most of their investments since **1981**.

### Choice



A wide range of investments - **2,500+ funds**, plus UK, US and European shares, investment trusts, gilts, ETFs, bonds and cash.

### Advice when you need it



We offer **financial advice**, financial planning and portfolio management. Or tools and support to do it yourself.

### Client focussed improvement



**We listen to our clients.** Their feedback is key to how we improve and grow our services.

# Best service

# Best information

# Best prices

## Best service

- Clients can manage investments online, via our smartphone apps, by post or phone.
- Calls answered in less than 10 seconds on average. No automated lines, no 'press one for this, or two for that', our clients speak to a person based here in our Bristol office straightaway.
- We have more than 100 highly knowledgeable and friendly helpdesk staff who assist clients each day.
- Direct dealing line. Limit, fill or kill and worked orders on shares.
- Most emails answered within 4 hours, most letters within 24 hours.
- Our linked accounts service allows clients to manage all their family's accounts from a single log in.
- Clients receive one valuation for all their ISAs, funds, shares and pension cutting paperwork and making it easier to stay in control.
- Clients receive one consolidated tax certificate making tax returns easier to complete.
- We continually invest to further improve our services.

## Best information

- We place enormous emphasis on research. Open the money pages of any quality weekend newspaper and you will almost always see one of our experts quoted.
- We monitor over 90% of the funds that our clients hold (by number of investors), regularly sending updates by email. We also provide stock market research.
- Portfolio analysis tools are available online – clients can view detailed geographical and sector breakdowns of their portfolio to show exactly where they are invested.
- Our latest investment ideas via our acclaimed newsletter, the Investment Times, along with investment research and market comment to keep clients up to date with our views.
- Our research team also produce the Wealth 150 - a list of our favourite funds

- in each sector, Master Portfolios for those who want a starting point for an investment portfolio, and a range of multi-manager funds for those who wish to go one step further and leave the choice of underlying funds entirely to our experts.
- Weekly sector reports from Shares Magazine and daily market updates by email, free of charge. Staying up-to-date with market news could not be easier.
- Thousands of fund and share factsheets available online, with charts and tools enabling clients to carry out their own analysis.
- Share price and news alerts service - instant notification by email if a share falls or rises to your desired price target. Clients can also register to receive the latest company announcements, as they are released, directly to their email inbox.



Investment Times iPad magazine



“Very impressed with the efficiency and friendliness of HL staff - also with the discounts offered on dealing charges. I enjoy the challenge and responsibility of selecting my own choice of investments from the HL range of funds.”

**Mr Stainer**  
Warwickshire

## £ Best Prices

- Initial discounts of up to 5.5% available on over 2,200 funds - saving up to £550 on a £10,000 investment.
- Annual savings of up to 0.5% on over 1,000 funds - saving another £100 per year on a holding of £40,000 with a typical loyalty bonus of 0.25%.
- No dealing commission charges to buy, sell or switch investment funds.
- Share dealing from £5.95 per deal and clients never pay more than £11.95 per deal online. We also offer a telephone dealing service.
- Price improvement service on share deals - when clients place a share deal, our price improvement system instantaneously requests quotes from up to 30 London Stock Exchange market makers and returns the best price for the deal. Using so many market makers means that in many cases we can get a better price than quoted on the market.
- We employ more than 100 technical and IT staff working across IT development, support, infrastructure and security. This constant investment has enabled us to keep our systems and operations efficient and scalable, meaning that we can deliver both an excellent and great value service to our clients.



Our Research Team

## Our website and digital apps



During the financial year our website ([www.hl.co.uk](http://www.hl.co.uk)) was visited 44.5 million times, up 46% on the previous year. These visits gave rise to over 466 million page views. In August 2013 our website was ranked 5th in the UK Business and Finance - Stocks and Shares category by Experian Hitwise compared to 7th in August 2012.

The iPhone and Android apps have been downloaded more than 125,000 times since their launch in August 2011. We are continuing to build on this success with enhancements to the existing apps and the development of an iPad app which will be launched late 2013.

# Chairman's statement

I have great pleasure in announcing our excellent results for the year ending 2013. The Group has enjoyed record new business flows and record new clients leading to a substantial increase in profits.

"The culture at Hargreaves Lansdown has been built around looking after the interests of our clients."

**Michael Evans**  
Chairman



These results speak for themselves. We have increased margins, profits, funds under management and improved client satisfaction. Hargreaves Lansdown continues to be a financially strong organisation with a clean, strong, debt-free balance sheet retaining a healthy margin over the regulatory capital adequacy requirements; a source of comfort to our clients. Therefore after careful review of the company's future cash requirements, paying due regard to planned strategic initiatives, the Board has decided to increase the dividend by paying a second interim ordinary dividend of 14.38p per share (2012: 10.65p) and an increased special dividend of 8.91p per share (2012: 6.84p) representing total dividends for the year of 29.59p per share (2012: 22.59p); an increase of 31%.

The culture at Hargreaves Lansdown has been built around looking after the interests of our clients and our business is now entrusted with over £36 billion of the UK public's savings. Its security is a vital part of the Board's duties and good governance is key. Our Corporate Governance statement on pages 34 to 42 details our compliance with the UK Corporate Governance Code.

This year we also decided it was in the interests of shareholders to rotate our auditor. We thank Deloitte for providing excellent service over the past 7 years, especially during the exciting times of our flotation in 2007. Following a comprehensive tender process we shall be recommending the appointment of PwC at the Annual General Meeting. In line with governance guidelines we shall regularly review our auditor.

Considerable Board time has been devoted to the sustainability of the business and the protection of our hard won reputation and standing. Our Board Effectiveness Review this year was particularly thorough, details of which are summarised on page 36. The revisions we announced last year to our remuneration policy were well received by shareholders so we propose only minor amendments this year, details of which can be found on pages 45 to 54.

During the coming year, to meet new regulation in the form of the Retail Distribution Review (RDR) and the end of the commission era, we shall change the company's pricing model. This change will mainly be limited to clients holding fund investments. We shall offer funds with lower annual management charges and at the same time introduce charges for the service we provide.

I am confident that these new measures will be introduced smoothly and efficiently. Whilst it will represent a significant change, fortunately our clients are faithful and enthusiastic about our service and I am confident they will reward us by embracing the new charging structure.

This year there have been no changes to the Board other than Stephen Lansdown stepping down at last November's AGM as previously announced. Accordingly, we seek to add to the existing strength, knowledge and experience of our Board with the appointment of at least one new Non-Executive Director.

As ever, the coming year will be a challenging one but I have every confidence that we will take it in our stride. Our people are integral to our success and, as always my gratitude goes to the Board and the talented people we employ for their continuing hard work, diligence and enthusiasm.

**Michael Evans**

Chairman

10 September 2013

"Our people are integral to our success".

*Excellent, courteous, professional, knowledgeable.* These are comments we frequently hear about our staff. We know we provide an excellent service to our clients, and we know that this is important to them, because they tell us.

Our helpdesks handle up to 6,000 calls each day. When clients or prospective clients call us, their call is answered promptly – usually in less than 10 seconds – and they speak to a person, not an automated message.

This 'service culture' exists in every part of our business. The ability to deliver such consistently high levels of service is rarely found in the financial services industry.

We believe there is a special culture in Hargreaves Lansdown. It wasn't created, it just exists. It must be nurtured. When people visit our offices they feel it. They find the atmosphere and culture magnetic.

# Chief Executive's review

We are pleased to present our results for the year ended 30 June 2013, once again reporting record revenues (+22%) and operating profits (+28%).

"We remain focused on client service, which leads to client recommendation and contributes to our growth and success."

**Ian Gorham**  
Chief Executive Officer



The most salient features are the record growth in net new business and clients. Net new business was £5.1 billion (+59%) and we welcomed 76,000 net new clients (+69%).

We remain focused on client service, which leads to client recommendation and contributes to our growth and success. 96% of clients rated our services as good, very good or excellent.

Our identified areas of growth: private and occupational pensions; our investment supermarket; and the internet continue to be strategic priorities. The forthcoming Retail Distribution Review (RDR) is an opportunity to capitalise on our respected market position. Our pioneering position in the growing popularity of self-directed investing is proving its worth.

#### Review of the economic background

Excessive debt is still a feature amongst countries, banks and individuals. Some economic data with regard to employment figures in the UK and particularly the US is encouraging. However, the volatile reaction of markets to any change of policy by institutions such as the US Federal Reserve acts as a reminder of the continuing fragile nature of the economic environment.

Improvement in sentiment, allied to continued quantitative easing and low interest rates, served to improve stock markets during the year, with the FTSE All-Share index advancing 14% in the year to 30 June 2013.

#### Hargreaves Lansdown's 2013 results

We report a record profit before tax of £195.2 million, up 28% on last year's £152.8 million. Our ability to attract and retain assets and clients has been key to our continued profitability. We would single out our new pension incentives, improvements in the provision to look after family investments, the expansion of equity trading and the embracing of mobile technology as key successes.

We report a substantial 38% increase in client assets under administration from £26.3 billion to £36.4 billion. Net new business for the year was £5.1 billion (2012: £3.2 billion) with market movement and other factors adding a further £5.0 billion. An additional 76,000 investors (2012: 45,000) became net new clients during the year taking total active clients for Vantage and advised services combined to 507,000.

Our Corporate Vantage service continues to expand, with 78 schemes live or in implementation (2012: 47). This 66% increase in schemes has been accompanied by a 275% increase in Corporate Vantage assets, which have now passed the £350 million mark. Although this project remains long-term we remain delighted with the success to date.

Our mission is to retain our position as the best place in the UK to buy investments. We are estimated to have 28% of the direct investing market (Source: The Direct Platform Guide Issue 3, February 2013), a market predicted to expand substantially, and over the last year we have increased assets, clients and market share. For example, Hargreaves Lansdown saw an increase of 24.2% in Stocks and Shares ISA subscriptions in the 2012/13 tax year against the previous tax year, whereas UK overall Stocks and Shares ISA subscriptions increased by only 5.4% in the year. During the year we further improved our stockbroking services in nature and scope resulting in our share of the UK execution-only stockbroking market rising to 19.4% (2012: 14.1% - source ComPeer XO Quarterly Benchmarking Report Quarter 2 2013). We also saw increased business in Investment Trusts, ETFs and passive funds.

None of this success would be possible without the confidence of our clients. We work hard to retain their loyalty by delivering high service levels and an efficient experience.

#### **2013 market outlook**

Whilst there is some indication that companies and economies have adapted to deal with the new paradigms of low interest rates and low growth, austerity is here to stay for some time. A more positive environment may be developing, but short-term volatility will remain, as markets react to any potential removal of stimuli.

Last year I wrote “we shall have to work hard to promote the benefits of investing. Reduced state support for the public means saving and investing is more important than ever. There is little prospect of higher interest rates on cash in the near future so equities and bonds remain good alternatives for potential higher income.... equity markets also offer patient investors the opportunity for future capital growth.” The same remains true today.

#### **Company outlook**

During the year we consolidated our position as a leading FTSE 100 company. Our financial success has been built on continuing to deliver exceptional service, information and value. As a profitable company with no debt we present the financial strength to give investors comfort. This also enables us to reinvest in our business and respond to competitor activity.

We continue to enhance our services and take advantage of the RDR, a regulatory development which requires short-term operational systems changes but nevertheless offers opportunity. As some Banks and financial advisers withdraw from the market we are presented with the opportunity to fill that gap profitably with our low-cost, efficient and trusted services.

In the 2014 financial year there will be some pressure on income earned from cash deposits, caused by the current extremely low interest rates. This has been exacerbated by the government’s “Funding for Lending” scheme which has reduced deposit rates significantly.

Throughout Hargreaves Lansdown’s history the cost of retail investing, including our own charges has reduced over time. We will continue to share the benefits of scale, technology and success with our clients in a virtuous circle. Our clients have previously rewarded us with increased volumes of business for our investment and we will work hard to encourage them to continue to do so. For example, this year we have undertaken an exercise to improve discounts from investment providers, providing an additional edge in giving value to clients in return for their loyalty.



### The impact of regulation

We expect regulatory change to continue, creating challenge and cost, but also opportunity. Hargreaves Lansdown has the scale, resources and innovative skills to cope with additional regulation which is an increasing barrier to entering or competing in our marketplace.

The Retail Distribution Review (RDR) remains a major theme. We have benefited from “RDR Phase 1” introduced on 31 December 2012 which relates mainly to financial advice. Our advisory services were fee-based long before the rules were implemented. New assets gathered from advice increased 42% to £786 million and our discretionary service, PMS, saw 31% growth in assets during the year. The rules also encouraged a move to self-directed investment resulting in a flood of transfers of assets and clients gained from advisory businesses.

The rules for “RDR Phase 2” were published on 26 April 2013. The reforms require the unbundling of pricing on investment products and from 6 April 2014 fees for investment and platform services will be charged separately. The rules are clear and we are confident about implementing these changes whilst maintaining our high service levels. Our investment in negotiating lower charges for clients and our own investment in systems to facilitate low charges will result in the majority of clients paying less for their investing services in future. We expect to introduce our new pricing model for funds in early 2014.

The impact of RDR Phases 1 and 2 will take a while to filter through. We do not expect RDR to cause any material disruption to profitability. Provided the RDR changes are applied fairly to all companies, our proposition of a strong service and value offering to a loyal client base should help us to navigate the change well.

The year saw two new regulators; the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) which replaced the Financial Services Authority (FSA). We are now regulated by the FCA and consider we have a constructive relationship with regulators. Whilst it is early days, we consider the conduct of the FCA at policy level, particularly in seeking engagement and consumer-friendly outcomes, to be positive.

We encourage the new regulators to seek practical outcomes that make a difference to investors and reward good practices, resisting foisting vast paperwork and warnings that confuse, serve little useful purpose and add cost for consumers. Hargreaves Lansdown has been successful to date despite regulation and government apathy in supporting investing. It is easier to promote gambling, alcohol or pay-day loans to the UK public than the concept of investing in reputable investments or financing British companies to support our economy. That needs to change. The FCA, working with the Treasury, has the opportunity to take a fresh look at achieving sensible regulation and make it easier to encourage the UK public to invest.

Contributions to the Financial Services Compensation Scheme (FSCS) continue to be a burden. We are supportive of a safety net for retail investors but we remain critical of the way the FSCS is funded and some of its supplementary activities. We continue to campaign for a rational, sensible, economic compensation scheme, including having direct dialogue with the FSCS over our concerns.

### Corporate citizenship and improving investing for the UK public

We see our purpose to be a safe custodian, offer a great service and exercise the UK public's buying power on their behalf. We work tirelessly and innovatively researching how to help people make the most of their money. One aspect of achieving this goal is to campaign on behalf of the retail investor to make investing easier and cheaper.

During the year we have supported the campaign for annuity “shopping around”; supported amendments to the Pensions Bill to potentially increase pensioner income; worked with political parties to simplify auto-enrolment; supported the IMA campaign for clearer charges and backed the FCA in promoting good regulation.

Over six million children cannot take advantage of Junior ISAs because they are locked into the obsolete Child Trust Funds (CTFs) - where there are fewer providers, less choice and often poorer returns. After lobbying from Hargreaves Lansdown and others the Government has now agreed to consult on what we hope to be the first step in allowing CTFs to be transferred to superior Junior ISAs.

We support improved portability of client assets, encouraging retail investors to move easily from old, obsolete investment plans to better value modern products.

We seek to remain the friend of the retail investor, whatever their financial means. Our new RDR pricing structure has been specifically designed to be fair, attractive and excellent value for both small and large investors.

Hargreaves Lansdown will again pay its corporate taxes in full in the UK, and we shall continue to seek to be a role model for how financial services companies can deliver a great service, reputable behaviour and profitability in harmony with the UK public.

### Conclusion

I would again like to thank our clients, shareholders, staff and my fellow directors. Their continued support, good humour and efforts have delivered exceptional results.

### Ian Gorham

Chief Executive Officer  
10 September 2013

# Award winning services

The experience gained over four decades has allowed us to develop a service tailored precisely to the needs of private investors. 96% of our clients rate our service good, very good or excellent, we win numerous prestigious industry awards and our clients' continued loyalty has created an enormously successful, and financially secure, blue chip company.

## Our awards



**Best User Experience**  
The Platform



**Best Financial Services plc**  
UK Stock Market Awards



**Best Direct Platform**  
The Platform



**Best Online Fund Supermarket**  
Money AM Awards



**Corporate Platform/ Wrap provider of the year**  
Professional Pensions



**Best SIPP Provider 2007-2012**  
What Investment



**Best Direct to Customer Platform**  
Aberdeen UK Platform Awards



**Most effective pensions change strategy**  
Employee Benefits Awards



**Best Stocks & Shares ISA Provider**  
What Investment



**Best Share/Fund Dealing Service**  
What Investment

**For more information visit:**

[www.hl.co.uk/about-us/our-awards](http://www.hl.co.uk/about-us/our-awards)

# Strategic priorities and progress

## Strategic objectives

## Attract and retain clients

## Generate profitable growth

### Our aims

### Excellent service

### Asset gathering

### Our 2013 priorities

- Continued commercial improvements to services to enhance the client experience.
- Extend the channels by which clients can use our services.
- Progress the Investment Supermarket strategy.
- Continued energy into new initiatives, such as Corporate Vantage and auto-enrolment.
- Maximizing the use of mobile and digital media.
- Preparation for the implementation of RDR.

### Progress against our objectives

- In 2013 we maintained our excellent client retention rate of 94.5%.
- 96% of clients responding to a May 2013 survey rated our service as good, very good or excellent.
- Extended online services, further developments to iPhone and Android apps and development of an iPad app for launch later in 2013.
- Family linked accounts introduced.
- Introduction of master portfolios.
- In 2013, assets under administration (AUA) increased by £10.1 billion. The asset retention rate remained very high at 93.6%.
- Corporate Vantage service gained an additional 31 corporate clients during the year with AUA as at 30 June 2013 of £355 million (2012: £95 million).
- Value of transfers into Vantage up 52% year-on-year.
- Regular contributions up 15% year-on-year.

## Performance indicators

### No. of active clients ('000)

<b>2013</b>	<b>507</b>
2012	432
2011	386
2010	336
2009	288

### Vantage asset retention

<b>2013</b>	<b>94%</b>
2012	94%
2011	92%
2010	90%
2009	93%

### Net new business (£bn)

<b>2013</b>	<b>5.1</b>
2012	3.2
2011	3.5
2010	3.3
2009	2.0

### Assets under administration (£bn)

<b>2013</b>	<b>36.4</b>
2012	26.3
2011	24.6
2010	17.5
2009	11.9

## 2014 focus

- Service improvements including stockbroking initiatives, simple investing and wider research coverage to enhance the client experience.
- Superclean funds – better deals on investment funds to reduce the total expense ratio.
- Campaign on issues which affect our clients.
- Progress the Investment Supermarket, Pensions and Digital initiatives.
- Continued focus and refinement of digital marketing channels.
- Preparation for the implementation of RDR.



## Increase shareholder value

### Efficiency improvements

- Continued operational efficiency improvements, with particular focus on extending the range and take up of paperless and online services.
- Continued investment into IT, focus on mobile and digital technologies.
- The proportion of Vantage clients who manage their investments online has increased with 90% of share dealing in Vantage carried out online (2012: 87%). 81% of our clients have registered for online access (2012: 78%).
- We have invested in our IT development capacity and initiatives to future proof our systems; principally through the recruitment of additional staff.
- Cost ratio (costs as a proportion of AUA) reduced by 3.7bps to 24.5bps.

### Operating profit margin (%)

<b>2013</b>	<b>65.8</b>
2012	63.1
2011	59.8
2010	53.7
2009	53.6

### Proportion of online Vantage clients (%)

<b>2013</b>	<b>81</b>
2012	78
2011	74
2010	71
2009	66

- Continued investment into IT and a focus on mobile and digital technologies.
- Focus on industry automation improvements, including electronic re-registration.

## Satisfying careers for staff

### Quality staff

- Continue to offer share-based incentives to all staff where feasible to encourage share ownership amongst staff.
- Ensure that remuneration schemes are in line with shareholder interests and foster appropriate behaviours.
- Continued to develop financial advisers through our internal apprenticeship programme.
- Assisted 152 staff across the company in taking professional exams.
- Recruited additional IT developers and improved project management process.
- Retained all key management.
- Continued use of share incentives for key staff and SAYE scheme for all staff. 84.1% of eligible staff are in one or more SAYE schemes.

### Average number of staff

<b>2013</b>	<b>728</b>
2012	657
2011	643
2010	628
2009	607

### Revenue per employee (£'000)

<b>2013</b>	<b>402</b>
2012	363
2011	323
2010	253
2009	219

- Continue to develop the apprentice program for financial practitioners.
- Continue to offer share-based incentives to all staff where feasible to encourage share ownership amongst staff.

## Our business model

Fund supermarkets and wrap platforms typically focus on servicing the IFA community. Our investment supermarket goes direct to the private investor. The Hargreaves Lansdown business model allows us to offer highly competitive prices to our clients and achieve strong profitability. We aim to create shareholder value by retaining our position as the best place in the UK for private investors to buy investments.

Our strategy is focused on growing the value of assets we have under administration or management and consequently increasing our revenues and profitability. The growth is delivered through providing an excellent service to our clients whilst maintaining tight cost control and achieving efficiencies in order to improve our profit margin.

# Business and financial review

It has been a busy year. We handled over 7 million dealing instructions on behalf of more than 507,000 clients. Our website ([www.hl.co.uk](http://www.hl.co.uk)) was visited 44.5 million times, an increase of 46% on the previous year. We now administer a record £36.4 billion of client assets. Our focus has remained on providing excellent service and value, making Hargreaves Lansdown a natural choice for investors.

## Business review

"Our focus has remained on providing excellent service and value, making Hargreaves Lansdown a natural choice for investors."

**Tracey Taylor**  
Chief Financial Officer



### Assets Under Administration (AUA) and new business inflows

During the year the value of total AUA has increased by 38%. The Group achieved net new business inflows of £5.1 billion, and the positive impact of the rise in investment markets and other growth factors increased client assets by a further £5.0 billion. Total AUA can be broken down as follows:

	At 30 June 2013 (£'bn)	At 30 June 2012 (£'bn)	Movement (%)
Vantage Assets Under Administration (AUA)	34.2	24.6	+39%
Assets Under Administration and Management (AUM)			
- Portfolio Management Service (PMS)	2.1	1.6	+31%
- Multi-manager funds held outside of PMS	1.2	0.8	+50%
AUM Total	3.3	2.4	+38%
Less:			
Multi-manager funds (AUM) included in Vantage AUA	(1.2)	(0.8)	+50%
Total Assets Under Administration	36.4	26.3	+38%

Net new business in the Vantage ISA, SIPP and other Vantage nominee accounts was respectively £1.8 billion, £1.9 billion and £1.1 billion (2012: £1.1 billion, £1.4 billion, £0.6 billion), in total £4.8 billion (2012: £3.1 billion).

Net new business generated within PMS was also strong at £271 million (2012: £113 million). The increase was assisted by an increase to the number of financial advisers employed by the Group this year.

Investment markets improved during the

year, with the average level of the FTSE All-Share index being 10.4% higher compared to FY 2012, contributing to market growth of £4.7 billion in Vantage AUA and £0.3 billion in PMS.

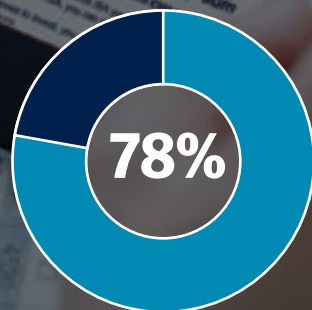
The second half of the year is our busiest as the tax year-end is an important driver of new business. This year £3.45 billion of net new business came in the second half. From 1 January 2013 we introduced a loyalty bonus on Vantage SIPP accounts. This encouraged new clients to open SIPP accounts and also pension transfers into



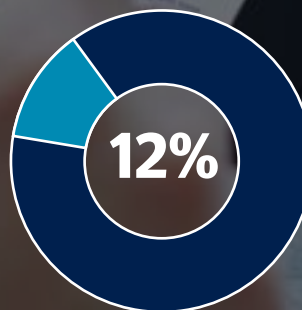
## Divisional Group operating profit

The Group is organised into three core operating divisions, based around the products and services described on pages 2 and 3.

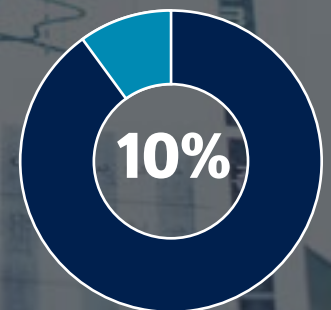
### Vantage



### Discretionary and Managed



### Third Party and Other services



our SIPP. Phase 1 of RDR, introduced on 31 December 2012, dictated that firms must offer transfer of client assets in stock, meaning that clients would no longer risk being “out of the market” for a period of time when transferring to Hargreaves Lansdown. This gave us an opportunity to significantly increase transfer business.

Cash deposit rates on offer from banks have fallen to historically low levels, partly as a result of the government’s “Funding for Lending” scheme. Those seeking a higher return have turned to alternative

investment options such as funds and shares, which offer higher yields and potential capital growth. This factor has spurred clients to divert more of their savings into investments in Vantage.

Increased investor confidence and rising markets in the second half of the year have also enhanced inflows of new assets.

More clients are investing through Hargreaves Lansdown than ever before. In total we now administer investments for over 507,000 clients.

## Vantage

The Vantage division increased its revenues by £41.5 million or 22%, from £185.7 million to £227.2 million. This was driven primarily by the 39% growth in AUA and the impact of a full year's income on assets gathered during the previous year.

The £4.8 billion growth in AUA resulting from net new business inflows, or 'organic growth', was 20% this year (2012: 13%).

The increase in AUA derived from stock market and other growth factors was 19% (2012: -6%). The combined impact of organic growth and market growth resulted in SIPP AUA growing by 37%, ISA by 36% and the Fund and Share account by 44%.

Included within the Fund and Share account is a significant holding in Hargreaves Lansdown plc shares which increased in value by 68% during the year. Excepting Hargreaves Lansdown shares, the growth in Fund and Share AUA was 39%.

As at 30 June 2013, the value of the Vantage ISA was £13.6 billion, (30 June 2012: £10.0 billion), the Vantage SIPP was £10.4 billion (30 June 2012: £7.6 billion) and the Vantage Fund and Share Account was £10.2 billion (30 June 2012: £7.1 billion).

During the year the number of active Vantage clients increased by 75,000 to 500,000, including a total of 8,000 new Corporate Vantage scheme members, taking the total Corporate Vantage members to 13,000 (2012: 5,000). We now administer 154,000 SIPP accounts, 386,000 ISA accounts and 182,000 Fund and Share accounts on behalf of our clients.

28% more clients contributed to their SIPP than in the year to 30 June 2012, with the average new contribution into a Vantage SIPP this year reducing by 15% to £8,841. The average subscription in the Vantage Stocks and Share ISA increased by 11% to £8,397, with a 37% increase to the number of clients subscribing.

Clients continued to transfer SIPP and ISA investments held elsewhere into our Vantage service. The value of transfers increased this year by a significant 52%. More clients sought to consolidate

their investments and benefit from the advantages of having them all held in one place with a company they trust.

Clients have decreased their cash weightings during the period as investor sentiment began to improve and world markets rallied. The composition of assets across the whole of Vantage at 30 June 2013 was 10% cash (30 June 2012: 12%), 34% stocks and shares (30 June 2012: 31%), and 56% investment funds (30 June 2012: 57%).

A number of our clients make regular contributions into their ISA, SIPP or Fund and Share accounts. The 'Regular Savers' service has been growing steadily since being introduced ten years ago, and as at 30 June 2013 we had 66,000 clients (2012: 53,000) saving a total of £24 million each month by way of direct debit instruction. Our Corporate Vantage service has the potential to significantly increase the value of regular monthly savings and Corporate Vantage clients currently subscribe an additional £6.6 million each month.

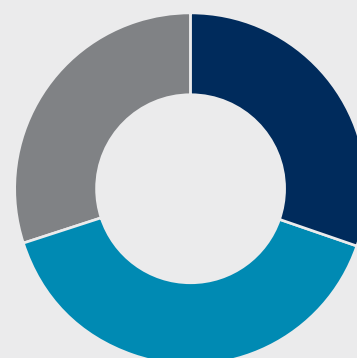
Vantage clients transacted 5.1 million fund deals (2012: 4.1 million) and 1.9 million share deals in the year (2012: 1.5 million). No charge is made to our clients for dealing in investment funds and therefore fund dealing does not impact revenues. The increased volume of share dealing resulted in an increase to stockbroking commission of £6.5m to a total of £26.9 million.

## Discretionary and Managed

The Discretionary division earns recurring income on underlying investments held in the Group's Portfolio Management Service (PMS), and on investments in the Group's multi-manager funds. Revenue in the Discretionary division increased by 25% from £27.3 million to £34.1 million. Increased renewal income and management fees resulting from the increase in AUA were the key drivers.

The value of assets managed by Hargreaves Lansdown through its own range of multi-manager funds and PMS increased by 37% to £3.3 billion as at 30 June 2013 (2012: £2.4 billion). The growth in assets is due to net new business of £0.5 billion combined with a market increase of £0.4 billion.

## Total Vantage AUA £34.2bn (2012 £24.6bn)



■ SIPP	£10.4bn	+37%
	(2012: £7.6bn)	
■ ISA	£13.6bn	+36%
	(2012: £10bn)	
■ F&S/Other	£10.2bn	+44%
	(2012: £7.1bn)	

## 27% growth in share deal volumes

## 90% of Vantage share deals are dealt online

### Vantage share dealing volumes (m)

2013	1.9
2012	1.5
2011	1.3
2010	1.1
2009	0.8

### Share dealing volumes online (%)

2013	90
2012	87
2011	83
2010	79
2009	77



Our advisory service generates initial and ongoing advice fees on assets introduced into PMS. The Group has significantly increased the number of financial advisers during the year from 68 as at 30 June 2012 to 92 as at 30 June 2013. We aim to capture more of the advised market, particularly as many Independent Financial Advisers and high street banks have been exiting this market on the back of new regulatory rules such as the Retail Distribution Review. Increased adviser numbers has helped drive a 140% increase in net new business introduced into PMS during the year. Net new business amounted to £271 million (2012: £113m). The proportion of PMS assets invested in Hargreaves Lansdown multi-manager funds as at 30 June 2013 was 89% (2012: 90%).

### Third Party and Other Services

Third party and other services revenues rose 21% during the year, from £25.7 million to £31.1 million.

Although the Group continues to act as an intermediary for some third party pension schemes, the focus has shifted towards the Corporate Vantage service and hence we expect that third party business will see a gradual decline. Other services, however, are delivering growth. Revenue from our Funds Library service increased by £2.5 million, driven by a general increase in all revenue streams and in particular implementation billing fees and user licence fees where we have more clients now using this service.

The total revenues from Hargreaves Lansdown Currency and Markets (CFDs, spread betting and currency services) were up £0.3m on last year as increased numbers of clients utilise these additional services, driving transactional volumes higher.

### IT and systems

Our core in-house bespoke systems are continually improved and developed. This year saw the cyclical replacement of core hardware and the continuation of a project to upgrade the technology and increase the capacity of our key administration system. Having very limited third party dependencies for the development of core administration systems is a key factor in

our ability to improve both functionality and efficiency across our systems and react quickly to the needs of our business. This flexibility has been very useful this year in preparing for substantial regulatory change and delivering continued enhancement of our services. Throughout the year we introduced many service improvements.

We have continued to recruit high quality IT staff to support our investment in technology. Constantly improving our technical architecture, including the security of client data, remains key to our success.

### Staff

We continue to focus on motivating and retaining our best staff.

The Board believes the use of share schemes best aligns staff interests with those of other shareholders. During April 2013 we granted new options under a SAYE scheme and now have 84% of eligible staff participating in one or more equity schemes. This year the majority of employees also received an annual bonus related to the overall performance of the Group and their own individual contribution.

We also retain and attract staff through the provision of training, career progression, good communication and a vibrant culture. The continued growth and success of the organisation continues to create opportunities for staff.

### Regulation, competition and markets

The Chief Executive has highlighted changes to the regulatory landscape, in particular the FCA's Retail Distribution Review (RDR) and its latest Policy Statement PS 13/1. Further information is provided under the section "Principal risks and uncertainties".

During the coming months we will be communicating our new RDR pricing structure to clients and stakeholders to comply with the new FCA rules. We will continue to put our clients at the heart of our strategic thinking to retain our position as the UK's leading investment supermarket.

The markets in which Hargreaves Lansdown operates are highly fragmented.

Competitors include IFAs, execution-only brokers, banks, building societies, life insurers, fund supermarkets and certain wrap platforms.

Given the success of our business, direct competition is predicted to increase; however, significant barriers to entry exist. We have 32 years' experience and have developed the IT systems and infrastructure in-house, both to facilitate efficient administration and more specifically to fulfil clients' needs of which we have unparalleled knowledge. Our direct postal marketing reach is in excess of 1.7 million people, a contact list which would be difficult to compile today, and we have ensured that we have grasped the opportunities offered by digital marketing, creating a powerful distribution network. Given our brand reputation and scale, if increased competition leads to increased awareness and growth in our markets we see this as positive.

To date we have seen no impact from potential competition. Indeed, Hargreaves Lansdown's market share has increased in all relevant markets that figures are available for. For example, for the year to 6 April 2013, HMRC figures show that 8.4% of all stocks and shares ISA subscriptions were made via Hargreaves Lansdown. This compares to 6.89% for the year to 6 April 2012. Hargreaves Lansdown's share of the Junior ISA market in 2013 was 32.13% (no comparatives are available as this is a new product). At 30 June 2013 our share of the execution only stockbroking market in the UK had risen to 19.39%, compared to 14.1% at the end of the previous year (source: Compeer).

In addition, transfers of client assets from competitor companies to Hargreaves Lansdown increased by 52%. Hargreaves Lansdown is a net recipient of assets from the vast majority of other companies in the market every year. Our own asset retention, however, remains extremely strong, at 93.6% of all assets under administration. This is testament to our excellent service. Client satisfaction remained exceptional, with 96% of all clients rating our service as good, very good or excellent and the company winning a wide range of awards for client service, many of which are voted for by retail investors, our clients.



During the history of Hargreaves Lansdown there have been various market factors which, when initially revealed, have created conjecture about profitability. In every case, our response resulted in increased volumes of business which more than compensated for any reduction in margin they brought. In a similar vein we are currently in the process of finalising the detail of our response to the FCA's new RDR rules and we believe Hargreaves Lansdown's experience, business model and financial position will enable us to accommodate any necessary changes without harmful effect on long-term profitability.

In summary we must not be complacent, as there are many companies who would like to emulate the success of Hargreaves Lansdown. However, for now our service remains unparalleled and we must work hard to maintain our competitive advantage.

### ISAs

The ISA market continues to grow. HMRC figures published in July 2013 show that new subscriptions into stocks and shares ISAs have grown by more than 30% to £16.4 billion in the last three tax years, and over £190 billion is now held within stocks and shares ISAs. In the tax year ended 5 April 2013 2.9 million adults contributed into a stocks and shares ISA with the average subscription being £5,696. Hargreaves Lansdown saw 178,000 adult clients contributing an average of £8,397.

Each year our excellent customer service results in net transfers of client assets from other ISA providers. This year 35,572 clients transferred £878 million of investments to us. With continued low interest rates, stocks and share ISAs remain attractive.

The launch of the Junior ISA in November 2011 has widened the ISA market with the ability to currently save up to £3,720 for each child per annum. We successfully lobbied the Treasury to permit transfers from Child Trust Funds (CTFs) to Junior ISAs and the Government has now agreed to consult on what we hope to be the first step in allowing CTFs to be transferred to superior Junior ISAs. Over six million children in the UK currently have CTFs with circa £4.8 billion pounds invested.

### Pensions/SIPPs

The SIPP market is estimated to have assets under administration of £120 billion. As at 30 June 2013 our SIPP (Vantage + PMS) held £10.9 billion, representing 9.1% of this current market.

Pension auto-enrolment in the UK is currently being phased in and by 2017 all employers will have to auto-enrol eligible staff into a suitable workplace pension and pay contributions on their behalf. Escalating minimum contributions have been set. By 1 October 2018 the minimum contribution will be 9% of which the employer will have to pay a minimum of 4%. The scheme has been introduced principally to get UK citizens to take greater

responsibility for their financial well-being in retirement. For many years the number of people paying into occupational pensions has been in decline and this scheme should reverse this trend. Our Corporate Vantage service seeks to take advantage and existing schemes we administer will also benefit. The engagement of many for the first time should also be to the benefit of the industry as a whole and in particular to us as a trusted brand and respected company.

### Demographics

In future people will be less able to rely on state assistance or defined benefit pension provision. As a result there is an increasing need for people to make their own pension provision.

The gap between current saving and the amount needed to adequately fund retirement is being partially addressed through auto-enrolment. Greater emphasis on pension savings should expand the pension market. The current market is estimated at around £2.5 trillion and defined contribution schemes such as our SIPP are set to grow rapidly over the next few years. We see this as a key growth market.

The UK has the largest savings gap in Europe. The importance of saving has never been greater and consequently the tax breaks on offer for children in the form of a SIPP or Junior ISA are becoming increasingly popular.

## Key performance indicators

We use a range of indicators in order to assess performance. We consider the following measures to be the key financial, operational and commercial indicators when looking at the overall performance of the Group. We refer to these measures throughout the Directors' Report and Business Review.

Strategy/objectives	Performance indicator	2013	2012	+/-
Growing the value of assets under administration and management	Growth in AUA <sup>(1)</sup>	<b>£36.4bn</b>	£26.3bn	+38%
	Vs. FTSE All-Share index <sup>(2)</sup>	<b>3289.71</b>	2891.45	+14%
Excellent client service and client retention	Client satisfaction survey <sup>(3)</sup>	<b>96%</b>	95%	+1pt
	Client retention rate <sup>(4)</sup>	<b>94.5%</b>	94.4%	+0.1pt
Improving earnings quality	Percentage of recurring revenue <sup>(5)</sup>	<b>80%</b>	81%	-1pt
	Proportion of assets earning recurring revenue <sup>(6)</sup>	<b>83%</b>	85%	-2pts
Strong organic growth - asset gathering and client recruitment	Number of active clients <sup>(7)</sup>	<b>507,000</b>	432,000	+17%
	Net new Vantage business inflows <sup>(8)</sup>	<b>£4.8bn</b>	£3.1bn	+55%
	Total net new business inflows <sup>(8)</sup>	<b>£5.1bn</b>	£3.2bn	+59%
	Asset retention rate <sup>(9)</sup>	<b>93.6%</b>	93.8%	-0.2pts
Maintaining tight cost control and operating efficiency	Operating profit margin <sup>(10)</sup>	<b>65.8%</b>	63.1%	+2.7pts
	Group cost ratio <sup>(11)</sup>	<b>24.5bps</b>	28.2bps	-3.7bps
Shareholder value and superior financial performance	Diluted earnings per share <sup>(12)</sup>	<b>31.4p</b>	24.1p	+30%

1. The value of all assets under administration in Vantage and PMS plus assets held by third parties in the HL Multi-Manager Funds.

2. The closing values as at 30 June 2013 and 30 June 2012, sourced from ProQuote

3. Based on May 2013 & May 2012 client surveys of 13,833 & 10,477 respondents, where service was voted as good, very good or excellent.

4. Based on the monthly lost clients as a percentage of the opening months total client clients and averaging for the year.

5. Total value of renewal commission, management fees and interest earned on client money, as a percentage of total revenue.

6. Percentage of assets either held in an account which generates a fixed management fee or held in an account which generates management fees, renewal commission or interest proportionate to the value of assets held.

7. Unique number of clients holding at least one PMS or Vantage account with a value over £100 at the year-end.

8. Net new business inflows represents subscriptions, cash receipts, cash and stock transfers in less withdrawals and assets transferred out.

9. Based on the monthly lost AUA as a percentage of the opening months AUA and averaging for the year.

10. Operating profit (profit before investment gains) divided by revenue.

11. Operating costs (excluding loyalty bonus) divided by the average monthly level of total AUA. (100bps = 1%)

12. Based upon earnings and the weighted average fully diluted share capital.

A key indicator of success for the Group is the extent to which we have increased **total assets under administration (AUA)** during the period. This involves encouraging existing clients to entrust us with more of their savings through the provision of quality service, information and pricing, whilst also attracting new clients through our various marketing initiatives. In 2013 the 38% growth in value of total assets under administration (2012: 7%) was attributable to strong new business volumes, a beneficial market increase, and maintaining very high **client and asset retention rates and client satisfaction scores**.

Analysis of our AUA suggests that the FTSE All-Share index is a reasonable benchmark to use for the market and so any change in this index can form a useful comparison against the growth in AUA. The FTSE All-

Share index increased by 13.8% during the year ended 30 June 2013 and on average the FTSE All-Share index has been 10.4% higher than during the 2012 financial year. The positive effect of the market and the impact this had on investor confidence has in part helped to drive new business volumes.

The importance of AUA is that they produce a recurring revenue stream consisting of renewal commission, management fees and interest. **The percentage of recurring revenue** attributable to these 'quality earnings' fell slightly from 81% in 2012 to 80% in 2013. The value of recurring revenues increased by 21% from £192.6 million to £233.0 million. Not all of our AUA generates recurring revenue, so when looking at the growth in total AUA, it is relevant to consider another indicator: **the**

**proportion of assets earning recurring revenue**. This has decreased slightly from 85% in 2012 to 83% in 2013.

The **number of active clients** acts as an indicator of how successful the Group has been at adding to its client bank. In 2013, the number has increased by 17% (2012: 12%) and as at 30 June 2013 stood at 507,000.

The **operating profit margin** increased from 63.1% to 65.8%. Efficient and scalable operations and robust control of costs help to increase the operating profit, and we saw a further improvement to the cost ratio during FY 2013. We consider the **diluted earnings per share** figure to be the most appropriate measure of financial performance. This increased by 30% in the year to 31.4 pence.

## Financial Review

Despite continued tough economic conditions, it has been another record year for the Group in terms of revenue and profits. A significant bounce back in world stock markets during the year to 30 June 2013 combined with record levels of organic growth from new business and new clients meant that we ended the year with a record £36.4bn of AUA.

### Financial performance

The Group achieved revenue of £292.4m, a 22% increase compared to FY 2012, driven primarily by increased levels of AUA.

Continued robust control of costs and scalable operations have contributed to the improved operating profit margin which increased to 65.8% (FY 2012: 63.1%).

The effective tax rate for the Group this year was 23.7% (FY 2012: 25.9%). The 28% increase in operating profit, together with a lower rate of corporation tax, combined to increase the diluted earnings per share from 24.1 pence to 31.4 pence per share.

	Year ended 30 June 2013 (£million)	Year ended 30 June 2012 (£million)	Movement (%)
Revenue	292.4	238.7	+22%
Administrative expenses	(100.4)	(83.3)	+21%
Total FSCS levy	0.5	(4.8)	
Operating profit	192.5	150.6	+28%
Non-operating income	2.7	2.2	+23%
Profit before taxation	195.2	152.8	+28%
Taxation	(46.2)	(39.5)	+17%
Profit after taxation	149.0	113.3	+32%
Basic earnings per share (pence)	31.7	24.2	+31%
Diluted earnings per share (pence)	31.4	24.1	+30%

The Business review on pages 16 to 20 contains information about the performance of the Group, in particular further information about Assets Under Administration (AUA), new business inflows and the performance of the three divisions – Vantage, Discretionary & Managed, and Third Party & Other services.

### Total revenue

Revenue growth has been strong in all three divisions. The improvement in investment markets during the year has had a beneficial effect on AUA and on revenue. A significant contribution to the 22% growth in revenue has also come from organic growth in AUA and from new clients investing with us.

Most of the revenue growth occurred in the Vantage division, where AUA increased by £9.6 billion. The overall revenue margin earned on Vantage AUA decreased from 81bps to 75.5bps, primarily as a result of lower interest rates earned on deposits.

	Year ended 30 June 2013 (£million)	Year ended 30 June 2012 (£million)	Movement (%)
Vantage	227.2	185.7	+22%
Discretionary	34.1	27.3	+25%
Third Party and Other services	31.1	25.7	+21%
Total revenue	292.4	238.7	+22%

As highlighted in the Interim Results and noted above in the Chief Executive's statement, deposit rates started to reduce early in the financial year and are now significantly lower than last year. For example, the 12-month LIBOR rate was 0.92% at the end of June 2013 compared to 1.80% a year earlier. As a result, the

revenue margin on cash balances (c10% of AUA) reduced in the second half of the financial year. If rates remain at this level, as is likely, a more significant reduction will affect the 2014 financial year.

### Total administration expenses

Total administrative expenses are made up of operating expenses which are under our control plus the Financial Services Compensation Scheme (FSCS) costs that are outside our control.

	Year ended 30 June 2013 (£million)	Year ended 30 June 2012 (£million)	Movement (%)
Staff costs	50.3	43.5	+16%
Commission payable	23.2	16.4	+41%
Marketing and distribution costs	11.0	9.4	+17%
Office running costs	3.8	4.5	-16%
Depreciation, amortisation & financial costs	2.0	2.6	-23%
Other costs	10.1	6.9	+46%
Operating expenses	100.4	83.3	+21%
Total FSCS levy	(0.5)	4.8	
Total administrative expenses	99.9	88.1	+13%



Staff costs remain our largest expense. The number of staff on a full-time equivalent basis (including directors) at 30 June 2013 was 741, and the average number of staff during the year was 728, an increase of 11% against an average of 657 for the comparative year.

The increase in staff numbers resulted from increased investment in IT and web services, along with recruitment of staff focused on the strategic areas of Pensions, Funds Library and Corporate Vantage, primarily in the first half of the year.

We also increased the number of seasonal staff that we needed to handle the unprecedented levels of new in-specie transfer business being transferred into Vantage, in the third and early part of the fourth quarter of the year. Recent industry initiatives such as electronic registration will be beneficial, enabling us to more efficiently handle transfers.

Commission payable is the portion of renewal income which the Group receives on investment funds held in Vantage which is rebated to clients as a 'loyalty bonus'. This rebate to clients was paid throughout the year except on investment funds held in a SIPP where it was introduced on 1 January 2013. The 41% increase in cost is in line with the rise in value of the related client assets after allowing for the introduction of the loyalty bonus in the SIPP at a cost of £3.7 million for the 6 months.

Group marketing and distribution spend increased by 17%, from £9.4 million to £11.0 million and includes the costs of printing and sending information and newsletters to existing and potential clients, media advertising, online marketing and client incentives. Improved stock markets warranted additional marketing spend. A key strategic focus for the business is our use of mobile and digital media. We increasingly invest in paid search traffic, cost per click relationships, HLTV and smart phone and tablet apps. These have amounted to £1.0 million of additional cost this year but have served to reinforce our strength in digital media which helps drive client and asset recruitment.

Other costs include dealing costs, irrecoverable VAT, insurance, computer

maintenance and external administration charges. After excluding a one-off VAT refund of £2.2m from last year other costs were up by £1.0 million or 11%.

#### **FSCS levy**

Costs relating to the Financial Services Compensation Scheme ("FSCS") are beyond our control.

The FSCS is the compensation fund of last resort for customers of authorised financial services firms. All authorised firms are required to contribute to the running of the scheme and the cost of compensation payments. Contributions to the scheme are proportional to the amount of eligible income of a firm, rather than its risk profile or track record of running a compliant service. As such, as a large business we usually make a significant contribution to the cost of compensation on investments we have never recommended or been involved with. FSCS costs decreased from £4.8 million to a £0.5 million refund this year. This followed a successful challenge to the basis of calculation of the levy, resulting in a refund of part of the FSCS levy relating to earlier years.

#### **Taxation**

The charge for taxation increased in line with higher profits to £46.2 million from £39.5 million. The effective tax rate fell from 25.9% in 2012 to 23.7% in the current period due to the standard UK corporation tax rate falling from 26% to 23% since the start of the prior period, the 2013 applicable rate being 23.75% (2012 25.5%). In total, taxation of £4.0 million has also been credited directly to equity and relates to share-based payments.

The Group's policy on corporate taxes is to pay the right amount of tax at the right time. We aim to be transparent in our activities; we prefer not to engage in aggressive, artificial or sophisticated tax planning activities, and we actively engage with the UK tax authorities both on corporate taxes and tax issues affecting our clients.

#### **Earnings per share (EPS)**

The diluted EPS increased by 30% from 24.1 pence to 31.4 pence. EPS is calculated as the earnings for the year divided by the total weighted average fully diluted number of shares, including those held

by the Employee Benefit Trust (the "EBT"). Further information on the funding of the EBT and potential dilution of share capital is provided within the Directors' Remuneration Report.

#### **Pension schemes**

There were no changes to the defined contribution pension scheme in the year, with staff and directors participating on equal terms. Pension costs are recognised as an expense when the contribution is payable.

#### **Capital expenditure**

Capital expenditure, primarily on IT hardware and software, totalled £6.2 million this year, compared with £1.1 million last year. The increase relates to the cyclical replacement of hardware and the continuation of the project to enhance the capacity of our key administration systems.

All of our core systems are developed and maintained in-house and as such we have significant IT resource dedicated to IT support and development. For the year ended 30 June 2013, an average of 42 staff were employed in IT development with most of their related costs expensed within staff costs. Any costs relating to the development of new systems have been capitalised and will be depreciated over the useful economic life of the new system once implemented. In the year we capitalised £0.25 million of staff costs.

#### **Balance sheet and cash flow**

The Group is soundly financed with a strong balance sheet and no borrowings. This is an important strength which in addition to being attractive to clients provides both resilience and flexibility. The Group is highly cash generative and the cash conversion ratio measured by the operating cash flows as a percentage of operating profits remained high at 103% in 2013 compared to 104% in 2012.

Group cash balances excluding restricted cash totalled £177.7 million at the end of the year. The only significant cash outflow from profits has been the second interim ordinary and special dividends totalling £81.7 million paid in September 2012 and an interim dividend of £29.5 million paid in April 2013.

The Group has four subsidiary companies

authorised and regulated by the Financial Conduct Authority (FCA). These firms maintain capital resources at a level which satisfies both their regulatory capital requirements and their working capital requirements. Industry regulatory capital requirements have increased in recent years and we expect this to continue as a result of FCA requirements. The Group continues to hold a level of capital that provides significant headroom over the regulatory minimum. As at 30 June 2013, the aggregated Pillar 1 regulatory capital requirement across the four regulated subsidiary companies was approximately £9.5 million compared to capital resources of approximately £71.7 million. Capital resources equate to approximately three times the Pillar 2 capital requirement, which the Board assessed as adequate during our Individual Capital Adequacy Assessment Process (ICAAP). Further disclosures are published in the Pillar 3 document on the Group's website at [www.hl.co.uk](http://www.hl.co.uk).

#### Increase in counterparty balances

In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties are included in the balance sheet. These balances fluctuate according to the volume and value of recent trading. At the year-end, trade receivables and trade payables included counterparty balances of £211.4 million (2012: £93.4 million) and £230.0 million (2012: £105.6 million) respectively.

#### Dividends



The Board remains committed to a progressive dividend policy.

The Board has declared a second interim (final) ordinary dividend of 14.38 pence and a special dividend of 8.91 pence per ordinary share. These dividends will be paid on 27 September 2013 to all shareholders on the register at the close of business on 13 September 2013. This brings the total dividends in respect of the year to 29.59 pence per ordinary share (2012: 22.59p), an increase of 31%.

Dividend per share	2013	2012	Change
First interim dividend paid	<b>6.3p</b>	5.1p	+24%
Second interim dividend declared	<b>14.38p</b>	10.65p	+35%
Total ordinary dividend	<b>20.68p</b>	15.75p	+31%
Special dividend declared	<b>8.91p</b>	6.84p	+30%
Total dividend for the year	<b>29.59p</b>	22.59p	+31%

This total ordinary dividend pay-out equates to 65% (2012: 65%) of post-tax profits, with a further 28% (2012: 28%) of post-tax profits paid by way of special dividend. Any special dividend in future years will depend upon future cash requirements and therefore may vary.

An arrangement exists under which the Hargreaves Lansdown EBT has agreed to waive all dividends.

#### Tracey Taylor

Chief Financial Officer  
10 September 2013

# Principal risks and uncertainties

Like all businesses, the Group faces a number of potential risks which, if not properly controlled, could hinder the successful implementation of its strategy and have a material impact on the long-term performance.

The Board believes that a successful risk management framework balances risk and reward. The Board has responsibility for risk management and internal control, further details of which can be found in the Corporate Governance statement.

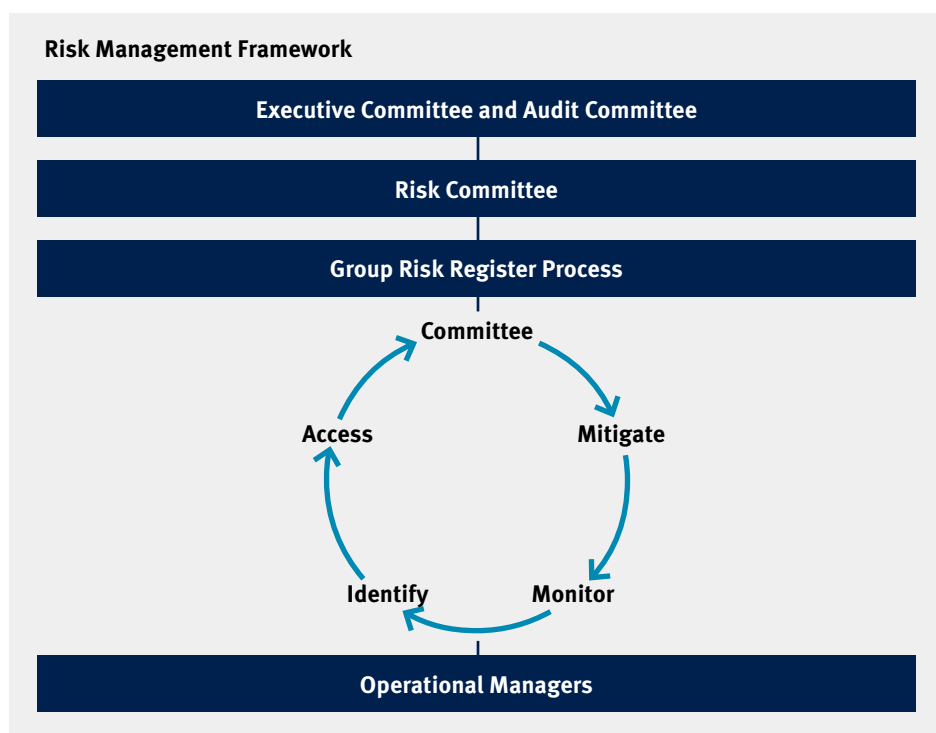
The risk profile of the business has not changed significantly this year. Each year we highlight the risk of earnings being impacted by market volatility or a fall in interest rates. Although the markets remained volatile in 2013, over the year the FTSE All-Share index rose by 14%. This helped the business to grow the value of clients' investments which in turn helped increase Group revenue. Interest rates have significantly reduced during the year, partly as a result of the UK Government's "Funding for Lending" scheme. 12 month LIBOR was 0.92% at the end of June 2013 compared to 1.80% a year earlier, and this is set to significantly reduce interest income during the 2014 financial year. Market volatility arising from such factors as the Euro crisis remains an accepted risk, although the high percentage of assets in tax wrappers mitigates the impact of market turbulence on client asset retention.

In terms of regulatory risk, on 26 April 2013 the Financial Conduct Authority (FCA) issued Policy Statement PS13/1 setting out the final rules that will apply to platforms and other nominee services with effect from 6 April 2014. We had been anticipating the new rules for some time and had engaged at length with the previous regulator during the consultation process. The rules and implementation timescale are broadly as we had expected, and the majority of work required to comply is already either in progress or complete so we expect to be ready in good time. The FCA platform rules will necessitate a move away from commission income to explicit platform fees that clients will pay directly to us for our services in future. There are transitional rules that will apply, enabling us to continue to earn commission income on existing assets for a period of two years. We expect to offer all Hargreaves Lansdown clients the ability to buy commission

free units in due course. As we have done successfully for many years, we will continue to seek to use our negotiating power to reduce the cost of investing for our clients.

There continues to be concern over the uncertainty in the Eurozone regarding the indebtedness of certain countries, particularly Greece, Portugal, Spain, Italy and Ireland, and the health of their banking sectors. As at 30 June 2013 the Group has no direct counterparty exposure to these countries. The Group is not exposed to significant foreign exchange translation or transaction risk.

The risk factors mentioned below do not purport to be exhaustive as there may be additional risks that the Group has not yet identified or has deemed to be immaterial that could have a material adverse effect on the business.



Risk	Mitigating Factors/Controls
<b>Industry Risks</b>	
<p><b>Fluctuations in the capital markets</b></p> <p>Fluctuations in capital markets may adversely affect trading activity and/or the value of the Group's assets under administration or management, from which we derive revenues.</p>	<ul style="list-style-type: none"> <li>• Focus on recurring revenue streams over the more volatile transaction-based alternative.</li> <li>• High proportion of assets under administration in tax wrappers so clients less likely to withdraw funds and lose tax benefits.</li> <li>• Cash option enables clients to shelter from market volatility.</li> </ul>
<p><b>Changing markets and increased competition</b></p> <p>The Group operates in a highly competitive environment with developing demographic trends and our continued profitability depends on our ability to respond to these pressures and trends.</p>	<ul style="list-style-type: none"> <li>• Strong market position with pricing power.</li> <li>• Full control over flexible platform.</li> <li>• Experienced management team with a strong track record of innovation and responsiveness to the market.</li> <li>• Client focused with a high level of client satisfaction.</li> </ul>
<p><b>Evolving technology</b></p> <p>The Group's technology needs to remain current if we are to develop our systems to accommodate changing preferences, increased volumes, new products and the emergence of new industry standards. Risks arising from technology change projects need to be minimised.</p>	<ul style="list-style-type: none"> <li>• Track record of successful development.</li> <li>• High awareness and sponsorship of the importance of technology at Board level.</li> <li>• Substantial development and scalability project teams in place.</li> <li>• IT change management controls including, where appropriate, oversight by project board and steering committees.</li> </ul>
<p><b>Regulatory</b></p> <p>The Group may be materially adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations emanating from the UK or Europe.</p> <p>The Group needs to replace its significant platform commission revenue stream following the implementation of the new FCA Platform Rules.</p>	<ul style="list-style-type: none"> <li>• Strong compliance culture and culture geared towards FCA principle of treating clients fairly.</li> <li>• Financial strength of the organisation provides comfort should the capital resource requirement be increased.</li> <li>• Alternative recurring revenue models are already successfully operated by the Group and these could be used to mitigate or offset the potential reduction in commission income.</li> <li>• Competitive prices and service offering will be maintained to ensure business will not be lost to competitors many of whom will in any case be faced with the same rule change.</li> </ul>
<p><b>Changes in taxation law</b></p> <p>Changes made to tax legislation could reduce the attractiveness of some of the Group's investment products such as ISAs and SIPPs.</p>	<ul style="list-style-type: none"> <li>• The Government has a clear priority to reinvigorate savings in order to plan for an ageing population, which is currently under-provided for. This creates opportunity for SIPP and ISA business.</li> <li>• HMRC has recently confirmed that commission rebates paid to clients remain tax-free in both the ISA and SIPP wrappers.</li> <li>• Recent Government announcements to allow AIM shares to be held in ISAs and consultation on permitting transfers of Child Trust Funds to Junior ISAs show positive Government support for ISAs.</li> </ul>
<p><b>Damage to the Group's reputation</b></p> <p>The risk of reputational damage through our own actions or the actions of unassociated third parties (such as copycat websites to fraudulently target client funds) needs to be minimised.</p>	<ul style="list-style-type: none"> <li>• Clients educated to improve awareness of potential 'boiler room' and other online scams, and security procedures are communicated to clients.</li> <li>• Ongoing monitoring and response to emerging threats.</li> <li>• Dedicated Information Security Team monitors HL's controls.</li> </ul>
<b>Operational Risks</b>	
<p><b>Errors, breakdowns or security breaches in respect of the Group's information, data, software or information technology systems</b></p> <p>Serious or prolonged security breaches, cyber-attacks, errors or breakdowns in the Group's software or IT systems must be avoided, and IT changes must be carefully controlled to avoid introducing system integrity problems or other business continuity issues.</p>	<ul style="list-style-type: none"> <li>• High level of resilience built into daily operations.</li> <li>• IT performance, scalability and security are deemed top priorities by the Board.</li> <li>• Large, experienced in-house team of IT professionals, established name suppliers and dedicated Information Security Team.</li> <li>• IT change management controls including where, appropriate, oversight by project board and steering committees.</li> </ul>

Risk	Mitigating Factors/Controls
<b>Operational Risks continued</b>	
<b>Business continuity</b> The risk of disruption to the business as a result of IT or power failure, fire, flood, acts of terrorism, cyber-attacks, relocation problems and similar must be minimised.	<ul style="list-style-type: none"> <li>• Critical applications and infrastructure mirrored across primary and two secondary sites, and two alternative sites available for staff relocation should the main headquarters be out of action.</li> <li>• Business Continuity Plan produced in line with best practice methodologies and tested regularly.</li> </ul>
<b>Employee actions damaging reputation</b> The risk of reputational damage e.g. from employee misconduct, failure to manage inside information, conflicts of interest, or fraud must be controlled.	<ul style="list-style-type: none"> <li>• High level of internal controls including checks on new staff.</li> <li>• Dedicated Financial Crime and Information Security teams.</li> <li>• Strong compliance culture.</li> </ul>
<b>Key personnel</b> Key personnel must be recruited and retained to prevent a material adverse effect on the Group's operations and implementation of its strategy.	<ul style="list-style-type: none"> <li>• Succession planning encouraged throughout Group via management and staff objectives.</li> <li>• Success of the Group should attract high calibre candidates.</li> <li>• A continuous programme of SAYE and share option schemes are in operation to incentivise staff and encourage retention.</li> </ul>
<b>Litigation or claims made against the Group</b> The Group needs to protect against the risk of litigation and actions taken by regulatory agencies.	<ul style="list-style-type: none"> <li>• High levels of Professional Indemnity Insurance cover.</li> <li>• Comprehensive internal review procedures for marketing literature.</li> </ul>
<b>Reliance on third parties</b> Outsourced service providers must meet appropriate standards to protect the Group from the risk of regulatory sanctions and reputational damage.	<ul style="list-style-type: none"> <li>• Due diligence forms part of the selection process for key suppliers.</li> <li>• Ongoing review of key business partners.</li> </ul>
<b>Strategic risk</b> Management must remain focused on appropriate strategies and implement the Group's strategy effectively.	<ul style="list-style-type: none"> <li>• Very experienced management team, with a highly successful track record to date.</li> <li>• Management has demonstrated an excellent understanding of the market and continues to monitor this effectively through regular dialogue with clients.</li> </ul>
<b>Performance of in-house managed funds</b> Investment performance of the Hargreaves Lansdown multi-manager funds needs to remain good relative to the market or in absolute terms, or the Group may be vulnerable to outflows in those funds and a consequential reduction in revenues.	<ul style="list-style-type: none"> <li>• HL only manages Fund of Funds to focus on core strength.</li> <li>• Fund analysis focuses on 'stock selection' skills of manager rather than basic performance analysis.</li> <li>• HL Multi-manager Funds are well diversified at the underlying fund level as well as by number of funds, so are less vulnerable to sector specific poor performance than more focused funds.</li> <li>• Well established and proven investment process overseen by an Internal Investment Committee.</li> </ul>
<b>Financial Risks</b>	
<b>Liquidity</b> The Group must remain able to meet liabilities as they become due and be able to liquidate assets or obtain adequate funding as necessary.	<ul style="list-style-type: none"> <li>• Highly cash generative business with low working capital requirement, and the Group maintains a substantial surplus above regulatory and working capital requirements.</li> <li>• Treasury management policy provides for the availability of liquid funds at short notice.</li> </ul>
<b>Bank default</b> Given the current economic climate and in particular the unprecedented problems faced by banks, the Group must protect against the risk that a bank could fail.	<ul style="list-style-type: none"> <li>• Only use UK banks where we do not believe the Government would allow them to fail.</li> <li>• Deposits spread across several banks, with limits placed on each.</li> <li>• Regular review and challenge of treasury policy by management.</li> </ul>
<b>Interest rates</b> Risk of decline in earnings due to a decline in interest rates or regulatory changes affecting interest income.	<ul style="list-style-type: none"> <li>• Close interaction with the banks we use via our Treasury Policy and Treasury Team.</li> <li>• Access to competitive rates due to large value of deposits placed and ability to control the interest on client balances.</li> <li>• Close interaction with the FCA on all regulatory changes.</li> </ul>

# Corporate social responsibility

At Hargreaves Lansdown, we want to make sure that our impact on society is a positive one. Our company values are rooted in providing great service at a great price, and we believe that doing the right thing makes great business sense.

We are committed to managing the environmental impact of our operations, treating our employees well and maintaining a great culture and working environment. Our approach to corporate social responsibility includes these key elements:

## Quality

We want to offer the best products and offer an excellent service, and are always looking for ways to improve.

## Sustainability

We work for the long-term, looking beyond immediate success.

## Integrity

We deal with people openly and honestly, building strong relationships.

## Environment

As a service business that does not own its business premises and is fundamentally based on intellectual capital, Hargreaves Lansdown has a limited direct impact on the environment. Nevertheless the Group continues to promote energy efficiency and the avoidance of waste throughout its operations.

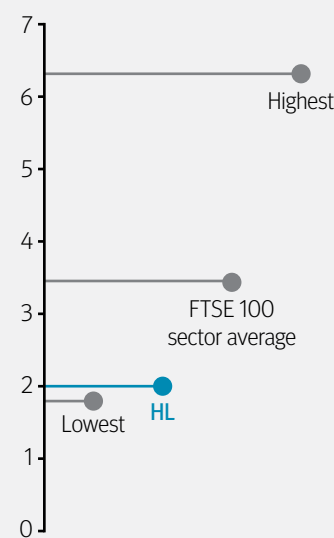
We recently commissioned a report to investigate our output of greenhouse gas emissions and reductive measures we could undertake (for more information visit [www.hl.co.uk/csr](http://www.hl.co.uk/csr)). As part of this report Hargreaves Lansdown was compared to FTSE 100 companies in the same sector. The results demonstrate the relatively low impact our business has on the environment.

This low impact on the environment has not stopped us from enacting initiatives to continue reducing our environmental impact.

### Efficiency and minimising environmental impact

In many respects, our objective of reducing waste and minimising the environmental impact of our business is aligned with our objectives of protecting client data, reducing costs, and improving efficiency. It is our aim to deal with clients and other businesses electronically wherever possible not only to speed up information transfer but also to reduce the amount of paper we use:

Tonnes CO<sub>2</sub>e per employee per annum



- We have invested heavily in providing a user-friendly, comprehensive website and automated links to banks and fund providers
- Clients are able to opt out of receiving paper valuations and contract notes, viewing them via our website instead

Our modern office has 'chilled beam' air conditioning, which is up to 60% more energy efficient. The building also uses technology to manage lighting minimising wastage



### Environmental initiatives - improvements

We aim to further reduce the amount of paper-based processes whilst providing better service. The benefits will grow as more people and businesses choose to transact business and receive information online. We aim to increase the take-up of online and paperless services, and have been successful in doing this during the year:

	30 June 2013	30 June 2012
Vantage clients were registered as paperless	47%	41%
Vantage equity deals placed online	90%	87%
Clients registered to use our online services	81%	78%

### Business travel and commuting

We do not provide company cars as standard to managers or to our network of advisers. These advisers are spread throughout the UK which minimises travel time and carbon emissions. We provide a telephone advice service to handle those cases where a face-to-face meeting is unnecessary.

We also provide a secure bike park at our office enabling up to 150 staff to cycle to work. We were also mindful of selecting our office location close to residential areas where many of our staff live, allowing them to walk to work.

### Recycling

We continue to shred and recycle confidential waste and have arrangements for the collection of recyclable waste such as printer toner cartridges, cardboard, plastics, newspapers and out-of-date literature. We also continue to recycle redundant IT equipment through specialist third parties.

### Electricity usage

Our electricity usage is not high enough to mean that we have to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme was compulsory for UK organisations that consumed over 6,000 MWh of half-hourly metered electricity for the period January 2008 to December 2008. During that period we consumed well below that level and for the year ended 30 June 2013 we had consumed only 2,731 MWh (2012: 2,802 MWh).

Although we do not set a formal target for the reduction in electricity consumption, the ethos of the company is such that we always try to keep energy consumption to a minimum.

### Greenhouse gas emissions

During the year we engaged a consultant to assess our carbon emissions and benchmark us against other firms in our sector. The report showed that we have achieved reductions in emissions in both absolute terms and on a per employee basis. The report was positive and reinforced our belief we are already making good progress towards being resource efficient. In the financial year ending 2013 our use of refrigerant gases and fuel consumed per employee fell by 23% and our electricity use per employee fell by 15% compared to the previous year.

#### Global GHG emissions data for period 1 July 2011 to 30 June 2013

Emissions from	Tonnes of CO <sub>2</sub> e		
	Current reporting year 2012-2013	Comparison year 2011-2012	Change (%)
Combustion of fuel and operation of facilities	220.9	253.6	-12.9
Electricity, heat, steam and cooling purchased for own use	1216.4	1289.1	-5.6
Tonnes of CO <sub>2</sub> e per average full-time equivalent employee	1.97	2.36	-16.5

### Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2013.

For more information visit [www.hl.co.uk/csr](http://www.hl.co.uk/csr)

**FTSE4Good**

Hargreaves Lansdown has continued to be included in the FTSE4Good Index series, having been independently assessed according to the FTSE4Good criteria. The FTSE4Good index measures the performance of companies that meet globally recognised standards on corporate social responsibility (CSR). It is a tool for socially-responsible investors that helps them to benchmark companies on their CSR performance and contributes to the development of responsible business practice around the world. The FTSE4Good inclusion criteria are enhanced regularly and demand continued improvement in CSR practices in order for companies to gain or maintain inclusion in the index.



FTSE4Good

## Community

With the exceptions described below, we have made it company policy to focus our support on one charity or non-profit organisation each year which is selected from suggestions received from employees within the Group. During the year the chosen charity was "Cots for Tots". This is being run by the Wallace & Gromit appeal and is aiming to raise £1 million for the special care baby unit. All of our fund raising initiatives are now focused on this charity.

### Charitable activity outside of our chosen charity for the year

- The Group supports a grass-roots sports club. A monthly donation is made to the Bristol & West Athletics Club which is the leading all-round athletics club in the Southwest of England, providing coaching and competition for the widest range of events, for all age groups and all abilities throughout the year
- We are again supporting two teams of staff from Hargreaves Lansdown who

are competing in the Invesco Perpetual Highland Adventure Race in September of this year. This is a challenging event, facilitating team bonding whilst raising money for the Mitchem Trust, which aims to provide outdoor adventure programmes for youths in order to help give them hope, confidence and life skills to meet the challenges in their lives

- We support the Bristol Children's hospital Grand Appeal (see above)

- Total donations to charity for the year ended 30 June 2013 were £62,000 (2012: £62,000). We do not make political donations

The Group also makes significant tax payments which help society as a whole. Corporation tax and employers national insurance paid in respect of the year ended 30 June 2013 was £45.0 million (£2012: £39.8 million). In addition other taxes such as VAT, stamp duty and business rates paid.

## Hargreaves Lansdown is a founding sponsor of the Gromit Unleashed Grand Appeal.

"It was a privilege to be asked to be involved with Gromit Unleashed and the Grand Appeal. Bristol Children's Hospital is one of the city's proudest achievements and we are delighted to support, and help raise awareness of, this extremely worthwhile charity."

**Peter Hargreaves**





## Campaigning

The Company also actively seeks to lobby via public consultation documents where they believe that investors in the UK will benefit. Our latest success has been the Government's agreement to consult on what we hope to be the first step in allowing Child Trust Funds to be transferred to far superior Junior ISAs. For more information on our lobbying see our website on [www.hl.co.uk/csr](http://www.hl.co.uk/csr).

## Culture

We have worked hard to create what we believe to be a unique working culture at Hargreaves Lansdown.

### Putting clients first

At Hargreaves Lansdown there is an embedded culture whereby the interests of clients are always put first and this is communicated to all employees in the business during their induction and throughout their careers. In practice this includes elements such as ensuring that:

- all product design and information is clear and clients fully understand the features, benefits, risks and costs of the financial products they buy
- information and client support is available to clients after the point of sale
- appropriate complaints handling procedures are in place
- financial promotion and marketing practices are unbiased and appropriate for their audience

As part of this culture we actively monitor all areas of the business via monthly and quarterly reporting both in terms of treating clients fairly and ensuring excellent levels of client service. Another way to ensure we are getting things right with clients is to listen to them and the changes they would like to see to our services and we encourage and actively seek feedback from clients.

If clients ever feel the need to complain, our complaints handling team carefully investigates our client's complaint and endeavours to provide them with a fair resolution. We benchmark our performance in treating clients fairly against statistics published annually by the Financial

Ombudsman Service for the industry. The results for the 2013 financial year compared to the last figures published by the Ombudsman show that Hargreaves Lansdown is achieving good results in treating our clients fairly.

### Integrity

The Company prides itself on its integrity in dealing with clients and staff openly and honestly. This is achieved through our policy of putting clients first. Internally, all staff are trained and made fully aware of anti-money laundering procedures which must be adhered to at all times. The Company takes the views of its employees very seriously and as such operates a "Whistleblowing Policy" with any concerns raised about malpractice or wrongdoing within the workplace being treated with the utmost confidence and in full compliance with the Public Interest Disclosure Act.

### Efficiency and cost saving

We believe that costs require constant consideration and have built an ethos of employees continually asking themselves whether their actions are cost effective and efficient. As a result employees only print documents when necessary, will avoid traveling when not required and generally minimise waste. As a result, our culture combines well with specific environmental initiatives to minimise resource usage and encourages continual improvement in resource efficiency.

## Employment

### Employment and diversity

Hargreaves Lansdown proudly fosters a working environment that wholly supports the principals of diversity and equality and is committed to ensuring that everyone is treated with dignity and respect. We are an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit regardless of any discriminatory factor to ensure the Group attracts, retains and promotes the best available talent. As at 30 June 2013, the Group employed a total of 756 people, of which 527 are male (70%) and 229 are female (30%).

We offer tangible support to our people. A full assessment of any disabled employee's

needs is undertaken and reasonable adjustments are made to the work environment or practices in order to assist them.

Hargreaves Lansdown is committed to providing a safe and healthy environment in which its employees can work. We use Health and Safety consultants on an ongoing basis to ensure that standards are maintained, and the Health and Safety policy is made available to all staff via our intranet.

Hargreaves Lansdown actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of the Company's activities and financial performance by such means as the employee intranet and publication to all staff of relevant information and corporate announcements. We have recently carried out a successful consultation regarding the implementation of auto-enrolment and the introduction of a compulsory employee pension contribution to sit alongside the existing employer contributions which Hargreaves Lansdown continues to make on behalf of its employees.

### Professional development

Professional development is actively encouraged and many of our staff embark on professional qualifications to further their knowledge and careers within the Company. During the year-ended 30 June 2013 152 staff sat a professional exam and 47 completed a professional qualification.

We offer a number of university students the opportunity to work in positions throughout the business during their professional placement year. This is a year offered on a number of university courses and provides real world experience in the work place giving their studies context and improving their employability at the end of their studies. A number of these students have subsequently returned to Hargreaves Lansdown in a full time capacity.

# Board of Directors

## 1. Michael Evans, FIA Chairman, 52

**Appointed Chairman in December 2009  
Chairman of the Nomination Committee,  
member of the Remuneration Committee**

Michael became a non-executive director of the Company in September 2006. Michael is a qualified actuary with 31 years' industry experience. He is also a non-executive director of esure Group PLC, CBRE Global Investors Group (UK) Limited and Chesnara PLC. He is a member of the advisory board of Spectrum Corporate Finance and chairs the board of Trustees of Wessex Heartbeat. Michael was formerly Chief Operating Officer at Skandia UK Limited.

## 2. Ian Gorham, ACA Chief Executive Officer, 41

**Appointed CEO in September 2010**

Ian joined Hargreaves Lansdown in 2009 as Chief Operating Officer. Previously he qualified as a Chartered Accountant, and worked for Deloitte where he helped build their UK financial services operations and was Head of Grant Thornton's UK financial services business. Ian has worked with many financial services companies on a wide range of strategic and operational matters. Ian holds no external Director appointments.



## 3. Tracey Taylor, FCCA, MSc Chief Financial Officer, 41

**Appointed Chief Financial Officer in  
November 2008**

Tracey joined Hargreaves Lansdown in 1999. Her previous responsibilities within the Group have included the operational areas of IT systems and client accounting, group finance, treasury and the company secretarial function. In 2006 Tracey was appointed to the role of Group Accounting Director and to the Executive Committee before being appointed to the main Board in 2008. Prior to joining Hargreaves Lansdown she qualified as an accountant before working for LloydsTSB. Tracey holds no external Director appointments.

## 4. Peter Hargreaves, FCA Executive Director, 66

**Appointed to his current role in September  
2010 (formerly CEO)**

Peter co-founded Hargreaves Lansdown in 1981, and was Chief Executive of the Group until September 2010. Previously, he qualified as a Chartered Accountant and worked for KPMG, Unisys Group and Whitbread Plc. Peter is also a non-executive director of ITM Power PLC





## **5. Chris Barling, BSc** Non-Executive Director, 57

**Appointed Non-Executive Director in August 2010. Member of the Audit Committee, Nomination Committee and Remuneration Committee**

Chris has over 30 years' IT industry experience and formerly held senior IT roles in Cable & Wireless and Reuters. He is the co-founder of Actinic, the software company specialising in ecommerce solutions for SMEs. Chris is Chairman of Private Software Limited, and its wholly owned subsidiaries, including SellerDeck Limited, director of Powered Now Limited, and non-executive director of i-KMP Limited.



## **6. Dharmash Mistry, BA (Oxon), MEng** Non-Executive Director, 43

**Appointed Non-Executive Director in October 2011. Member of the Audit Committee, Nomination Committee and Remuneration Committee**

Dharmash is a former partner at Balderton Capital LLC, one of Europe's leading venture capital firms and a non-executive director at Dixons Retail plc. Prior to this he served on the board of Lovefilm (AMZN) and was Group Managing Director of Emap Consumer Media. He started his career as a Brand Manager at Procter and Gamble, followed by a period at The Boston Consulting group



## **7. Stephen Robertson, BSc, FRSA** Non-Executive Director, 58

**Appointed Non-Executive Director in October 2011. Member of the Audit Committee & Nomination Committee**

Stephen is a non-executive director of Timpson Group plc and Chairman of Business West Ltd. Stephen's career has spanned 14 years on the boards of major UK retailers and earlier roles with Mars Inc, Unilever and Alberto-Culver. Stephen served for seven years as Marketing Director at B&Q plc before leading the acquisition of Screwfix Direct which he then chaired. Previous positions also include board membership of Woolworth plc and Director of Communications at Kingfisher plc. He is a former Chairman, and now fellow, of the Marketing Society, and is former Director General of British Retail Consortium (BRC).



## **8. Jonathan Bloomer, FCA** Senior Independent Non-Executive Director, 59

**Appointed Non-Executive Director in September 2006. Chairman of the Audit Committee and Remuneration Committee, member of the Nomination Committee**

Jonathan was formerly a partner of Cerberus European Capital Advisors, the UK arm of Cerberus Capital and has previously been the Chief Executive of Lucida plc and Group Chief Executive of Prudential. He also spent twenty years in practice with Arthur Andersen LLP and was Chairman of the Practitioner Panel of the FSA. His previous positions also include board membership of the Association of British Insurers, Geneva Association, Railtrack plc and Autonomy plc. Jonathan is also a Trustee and the Treasurer of the NSPCC, and non-executive Chairman of JLT Employee Benefits Group.

# Corporate Governance

The Group operates within a clear governance framework, which is outlined in the diagram below and set out in the report that follows. The Group's internal control and risk management framework is described below in the Internal Controls section.

## The Board is responsible for:

- defining, challenging and interrogating the strategic direction of the Group;
- determining risk appetite, and to ensure risk, regulatory and compliance management within the Group is effective;
- monitoring financial, risk and operating performance against delivery of the agreed strategy;
- engaging with shareholders; and
- ensuring solid succession planning by effectively managing the Group's talent and capital.

The executive directors are directly responsible for running the business operations. The non-executive directors are responsible for constructively challenging proposals on strategy, scrutinising the performance of management, determining levels of remuneration and for succession planning for the executive directors. The non-executive directors must also satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust.

Certain responsibilities of the Board are delegated to the Board Committees to assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management. Other non-board committees form part of the Corporate Governance framework, but are not formally appointed committees of the Board. These committees feed back to the main Board and Board Committees via an executive Director where appropriate.

## Hargreaves Lansdown plc governance framework



## Statement of compliance with the UK Corporate Governance Code

During the year ended 30 June 2013, Hargreaves Lansdown plc confirms it has applied the principles of the UK Corporate Governance Code ("the Code") with the following exception:

### 1. Board effectiveness and performance evaluation

We did not comply with Section B.6.1 of the Code which states that the evaluation of the Board should be externally facilitated at least every three years. This year, as per the two previous years, the Board carried out an internally facilitated review, led by the Chairman. Prior to deciding to perform an internal review, the Board fully debated the issue having due regard to the requirements of the Code. In reaching its decision the Board took account of the following factors: the Group had enjoyed another successful business year, the two most recent non-executive recruits were still relatively new to the Board, the previous internally led evaluations have led to positive developments and the presence of the largest shareholder on the Board ensures that the Board's focus remains on driving shareholder value. Finally the culture of the Group is to avoid unnecessary discretionary spending and the Board deemed the prospective costs of an externally facilitated review would outweigh the likely additional value and therefore not in the best interest of shareholders.

Further explanation of how the principles and supporting principles of the Code have been applied is set out in this Corporate Governance statement and in the Directors' Remuneration report. A copy of the Code is publicly available on the Financial Reporting Council's website at [www.frc.org.uk](http://www.frc.org.uk).

The Company's auditor, Deloitte LLP, is required to review whether the above statement reflects the Company's compliance with the provisions of the UK Corporate Governance Code specified for its review by the Listing Rules and to report if it does not reflect such compliance; no such report has been made.

## The Board

### Board size, composition and changes during the year

As at 30 June 2013 there were eight Directors on the Board: the Chairman, four other independent non-executive directors, and three executive directors. The size and composition of the Board is regularly reviewed by the Board and, in particular the Nominations Committee, to ensure that there is an appropriate and diverse mix of skills and experience.

During the year, the following change was made:

- Stephen Lansdown retired from the Board as a non-executive director on 23 November 2012

Details on our Board members, including other directorships, are on pages 32 to 33.

In April 2013, having due regard to succession planning, the Nominations Committee commenced the search for a new non-executive director with the necessary background and qualification to become in due course the Chairman of the Audit Committee.

### Independence of non-executive directors

The Code sets out the circumstances that should be relevant to the Board in determining whether each non-executive director is independent. We have given due regard to provision B.1.1 of the UK Corporate Governance Code and the Board has concluded that Dharmash Mistry, Stephen Robertson, Chris Barling and Jonathan Bloomer were independent directors throughout the financial year. Michael Evans was independent on appointment as Chairman. Jonathan Bloomer is currently the Senior Independent Non-Executive Director.

### Diversity

When assessing new appointments to our Board, we review carefully the combined skills and experience of the existing Board members to determine what characteristics we are looking for from a new director. Each member of the Hargreaves Lansdown board must have the skills, experience and character that will enable each director to contribute both individually, and as part of the team, to the effectiveness of the

board and the success of the Company. We believe that diversity amongst board members is of great value but that diversity is a far wider subject than just gender. We will give careful consideration to issues of overall board balance and diversity in making new appointments to the board.

As of today, the board numbers eight in total, of which three are executive and five independent (including the Chairman). Women directors constitute 12.5% of the board and 12.5% of the Executive Committee (22% when including the Company Secretary). Subject to the requirements set out above, Hargreaves Lansdown will aim to maintain female representation on the board at least at the current level and give due consideration to increasing the level if appropriate candidates are available when board vacancies arise.

A copy of our full statement on Board Diversity can be found on [www.hl.co.uk](http://www.hl.co.uk)

### Roles and responsibilities of the Board

The Board has overall responsibility for the management and performance of the Group. It sets the strategic direction of the Group, determines the appropriate risk appetite, and ensures that sufficient resources in talent and capital are in place to achieve the objectives set and ensures solid succession planning for senior management. It ensures that risk, regulatory and compliance management are done appropriately. The Board reviews performance, including that of the management team and senior executives. It is the decision-making body for all other matters deemed material to the Group in strategic, financial and reputational terms. The non-executive directors constructively challenge the management team and supplement the executive directors' management expertise with a diversity of business skills and experience.

The Directors are also responsible for ensuring that obligations to shareholders and other stakeholders are understood and met, and that a satisfactory dialogue with shareholders is maintained. All Directors are equally accountable to our shareholders for the proper stewardship of our affairs and the success of the Company.



Except for a formal schedule of matters reserved for decision by the Board, the Board has delegated the day-to-day management of the Group to the Chief Executive who is supported by the Executive Committee and senior executives. The Chief Executive and executive directors of the Group are responsible to the Board for developing strategy and the profitability and overall performance of the Group.

There is a documented schedule of matters which are reserved for Board decision and approval. These matters are significant to the Group as a whole due to their strategic, financial or reputational implications, and include, but are not limited to, the agreement of strategies, recommendation of dividends, approval of acquisitions and major capital expenditure. In addition, it is only the Board which can appoint and remove Directors and our Company Secretary. The Board also has overall responsibility for the Group's system of internal controls and risk management. Risk management arrangements are described below.

#### **The roles of Chairman and Chief Executive**

The roles of the Chairman and Chief Executive are clearly defined, separate and approved by the Board.

The Chairman is responsible for the operation, leadership and governance of the Board, ensuring its effectiveness and setting its agenda. In conjunction with the Chief Executive and Company Secretary, the Chairman plans agenda items and timings for Board meetings. The Chairman ensures that the membership of the Board is appropriate to the needs of the business and that Board committees carry out their duties, including reporting back to the Board.

The Chief Executive has executive responsibilities for the operations, results and strategic development of the Group. He is responsible for the delivery of strategy and leads the executive management team.

#### **Board support**

The Company Secretary is responsible to the Board for ensuring Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on governance and relevant regulatory matters. All Directors

have access to the services of the Company Secretary.

In order for Directors to fulfil their duties they can also seek independent professional advice, at the Company's expense.

#### **Board meetings**

The Board convenes at least four times each financial year, and convened five times in the last financial year.

Meetings are held in such a way as to encourage robust and constructive challenge and debate which enables the non-executive directors to use their knowledge and experience to critically review strategies proposed by management. This approach ensures that we act in the long-term best interests of our shareholders.

Between Board meetings, Directors are provided with monthly information packs which include detailed commentary and analysis. To ensure that Directors are as fully informed as possible, minutes are circulated from each Committee, including the Executive Committee, and each Board meeting includes a report from the Committees as appropriate. The Chairman and non-executive directors have also held meetings separate to those with the executive Directors, including meeting with the external auditor and the Head of Internal Audit. From July 2013, the Board is introducing interim board meetings to fall between the four main board meetings, which will take place in the form of conference calls. These will further help the non-Executive Directors keep fully informed of recent developments and will ensure that Directors fully work together to ensure the smooth running of the business.

#### **Directors**

Under the existing Articles of Association all directors have to submit themselves for re-election annually if they wish to continue serving and are considered by the Board to be eligible. All current directors bar one wish to be re-elected and the Board confirms that all individual performance reviews demonstrated that the directors continue to demonstrate effective performance and commitment to their roles. Jonathan Bloomer has given notice that he will be stepping down from the

Board at the Annual General Meeting.

The Company maintains insurance cover for up to £20 million for all directors and officers of Group companies against liability which may be incurred acting as directors and officers and this remains in force at the date of this report.

#### **Training**

Our Chairman is responsible for preparing and implementing a personalised induction programme for all new Directors, to include guidance as to their duties, responsibilities and liabilities as a director of the Company. We believe that the best way to learn about a business is to spend time within it, and we encourage new Directors to spend time with our senior managers and executives in a number of business areas and to receive demonstrations of key operations and systems where relevant.

Our overall objective is to maintain and enhance professional standards for all our employees. We believe that these standards are particularly important for all staff who fall under the scope of the FCA Training and Competence rules. All staff under the scope of these rules are required to perform certain training annually.

Every director has access to appropriate training throughout their appointment as director and we regularly assess the requirement for director training as part of each director's annual appraisal.

#### **Board effectiveness and performance evaluation**

This year, the Board carried out an internally facilitated board effectiveness review. The review was led by the Chairman and covered the effectiveness of the Board as a whole, its individual Directors and its Committees. All directors contributed to the review with one-to-one discussions with the Chairman. In addition, the non-executive directors and the Chairman met collectively to discuss the performance of the Board. The initial output from the review was discussed by the Board at its meeting in May and the final report tabled and agreed in August. The outcome of the review was positive with a number of agreed actions to be pursued in the coming year. These include a greater focus on strategy and its implementation, the introduction of four interim board meetings

by way of conference calls, improvement in the timeliness of Board paper circulation and greater cohesiveness in the challenge provided by the non-executive directors.

Individual appraisal of each director's performance is undertaken by either the Chief Executive or Chairman each year and involves meetings with each director on a one-to-one basis. The non-executive directors, led by the senior independent director, carry out an appraisal of the performance of the Chairman. The Chief Executive's performance was evaluated by the Chairman with input from the rest of the Board.

## Board committees

This section of the report sets out how the Board and its Committees work within the Group's governance framework and corporate governance guidelines.

Certain responsibilities of the Board are delegated to the Board Committees to assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management. The three principal Board Committees (Audit, Remuneration, and Nomination) play an essential role in supporting the Board in fulfilling its responsibilities. The minutes of each Board Committee meeting are circulated and noted by the Board.

The Board Committees all have formal Terms of Reference that have been approved by the Board, and performance of the Committees is assessed annually by the Board. Each Committee's terms of reference sets out the specific matters for which delegated authority has been given by the Board. These terms of reference are reviewed annually and the terms of reference of the Audit, Remuneration and Nomination Committee are available on the Group's website ([www.hl.co.uk/investor-relations](http://www.hl.co.uk/investor-relations)). A summary of the terms of reference for each committee is included in the committee summaries below.

### Audit Committee

The Audit Committee is responsible for assisting the Board in discharging its responsibilities for:

- monitoring of the financial reporting process including the integrity of

the annual and interim reports, preliminary results and any other formal announcements relating to financial performance;

- risk reporting;
- reviewing the Group's internal financial controls and the Group's internal control and risk management systems;
- monitoring and reviewing the effectiveness of the Group's Internal Audit function;
- making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meetings in relation to the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor; and
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

The Audit Committee has also continued to monitor our public interest disclosure (Whistleblowing) policy which contains details of the process by which employees can raise, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

### Composition of the Audit Committee

The members of the Audit Committee at 30 June 2013 were:

*Jonathan Bloomer* - Chairman (Chartered Accountant) – appointed 18 September 2006

*Chris Barling* – appointed 26 August 2010  
*Dharmash Mistry* – appointed 3 October 2011

*Stephen Robertson* – appointed 3 October 2011

On an on-going basis, membership of the Committee is reviewed by the Chairman of the Committee at regular intervals and any recommendations for new appointments are made to the Nomination Committee for onward recommendation to the Board. Appointments are for a period of three years and are extendable by no more than two additional three-year periods. The Audit Committee structure requires the inclusion of one financially qualified member and our Committee Chairman currently fulfils this requirement.

The Board expects the Audit Committee members to have an understanding of:

- the principles of financial reporting including applicable accounting standards and statements of recommended practice;
- key aspects of the Group's operations and systems of internal control;
- matters that influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management;
- the regulatory framework for the Group's businesses; and
- environmental and social responsibility best practices.

The Board is satisfied that all of the Committee's members have a level of recent and relevant commercial and financial knowledge and experience to satisfy the provisions of the Code. The Group provides an induction programme for new Audit Committee members and on-going training to enable all of the Committee members to carry out their duties. The induction programme covers the role of the Audit Committee, its terms of reference and expected time commitment by members, and an overview of the Group's business, including the main business and financial dynamics and risks. New Committee members also meet some of the Group's staff, as appropriate. On-going training includes attendance at formal conferences, internal briefings and briefings by external advisers.

### Meetings

The Audit Committee meets at least four times each year but more frequently when

required, and met four times during this financial year. The attendance by each director is set out in the table on page 40. The Chairman, Head of Internal Audit, Chief Operating Officer, Chief Financial Officer and Chief Executive Officer are routinely invited to, and attend, the majority of meetings, although the Committee reserves the right to request any of these individuals to withdraw. The external auditor also attended all meetings, and periodically the Committee also meets privately with the external auditor and the Head of Internal Audit.

#### **Overview of the actions taken by the Audit Committee to discharge its duties**

During the 12 months to 30 June 2013 the Audit Committee has undertaken the following key responsibilities:

- reviewed the financial statements in the 2012 reports and accounts and the interim report issued in February 2013. As part of this review the Committee received a report from the external auditor on its audit of the annual reports and accounts and review of the interim report;
- received updates from the Risk Committee and considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and accounts on this matter;
- reviewed and agreed the terms of engagement of the audit work to be undertaken by the external auditor;
- reviewed and updated the 'Use of External Auditors' policy;
- considered a report from the external auditor on its observations of controls across the Group;
- agreed the fees to be paid to the external auditor for its audit of the 2013 accounts and interim report and reviewed the confirmation of auditor independence;
- undertaken an evaluation of the performance of the Internal Audit function and reviewed the level and nature of non-audit activity performed by Internal Audit;
- reviewed the qualification and experience of the Internal Audit department so that it can deliver an agreed programme of work;
- undertaken an evaluation of the performance of the external auditor;

- undertaken a tender process for the appointment of a new external auditor;
- made a recommendation to the board regarding the appointment of a new external auditor;
- received reports from the Head of Internal Audit on the work undertaken by Internal Audit and management responses to proposals made in the audit reports issued by the function during the year;
- reviewed the Group's Internal Capital Adequacy Assessment Process ('ICAAP') report;
- reviewed the Group's 'Resolution and Recovery Pack'; and
- reviewed its own effectiveness.

#### **External Auditor**

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day to day responsibility to the Group Finance Director. The policy states that the external auditor is jointly responsible to the Board and the Audit Committee and that the Audit Committee is the primary contact.

The Group's policy on external audit can be found on the Group's website at [www.hl.co.uk](http://www.hl.co.uk). It sets out the categories of non-audit services which the external auditor will and will not be allowed to provide to the Group, subject to de minimis levels and Audit Committee Chairman approval. The level of non-audit fees during 2013 were £nil (2012: £35k). Following feedback from the AGM last year, the 'Use of External Auditors' policy has been tightened, such that our external auditor may only be used for non-audit work where there are specific circumstances which mean they are the only firm able to provide a good service at an acceptable price.

The existing external auditor, Deloitte, has been in office since 2006, prior to the IPO in 2007. Recognising the requirement in the 2012 edition of the Code that the external audit tender contract should be put out to tender at least every ten years and that the tenure of current audit partner is four years, the Audit Committee determined that this year was the right time to go to tender.

Following a suitable tendering process, the Audit Committee has recommended to the Board that PwC is appointed as new external auditor at the Annual General Meeting.

#### **Internal Audit Function**

The Audit Committee is required to assist the Board to fulfil its responsibilities relating to the adequacy of the resourcing and plans of the Internal Audit department. Having conducted a review of the Internal Audit department the Committee is happy with its resources and plans. The Institute of Internal Auditors recommend that an external review of the Internal Audit function is carried out no less than every five years. Our Internal Audit function had a satisfactory external review carried out in May 2012.

#### **Remuneration Committee**

The Remuneration Committee is responsible for the framework or broad policy for the fair remuneration of the executive directors of the Company and its subsidiaries as well as their performance management. The policy is determined with due regard to the interests of the Company and the shareholders. The Committee makes recommendations to the Board. No director plays a part in any discussion about his or her own remuneration. The Remuneration Committee meets at least twice per year and is governed by formal Terms of Reference, which are reviewed annually.

The Remuneration Committee met five times during this financial year. The attendance by each director is set out in the table on page 40. The Committee is chaired by Jonathan Bloomer and its other members at 30 June 2013 were Michael Evans, Chris Barling and Dharmash Mistry. None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

The Committee's purpose is to:

- determine and recommend to the Board the remuneration policy for the executive Directors of the Company and of the subsidiary companies;
- ensure the level and structure of remuneration is designed to attract, retain, and motivate the executive Directors needed to run the Company and



- the Group; and
- monitor the level and structure of remuneration for senior management.

The performance measurement of the Directors and key members of senior management and the determination of their annual remuneration packages are undertaken by the Committee. The Committee also ensures that the remuneration relationship between the Directors and senior employees of the Company is appropriate and that the remuneration policy complies with the FCA Remuneration Code. Any exceptional remuneration arrangements for senior employees are advised to the Committee.

#### ***The Nomination Committee***

The Nomination Committee leads the process for Board appointments, re-election and succession of directors and the Chairman. It is responsible for making recommendations to the Board concerning the composition and skills of the Board including proposed appointees to the Board, whether to fill any vacancies that may arise or to change the number of Board members.

The Committee had been chaired by Jonathan Bloomer until May 2013 when Michael Evans was elected chairman. Jonathan Bloomer stood down as Chairman but remained a member of the Committee. The Committee's other members at 30 June 2013 were Chris Barling, Dharmash Mistry and Stephen Robertson. The Nomination Committee meets at least twice each year and the Committee met three times during the year. The attendance by each director is set out in the table on page 40.

We have a formal, rigorous and transparent procedure for the appointment of new directors to the Board. The process involves the Nomination Committee interviewing suitable candidates who are proposed by existing Board members, by an external search company, or via searches performed by the Company itself. Consideration will be given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board will be maintained. When the Committee has found a suitable candidate, the Chairman of the Committee will make a proposal to the

whole Board and the appointment is the responsibility of the whole Board following recommendation from the Committee.

During the year the activities of the Committee have included:

- reviewing its terms of reference;
- reviewing the requirements for potential independent non-executive candidates;
- commencing the recruitment process for a new independent non-executive director; and
- formulation of appropriate succession plans.

In April 2013, the Committee commenced a search for a new non-executive director. This search recognised that Jonathan Bloomer has been in office for nearly seven years and given that none of the other non-executive directors have the necessary financial qualification to chair the Audit Committee, it was prudent to appoint a new director capable of taking on the role of Chair of the Audit Committee in due course. The Committee determined the search criteria to be used. The recruitment consisted of a targeted mailing of some 9,000 of our clients and this would be supplemented by contacting an internally derived list of potential candidates from the networks of directors and also recommendations from key contacts in the accountancy profession. This process produced 86 applications. After two rounds of interviews, a preferred candidate has been selected and, subject to regulatory clearance, will join the Board in due course.

### **Other committees**

These committees form part of the Corporate Governance framework, but are not formally appointed non-executive committees of the Board. The two main Committees are the Executive Committee and the Risk Committee:

#### ***Executive Committee***

The Board has delegated full authority to the Executive Committee subject to a list of matters which are reserved for decision by the full Board only. In particular, the Executive Committee is responsible to the Chief Executive for developing and monitoring every aspect of the Group's business on a continuing basis, for developing and implementing business

strategy as agreed by the Board and ensuring that day-to-day operations are conducted in accordance with the relevant regulatory and statutory requirements.

The Executive Committee is chaired by the Chief Executive, Ian Gorham, and in his absence by Peter Hargreaves. During the year the committee also comprised the Chief Financial Officer, Tracey Taylor, and the following:

- Nigel Bence – Chief Operating Officer
- Alex Davies – Director of Pensions
- Nick Marson – Vantage and Broking Operations Director
- Ian Hunter – Investment Marketing Director
- David Davies – IT Director
- Theresa Barry – Group Marketing Director (until October 2012)

Michael Evans, Mark Dampier, Lee Gardhouse and Stuart Loudon are invited to attend the Executive Committee.

Biographies of the above are available on our website: [www.hl.co.uk/investor-relations](http://www.hl.co.uk/investor-relations).

The Executive Committee meets at least quarterly but more frequently when required, and met four times during the current financial year. The attendance by each director is set out in the table below.

#### ***Risk Committee***

The Risk Committee is chaired by the Chief Operating Officer and also comprises the Chief Risk Officer, IT Director, and a non-executive Director. The Committee reports back to the Board and the Audit Committee on the management of the major risks facing the Group as assessed against the Group's Risk Appetite.

We also have a Treasury Committee, which oversees changes to the treasury management policy, an Investment Committee, which monitors the investments held in the HL multi-manager funds, as well as an Interest Rate Committee and an IT Steering Group.

**Attendance at meetings during the year by members of the Board and each committee**

	Board meetings *	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Executive Committee meetings
<b>Directors</b>					
Ian Gorham	5/5	-	-	-	4/4
Peter Hargreaves	5/5	-	-	-	4/4
Tracey Taylor	5/5	-	-	-	4/4
Michael Evans	5/5	-	5/5	3/3	-
Jonathan Bloomer	5/5	5/5	5/5	3/3	-
Chris Barling	5/5	5/5	5/5	3/3	-
Dharmash Mistry	3/3	5/5	5/5	3/3	-
Stephen Robertson	3/3	5/5	-	3/3	-
<b>Executive Committee</b>					
Theresa Barry <sup>1</sup>	-	-	-	-	0/1
Nigel Bence	-	-	-	-	4/4
Alex Davies	-	-	-	-	4/4
Nick Marson	-	-	-	-	4/4
Ian Hunter	-	-	-	-	4/4
David Davies	-	-	-	-	3/4

\* Where Board meetings have been held for a specific purpose to discuss matters at short notice, all Board members are sent papers and given the opportunity to comment by telephone or email if they are unable to attend at short notice. In addition to the four scheduled Board meetings during the year, one additional meeting was held to discuss and approve the disposal of the Company's investment in Beringea LLC. (1) Attendance represents number of meetings prior to stepping down in October 2012.

**Relations with shareholders**

We are committed to maintaining good communications with our shareholders. We have a programme of communication with shareholders based on our financial reporting calendar including the interim and annual reports, Interim Management Statements, the AGM and the Investor Relations section of the corporate website at [www.hl.co.uk](http://www.hl.co.uk).

In addition to this, the CEO, Chief Financial Officer and Chairman meet with institutional investors after results announcements and upon request on an ad hoc basis during the year. They, together with the Company Secretary, also provide a point of contact for investors who wish to raise queries or concerns.

Jonathan Bloomer, our Senior Independent Non-Executive Director, was also available to meet key investors.

Following dialogue with individual institutional shareholders, the Chairman, Chief Executive and the Group Finance Director ensured the Board was fully briefed on shareholders' views such that any issues or concerns were fully understood and considered by the Board. Analyst and broker briefings are regularly provided to the Board. In addition, the Group's brokers sought feedback from investors following the 2012 final and 2013 interim results, and this feedback was reported to the Board.

All Directors made themselves available to meet shareholders at our AGM and they value the opportunity of welcoming individual shareholders and other investors to communicate directly and address their questions.

To ensure compliance with the Code, at all general meetings separate resolutions are proposed on each discrete subject. Resolutions have been passed on a show of hands, and proxy votes for, against and withheld for each resolution are displayed at the meeting. Following the AGM, the results of voting are published through a Regulatory Information Service and on our website.

## Internal controls

Through the monitoring processes set out below, the Board has conducted a review of the effectiveness of the system of internal control during the year ended 30 June 2013.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and provide reasonable but not absolute assurance as to the effectiveness of the safeguards protecting the business against the risk of material error, loss or fraud. In that context, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory and the Board is not aware of any change to this status up to the date of approval of this Annual Report. However, in acknowledgement that the business and the risks it faces are continually evolving and as part of a process of continuous improvement, steps are being taken to further embed internal controls and risk management into business operations.

### Internal Control Framework

The Board is responsible for the Group's systems of internal control and risk management and for reviewing their effectiveness, the key features of which are outlined in the chart above and detailed below:

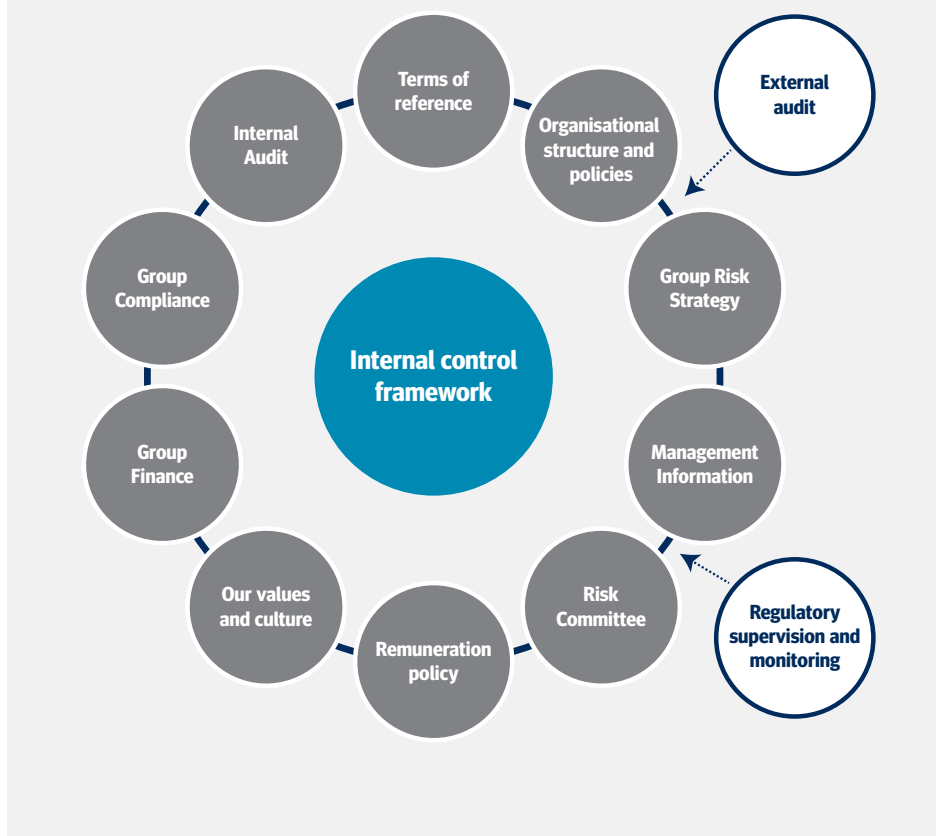
#### Terms of Reference

The Board operates within clearly defined terms of reference, and it reserves certain matters for its own consideration and decision. It has established appropriate committees to oversee control activities. These committees also have clearly defined terms of reference. The Board and Committee processes are fundamental to the effectiveness of our internal controls.

Our business performance is monitored closely by the Board and senior management, in particular monitoring of:

- progress towards strategic objectives;
- financial performance, within a framework including forecasting, financial reporting, reviewing variances against plan and taking appropriate management action; and
- risk management processes.

### Internal control framework



#### Organisational structure and policies

The Board regularly reviews the Group's organisational structure to seek to ensure that clearly defined lines of responsibility exist, with appropriate delegation of authority. Periodic reviews take place to ensure that staff of the right calibre are employed, particularly in key roles. Roles and responsibilities are clearly communicated to each member of staff within their 'Apportionment forms'. These forms are reviewed annually and updated if necessary.

The Board regularly reviews the Group's policies. The Group's Treasury function operates within a well-defined policy designed to manage the Group's liquidity arrangements and to manage its exposure to risks, such as interest rate risk and counterparty risk.

Our public interest disclosure (Whistleblowing) policy encourages employees to raise concerns about anything that they suspect is fraudulent, corrupt, dangerous or seriously

wrong. They can raise concerns on a confidential basis, enabling proportionate and independent investigation to be undertaken.

We thoroughly investigate any allegations of misconduct and irregularity and consider the implications for our control environment. Due to the nature of our business, we are subject to attempted fraud on a regular basis. Strict processes and controls mean that we are able to identify attacks and deal with them appropriately on a timely basis. We are continually looking at ways of making our clients' transactions with us more secure and have dedicated resource within the business whose focus is on managing fraud risk.

#### Group Risk Strategy

The Group Risk Strategy requires senior managers to identify, evaluate and manage risks in their business units. Regular meetings are held between department managers and the Chief Risk Officer to ensure that risk management remains high on the agenda of the business.

Target dates for resolution of issues are continually monitored. A summary of significant risks is provided within the Business Review.

Risk management processes within the Group accord with the 'Internal Control: Guidance to Directors' (formerly the Turnbull guidance), and are supported by reports from the Internal Audit function which include focus on significant risks faced by the Company.

#### **Management information**

Detailed packs of key information are circulated monthly to our senior management and Non-executive Directors. This includes key financial and operational performance indicators.

#### **Risk Committee**

The Risk Committee reports to the Board and the Audit Committee on the management of the major risks facing the Group as assessed against the Group's Risk Appetite.

#### **Remuneration policy**

Risk management is embedded into the Apportionment Forms of every employee and awareness and mitigation of the risks faced by the Company are key factors used to evaluate individual performance. This policy creates an environment which ensures excessive risk taking is not rewarded.

Employees also have the opportunity to invest in regular Save As You Earn share schemes as we believe that nothing will better encourage employees to look after the long-term future of the Company than being shareholders themselves. Similarly, exceptional performance by key employees and senior managers will be rewarded with the grant of executive share awards which we believe both incentivises and assists retention of key members of staff.

#### **Our values and culture**

Any system of internal control is dependent on the people operating it. 'Our Culture' defines what we expect from our people. We pride ourselves on the culture which exists within the Company. We have a 'one-firm' mentality which helps everyone take responsibility for the whole of the business. We have a saying "success comes from

putting the client first, Hargreaves Lansdown second and your department third." This engenders service levels which many other companies can only aspire to and ensures that the requirements of our clients are foremost in our employees' decision making process.

#### **Group Finance**

The Group Finance department manages our financial reporting processes to ensure the information which enables our Board to discharge its responsibilities is provided on a timely basis. It ensures cost controls are in place and that the business efficiently manages its resources. It also produces a financial forecast based on the strategic and operational plans of the business which is continuously reviewed to determine the likely year-end outcome and is used to plan and review regulatory capital requirements.

#### **Group Compliance**

Our Compliance function manages relationships with the Group's key regulators alongside identifying major compliance and regulatory risks. Our Money Laundering Reporting Officer (MLRO) forms part of the Compliance team and is responsible for ensuring we have suitable anti-money laundering (AML) procedures and controls. The MLRO is also responsible for ensuring adequate AML training for all staff. The MLRO specifically considers the risk of loss through financial crime and the controls in place to mitigate the risk of such loss.

#### **Internal Audit**

Our Internal Audit function reports to the Audit Committee on the effectiveness of key internal controls.

#### **External audit and regulatory supervision**

The majority of the activities of the Group, including the systems of business control, are subject to supervision by the Financial Conduct Authority. The Group is required on a regular basis to submit detailed prudential and statistical returns covering all areas of its business and meets regularly with its supervisors, conducting the relationship in an open and constructive manner.

In addition to the above, the Audit Committee also receives reports from our external auditor.

# Directors' report - other information

## The Directors' report and business review

Pages 1 to 44 inclusive of this Annual report consist of a Directors' report and business review that has been drawn up and presented in accordance with, and in reliance on, English company law. The liabilities of the Directors in connection with that Directors' report and business review shall be subject to the limitations and restrictions provided by the Companies Act 2006.

## Forward-looking statements

The Directors' report and business review is prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the Directors' report and business review includes forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. Consequently such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements and information.

## Principal Group Activities

Hargreaves Lansdown plc is the parent company of a group of companies which offers a range of investment products, investment services, financial planning and advice to private investors and advisory services to companies in respect of group pension schemes. Further details of the business activities are contained in the Business Review on pages 16 to 20.

The subsidiary undertakings of the Group during the year are listed in note 15 to the financial statements. The principal trading subsidiaries, Hargreaves Lansdown Asset Management Limited, Hargreaves Lansdown Stockbrokers Limited,

Hargreaves Lansdown Fund Managers Limited and Hargreaves Lansdown Advisory Services Limited, are authorised and regulated by the Financial Conduct Authority.

## Risk Management

Details of the Group's policy on risk management has been made in note 27 of the notes to the consolidated financial statements related to various financial instruments and exposure of the Group to financial, market, liquidity and credit risk.

## Directors' Interests

During the period covered by this report, no director had any material interest in a contract to which the Company or any of its subsidiary undertakings was a party other than their own service contract, requiring disclosure under the requirements of the Companies Act 2006 except in respect of the rental of the office premises at Kendal House as disclosed in note 26 to the financial statements.

The directors who held office at 30 June 2013 had the following interests (including beneficial interests) in the shares of the Company. These interests are exclusive of any interests under Share Options. Details of Share Options which have been granted to directors as at the date of this report pursuant to employee share schemes are set out in the Directors' Remuneration report. There have been no changes to the directors' interests in the shares of the Company since the year-end.

	Number and % of Ordinary Shares at 30 June 2013	Number and % of Ordinary Shares at 30 June 2012
<b>Non-executive directors</b>		
J Bloomer	15,625 (<0.01%)	15,625 (<0.01%)
C Barling	-	-
M Evans	15,625 (<0.01%)	15,625 (<0.01%)
S Lansdown <sup>(1)</sup>	-	95,500,000 (20.13%)
D Mistry	5,308 (<0.01%)	5,308 (<0.01%)
S Robertson	16,914 (<0.01%)	11,219 (<0.01%)
<b>Executive directors</b>		
I Gorham	282,628 (0.06%)	-
P Hargreaves	152,717,606 (32.20%)	152,717,606 (32.20%)
T Taylor	745,641 (0.16%)	745,641 (0.16%)
<b>Total</b>	<b>153,799,347 (32.43%)</b>	<b>249,011,024 (52.50%)</b>

(1) S Lansdown was no longer a non-executive director at 30 June 2013 and so his shareholding for the purposes of 'Directors Interests' is shown as nil.



## Substantial Shareholdings

As at the date of this report, the Company has not been notified of any changes in shareholdings amounting to more than 3% of the issued share capital of the Company, other than the directors' interests which are set out in the table above and the following shareholdings:

Interested Party	Date of notification	Number and % of Ordinary shares
Adam Norris	7 December 2012	13,708,675 (<3.00%)
Stephen Lansdown	24 April 2013	90,000,000 (18.97%)
BlackRock, Inc	25 April 2013	25,552,898 (5.39%)

## Beneficial owners of shares with 'information rights'

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Equiniti Registrars, or to the Group directly.

## Model Code

The Company has its own internal dealing rules which extend the FCA Listing Rules Model Code provisions to all employees.

## Supplier Payment Policy

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The Company has signed up to the Prompt Payment Code which is designed to promote best practice between organisations and their suppliers. Trade creditors of the Group at 30 June 2013 were equivalent to 18 (2012: 25) days' purchases, based on the average daily amount invoiced by suppliers during the year.

## Annual General Meeting

At the Annual General Meeting on 25 October 2013, the following two items of special business will be tabled:

- i) Authority to purchase own shares: The Company was granted authority at the AGM in 2012 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. This authority expires at this year's AGM and a special resolution will be proposed for its renewal.

The resolution enabling directors to allot unissued shares will be limited to the

allotment of shares up to a maximum nominal amount of £202,725.50, which represented the difference between the Company's authorised and issued share capital at 10 September 2013. The directors do not have any present intention of exercising such authority and the authority will expire at the conclusion of the next AGM after the passing of the proposed resolution.

- ii) Directors' authority to allot shares and waiver of pre-emption rights: Resolutions are to be proposed as special business at the AGM on 25 October 2013 to enable the directors to allot unissued shares and, subject to the limits therein contained, to allot shares for cash other than to existing shareholders in proportion to their shareholdings.

The resolution enabling the directors to allot shares other than to existing shareholders in proportion to their shareholdings is limited to the allotment of shares up to a maximum nominal value of £94,863.72, which represents 5% of the total ordinary share capital in issue as at 10 September 2013.

Both of these resolutions seek authorities which are in accordance with the current guidelines issued by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

PwC has expressed their willingness to accept appointment as auditor and a resolution to appoint them will be proposed at the forthcoming Annual General Meeting.

## Going concern

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The principal risks that the Group is challenged with have been set out on page 25 along with how the

Directors mitigate these risks in the current economic climate. The Group's business activities, financial position, cash flows, liquidity position, together with the factors likely to affect its future development, performance and position are set out in the Business Review. In addition, note 27 to the Financial Statements includes the Group's policy on capital management, its exposure to financial risks and its policies and processes to manage those risks.

The Group maintains on-going forecasts that indicate profitability in 2013/14 and beyond. Stress test scenarios are undertaken, the outcomes of which show that the Group has adequate capital resources for the foreseeable future even in extreme adverse economic conditions. The Group's business is highly cash generative with a low working capital requirement; indeed, the forecast cash flows show that the Group will remain highly liquid in the forthcoming financial year.

After reviewing the Group's financial forecasts including an assessment of regulatory and working capital, the Directors are confident that the Company and the Group have adequate financial resources available to continue in operational existence for the foreseeable future. The going concern basis has continued to be adopted in the preparation of the financial statements.

## Disclosure of information to 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 ought to 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.

By order of the Board  
**Judy Matthews**  
 Company Secretary  
 10 September 2013

# Directors' Remuneration Report



"Strong profits, growth in EPS, increased dividends and excellent client service achieved in a period of continued economic and regulatory uncertainty."

Dear Shareholder

2013 was again a year of excellent performance for Hargreaves Lansdown. The Remuneration Committee was delighted by the strong results of the Company delivered by the CEO and his executive team. Strong profits, growth in EPS, increased dividends and excellent client service were achieved in a period of continued economic and regulatory uncertainty. This has been reflected in very strong growth in the share price over the period. The Committee felt this warranted improved rewards as compared to last year.

## Objectives

The Remuneration Committee has worked to ensure that our approach to remuneration helps to motivate and retain our talented employees. We want our people to have a competitive remuneration package. Our incentives are aligned to the goals of our clients and reward the creation of value for our shareholders.

## Salaries

The base salaries of the CEO and one other Executive Director will remain unchanged with effect from 1 July 2013. The base salary of the CFO has not changed since 2008, before the Company entered the FTSE 100, and has now been increased to £350,000 to reflect the increased work and responsibility of a FTSE 100 Finance Director. In this report, unless otherwise specified, base salary means the reference base salary of an Executive Director before any salary sacrifice or exchange into pension or other benefits.

## Review of senior executive remuneration

Our remuneration policy has been very successful over many years. Having made considerable improvements to our policy this time last year, we are proposing only minor amendments to that policy going forward.

## Summary

We introduced a new Directors Share Option Plan and a Deferred Bonus Plan in the year ended 30 June 2012. We were delighted that the proposals received a 94.9% vote in favour at our AGM in November 2012. This year has seen the first awards made under the scheme.

We do not propose to alter our existing policy of lower than market base salaries and a strong focus on performance based pay for this year; however, we continually keep under review changes in the remuneration landscape and strive to both reward our people appropriately and ensure investor confidence remains high in our remuneration proposals.

## Jonathan Bloomer

Chairman of the Remuneration Committee  
10 September 2013

## Remuneration Report at a glance

This section of the report has not been audited.

### What are the principles of the Hargreaves Lansdown Remuneration Policy for Directors?

- Attract and retain Directors of the calibre needed to maintain the Group's position as a market leading financial services company.
- Reward Directors for enhancing shareholder value and acting in the long-term interests of the Company.
- A significant proportion of total remuneration should be performance-related.
- Pay moderate base salaries but give Directors the opportunity to earn performance-related bonuses for exceptional performance.
- Long-term retention is achieved through participation in long-term incentives and direct share ownership.
- Provide a modest defined contribution pension scheme with the opportunity for staff and directors to contribute more through salary and/or bonus sacrifice.

## How will Hargreaves Lansdown's pay its Directors for 2013/14?

Fixed remuneration	Remuneration that will vary with performance	
<b>Base Salary</b>	<b>Short-term - annual</b>	<b>Longer term – three years</b>
<b>Defined Contribution to Pension</b>	Annual Performance Bonus	Share Option Plan – 3 years
<b>Benefits in kind – life assurance and PHI</b>	<ul style="list-style-type: none"> <li>• 80% (decreased to 70% for 2014/15) of Performance Bonus paid as cash</li> <li>• 20% (increased to 30% for 2014/15) of Performance Bonus deferred awards (shares and/or cash)</li> <li>• Linked to Group financial and individual performance.</li> <li>• Cap on Directors' Performance Bonus pool of 5% of Profit Before Tax and individual cap on Performance Bonus for Executive Directors of 5 times base salary</li> </ul>	Performance tests measured over 3 years – <ul style="list-style-type: none"> <li>• Aggregate Net New Business</li> <li>• Aggregate Net New Clients, and</li> <li>• Average growth in EPS</li> </ul>

### What were the Executive Directors paid for the year ended 30 June 2013?

	Salary £'000	Benefits £'000	Performance bonuses £'000	Deferred performance bonuses £'000	2013 Total £'000	2012 Total £'000
Ian Gorham	413	-	1,350	150	1,913	1,641
Tracey Taylor	212	-	617	68	897	699
Peter Hargreaves	2	-	250		252	17
<b>Total Remuneration</b>	<b>627</b>	<b>-</b>	<b>2,217</b>	<b>218</b>	<b>3,062</b>	<b>2,356</b>

1 Prior to any entitlement to Performance Bonus arising, executive directors may opt to sacrifice part of their bonus for additional employer pension contributions or other benefits. Details of employer pension contributions are set out on page 53.

2 Ian Gorham had a reference base salary of £450,000 for the year. Under the Company's salary sacrifice arrangements, Mr Gorham opted to reduce his salary to £412,875 in exchange for additional employer pension contributions and other benefits in kind. Details of employer pension contributions are set out on page 53.

3 Tracey Taylor had a reference base salary of £250,000 for the year. Under the Company's salary sacrifice arrangements, Mrs Taylor opted to reduce her salary to £212,130 in exchange for additional employer pension contributions and other benefits in kind. Details of employer pension contributions are set out on page 53.

## Elements of the remuneration packages for Directors

Element	Objective	Policy to 30 June 2013	Policy to 30 June 2014
<b>Base Salary</b>	Reflect the scope and nature of the role.	Set below market median taking into account market data for comparable positions.	No change
<b>Annual Performance Bonus</b>	Reward the delivery of Hargreaves Lansdown's business strategy and each executive's contribution to the success of the Group.	Total annual Performance Bonus pool capped at a maximum of 5% of Profit Before Tax each year.  Formal clawback mechanism.	No change  No change  Individual cap for Executive Directors of 5 times base salary
<b>Deferral of annual Performance Bonuses</b>	Grow a shareholding in Hargreaves Lansdown and build alignment with shareholders.	Compulsory deferral of 10% (phased increase to 30% over three years) of annual Performance Bonus into deferred share awards and/or deferred cash awards.  The rights to exercise deferred awards will vest after 3 years if the individual remains employed by the Hargreaves Lansdown Group.  Unvested deferred awards may be subject to clawback.	Compulsory deferral of 20% (phased increase to 30% for 2014/15) of annual Performance Bonus into deferred share awards and/or deferred cash awards.  The rights to exercise deferred awards will vest after 3 years if the individual remains employed by the Hargreaves Lansdown Group.  Unvested deferred awards may be subject to clawback.
<b>LTIP - Share Option Plan</b>	Reward senior executives for growing the long-term value of the business.  Align the interests of senior executives with those of shareholders.	Annual awards of share options that will vest after 3 years, to the extent that performance tests are met.  Performance measured over a 3 year period.  Maximum award in 2012/13 to be 4 times base salary, (but usually substantially lower).  Unvested share options may be subject to clawback.	Annual awards of share options vesting after 3 years, to the extent that performance tests are met.  Performance measured over a 3 year period.  Maximum award in 2013/14 to be 4 times base salary (but usually substantially lower).  Unvested share options may be subject to clawback.
<b>Shareholding requirement</b>	Ensures interests of management and shareholders in the success of the Group are closely aligned.	200% of base salary. Directors with less than 6 years service will be required to hold a minimum of 100% of base salary.	No change.
<b>Pension</b>	To fund pension in retirement.	Defined contribution of 4% of base salary per annum made to pension fund.	No change.
<b>Benefits</b>	To ensure that dependants are provided for if a Director dies, or can no longer work.	Life assurance cover of three times base salary and permanent health insurance.	No change.
<b>Benefits</b>	Benefits under salary sacrifice arrangements.	Directors are entitled, in line with staff, to waive part of their reference salary for tax efficient benefits such as pension contributions, additional holiday, childcare vouchers and workplace parking.	No change

## Remuneration Report explained

### The work of the Remuneration Committee

The Corporate Governance statement on pages 34 to 42 contains information regarding the responsibilities of the Committee and its membership.

### Overview of the actions taken by the Remuneration Committee to discharge its duties:

During the 12 months to 30 June 2013 the Remuneration Committee has carried out the following:

- reviewed the Directors' Remuneration Report in the 2012 report, including the consideration of all feedback received from Institutional investors;
- reviewed the documentation provided at the Annual General Meeting to support the proposals for the new remuneration scheme;
- set the performance conditions for the Directors Share Option Plan;
- agreed the level of awards to be made to each Director for the year ended 30 June 2012 under the Directors Share Option Plan;
- reviewed base salary levels for the Directors;
- reviewed and agreed performance bonuses for the Directors; and
- reviewed and agreed the Remuneration Code Staff disclosure.

### Who may be asked to attend Remuneration Committee meetings?

In determining the Directors' remuneration and the remuneration structure for the current financial year, the Committee consulted Peter Hargreaves and Ian Gorham about its proposals, although no Director was involved in discussions regarding his own remuneration.

### Advisers

Following the introduction of a new remuneration scheme for Directors in 2013, advice in relation to the scheme was received in the period between the start of the year and the Annual General Meeting from:

TLT LLP: legal advice drafting the rules for the scheme and bonus deferral plan. They also provided employment law advice to the Group.

### Base Salary

Base salaries are normally reviewed annually and any changes are effective from 1 July each year. Historically Executive Directors' base salaries have been set well below the market median.

In reviewing base salaries the Remuneration Committee takes into account salaries elsewhere across the Group, relevant market data and information on remuneration practice in a comparator group of companies in the financial sector.

An increase was made to the base salary of Tracey Taylor; however no increases were made to the base salaries of the other Executive Directors as at 1 July 2013:

#### Base Salaries 2013/14

Ian Gorham	£450,000
Tracey Taylor	£350,000
Peter Hargreaves	£2,000

As mentioned previously, the base salary figures in the above table are the reference base salaries of the Executive Director before any salary sacrifice or exchange into pension or other benefits.

### Short-term incentives

#### Annual Performance Bonus

Directors may be paid a discretionary Performance Bonus for each financial year of the Company.

Performance Bonuses are determined based on performance in the year assessed against a number of key areas of performance.

Annual Performance Bonuses are non-pensionable.

Performance Bonuses will be materially affected if either the Group or an individual falls short of performance expectations. No Performance Bonus will be paid should the Committee consider it inappropriate.

#### Annual Performance Bonuses for 2012/13

2013 was again a year of excellent performance for Hargreaves Lansdown. The Remuneration Committee was delighted by the strong results of the Company delivered by the CEO and his executive team. The strong profits, growth in EPS,

### Criteria for Annual Performance Bonus:

#### Group performance

- Success in gathering profitable client assets
- Improving and maintaining long-term profitability
- Robustness, sustainability and scalability of operations
- Risk management
- Compliance
- Client satisfaction

#### Personal performance

- Setting direction
- Executing new initiatives
- Improving and protecting the client base
- Cost control
- Process improvement
- At least 3 role-specific objectives

increased dividends and excellent client service achieved in a period of continued economic and regulatory uncertainty were very pleasing. This has been reflected in very strong growth in the share price over the period. The Committee felt this warranted improved rewards as compared to last year.

The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders. The annual performance bonus pool available for Directors is based on a percentage of profit before tax. This percentage is not fixed in advance and as adopted at the Annual General Meeting in November 2012, the total annual performance bonus pool is capped at a maximum of 5% of Profit Before Tax for the year. The size of the bonus pool is determined having taken account of the results of the Company, particularly assessed against growth in Earnings Per Share (EPS). Due regard is also taken of unusual rises or falls in the markets which would artificially raise or lower the revenue and hence the profit of the Company in any given year. This year the bonus pool was set at 3.53% of Profit Before Tax. The Committee individually considers each Director's performance against his or her personal objectives, thus ensuring that payment is proposed only where performance merits an award. Given these controls, the success



of the Company in motivating and retaining Directors and historic restraint in bonus payments, the Committee believes retaining an appropriate level of discretion is in the best interests of the Company.

Performance Bonus awards may, at the discretion of the Remuneration Committee, be paid as cash and/or as additional employer pension contributions. The total Performance Bonuses awarded to Directors, as a percentage of base salary was 305% for the year (2012: 217%).

Over the previous three years, bonuses for Directors have ranged from nil to 463% of base salary, and from £nil to a value of £1,500,000.

The numbers shown exclude Peter Hargreaves. He is a founder of Hargreaves Lansdown and has agreed a low remuneration package with the Company which reflects his existing shareholding. His base salary of £2,000 for 2012/13 distorts the percentage.

The percentage of Profit Before Tax awarded as annual Bonuses in recent years is shown below.

#### Aggregate Bonuses awarded to Directors as a percentage of Profit Before Tax (PBT)

Year	% of PBT
2013	3.53%
2012	3.75%
2011	3.74%
2010	1.59%

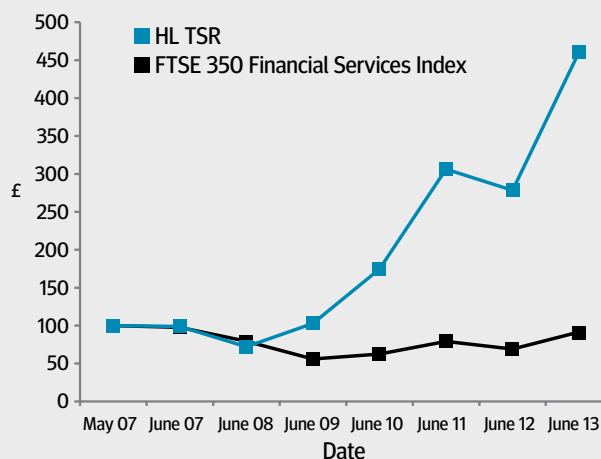
#### Individual cap on annual performance bonus from 2013/14

As disclosed in previous years, the Committee has not considered it appropriate to set a formal upper limit on individual discretionary awards, provided that the cumulative of all awards falls within the total annual performance bonus pool. However, in the light of feedback from shareholders, the Committee has decided that the annual performance bonus for Executive Directors will be capped at a maximum of five times base salary. This cap will not apply to Peter Hargreaves due to the nominal value of his base salary, although the value of his bonus in any year will not exceed that of the other executive directors.

#### Performance graphs

The following graph shows the Company's performance, measured by Total Shareholder Return (TSR) i.e. capital growth and dividends paid, compared with the performance of the FTSE 350 Financial Services Index during the period since flotation.

#### Total Shareholder Return

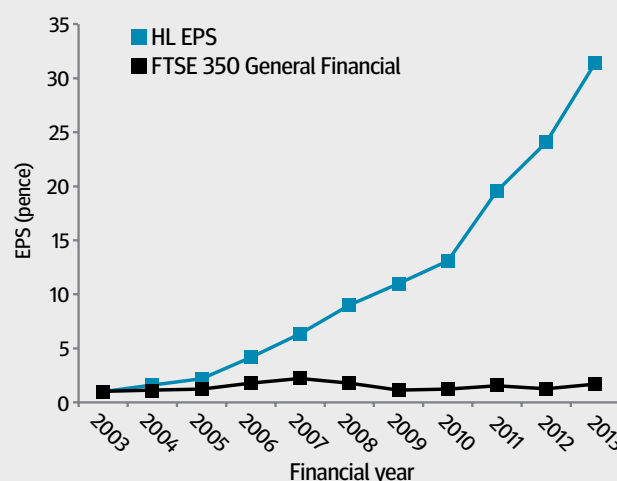


This graph shows the value of £100 invested in Hargreaves Lansdown plc shares on 15 May 2007 (admission to the Official List) compared to £100 invested in the FTSE 350 Financial Services Sector.

As the Company was not listed on a stock exchange prior to May 2007, a comparison of TSR prior to 15 May 2007 has not been possible due to the absence of a quoted share price.

The following graph shows the Company's performance measured using earnings per share (EPS) over the past ten years.

#### Growth in EPS



#### Deferral of annual Performance Bonuses

From this year onwards, we have simplified the way in which annual Performance Bonuses are deferred. In future 30% of all Performance Bonuses will be waived in favour of deferred awards.

The deferred awards will ordinarily be over shares on which dividends (or dividend equivalents) are earned. However, providing the Director satisfies

the minimum shareholding target with reference to base salary, the option is given for deferred awards to be in shares on which dividends (or dividend equivalents) are earned, in cash on which no interest will be earned, or a mixture of shares and cash. The right to exercise deferred awards will vest after three years provided the individual remains employed by the Hargreaves Lansdown Group.

As agreed at the Annual General Meeting in November 2012, we are phasing in the deferral for existing employees. For the year ended 30 June 2013, 10% of any annual Performance Bonus has been waived in favour of deferred awards. For the year ending 30 June 2014, 20% of any annual Performance Bonus will be deferred. With effect from the year ending 30 June 2015 and subsequent years, 30% of any annual Performance Bonus will be deferred.

### Longer Term incentives

#### Share Option Plan

Following approval at our AGM, we have introduced a new Share Option Plan under which regular grants will be made each year. Share Options will be granted at the market value at the time of grant.

The extent to which a number of performance tests are met over a period of three years will determine the proportion of the new share options that can be exercised by Directors.

The size of awards will be determined by reference to the base salary of the Executive Director at the time that the award is made and the maximum award that may be made for any one financial year is four times base salary. The Committee anticipates that the average award will be in the region of 2 – 2.5 times base salary.

For awards to be made in 2013/14 there will be three performance tests. One third of each set of option grants will depend on performance against each measure. The three performance tests will be:

#### Share Option grants

##### Performance measured over 3 years

- Aggregate Net New Business
- Aggregate Net New Clients
- Average Earnings per share (EPS) over period

##### Performance scale

- 25% vesting at threshold
- 100% vesting at maximum
- Straight line scale between performance and maximum

The Remuneration Committee will set the performance levels required for threshold and maximum vesting before making each grant of share options.

For those elements of the award that depend on Net New Business and Net New Clients, we are unable to disclose the tests as we regard the information as commercially sensitive. However, after the end of the three year performance period the Remuneration Committee commits to disclose the performance tests it has set and the extent to which they were met.

#### Awards made in 2012/13

The Remuneration Committee made awards under the Directors Share Option Plan on 31 December 2012. Each Director received an award of 60,000 share options (the face value of these awards being 92% of base salary for Ian Gorham and 165% of base salary for Tracey Taylor). These awards are well within the maximum levels permitted by the rules of the Plan. Performance conditions for the awards made under the Plan for the year ended 30 June 2012 were as follows, with the performance period commencing 1 July 2012:

For the initial operation of the Plan, the Performance Conditions applying to an Option were split into three parts. 1/3rd of the shares subject to the Option will vest by reference to an Earnings per Share (EPS) target, 1/3rd will vest by reference to a target based on the group's net new business inflows, and the remaining 1/3rd will vest by reference to the group's net new clients over the performance period. Each target will have a minimum and maximum target set by the Committee. 25% of the second part of the Option will vest if the minimum target is met rising to vesting in full of the second part of the Option if the maximum target is met or exceeded. For performance between the minimum and maximum targets, the vesting of the second part of the Option will be pro-rated on a straight line basis between 25% and 100%.

The precise targets for net new business inflows and net new clients are commercially sensitive and cannot be disclosed in full. For earnings per share, the targets are such that if the average undiluted basic EPS for each financial year in the Performance Period does not meet a minimum target of 31.0p, the first part of the Option will not vest. If the average EPS equals or exceeds a maximum target of 35.3p, the first part of the Option will vest in full. For EPS performance between the minimum and maximum

targets, the vesting of the first part of the Option will be pro-rated on a straight line basis between 25% and 100%.

The Committee will disclose the net new business inflows target and the net new clients target (and performance against those targets) in the first remuneration report of the Company following the end of the Performance Period.

#### Clawback from 2012/13

We have introduced formal clawback provisions on the deferred element of annual Performance Bonuses and unvested awards made under the new Share Option Plan from this year. In the event that any of the following arise (in the opinion of the Remuneration Committee):

- that there is later found to be a material mis-statement of the financial performance on which annual Performance Bonuses were based;
- a serious regulatory problem;
- that the Director, or an employee for which he is responsible, does or allows to be done, something which has a serious detrimental effect on the reputation of the Company;
- that the Director has not appropriately identified serious risks relevant to their business areas, and/or implemented appropriate controls for identified serious risks then the deferred awards, either bonus or unvested options, may be reduced in whole or in part at the discretion of the Remuneration Committee.

#### Shareholding requirements

Directors are required to accumulate minimum personal holdings in Hargreaves Lansdown plc shares. The Committee believes that the shareholding requirement aids retention and ensures that the interests of management and shareholders in the success of the Group are closely aligned.

Directors are required to hold a minimum shareholding in Hargreaves Lansdown of 200% of base salary. Directors with less than six years' service will be required to hold a minimum of 100% of base salary. Newly appointed Directors will be given up to three years to comply with this requirement.

**Executive Directors' current shareholdings as a percentage of base salary**

	2013 <sup>2</sup>	2012 <sup>1</sup>
Ian Gorham	684%	0%
Tracey Taylor	>1000%	>1000%
Peter Hargreaves	>1000%	>1000%

(1) Based on share price as at 30 June 2012 of 529p

(2) Based on share price as at 28 June 2013 of 888p

**SAYE and SIP**

The Directors are entitled to participate in the SAYE share option scheme and Share Incentive Plan (SIP) on the same terms as all other employees.

**Pension arrangements**

No Directors or staff participate in a defined benefit pension scheme. The Group operates its own Group Self Invested Personal Pension (the "GSIPP"). The GSIPP is non-contributory and allows staff to take more control of their pension planning. The Company contributes 4% of base salary to the scheme which applies to Directors and staff. Employees wishing to make personal contributions to the GSIPP can do so via 'salary exchange' or 'bonus waiver' ensuring that they benefit from the maximum, immediate relief from income tax and National Insurance. Staff and Directors may opt out of the scheme should they wish.

Other than salary, no other element of remuneration is pensionable.

**Benefits**

All staff and Directors are entitled to life assurance cover of three times their base salary and, subject to the rules of the scheme, permanent health insurance. The Directors may also receive certain limited benefits-in-kind.

**Executive Directors' contracts**

The Company's policy is that Executive Directors should have contracts with an indefinite term and a maximum of one year's notice. Accordingly, all Executive Directors currently have contracts which are subject to one year's notice by either party. The Company may at any time exercise its discretion to pay Executive Directors in lieu of the notice period. At 30 June 2013, the maximum contractual amount which may be payable to the Executive Directors under the payment in lieu of notice clauses is £802,000.

**The details of the Executive Directors' contracts are summarised in the table:**

Name of director	Contract date	Notice period
I Gorham	2 September 2010	12 months
P Hargreaves	5 April 2007	12 months
T Taylor	1 November 2008	12 months

Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

**Appointment as a non-executive Director of another company**

Hargreaves Lansdown recognises that its Executive Directors may be invited to become non-executive directors of other companies. Such non-executive duties can broaden experience and knowledge which can benefit the Company. Subject to approval by the Board, Executive Directors are allowed to accept non-executive appointments and retain the fees received, provided that these appointments are not likely to lead to conflicts of interest.

Peter Hargreaves currently receives fees of £45,000 p.a. in respect of his duties as a non-executive of ITM Power plc.

**How we fund share awards**

The Employee Benefit Trust (EBT) is well funded and holds sufficient market purchased shares to satisfy all share awards due to mature prior to September 2015.

A further 2,866,225 share options have been granted to staff and Directors which mature after this date and which are not hedged by shares held by the EBT. It is currently intended that these options and any granted under subsequent share-based awards, will be met by the issue of new shares within the limits agreed by shareholders and by shares purchased in the market by the EBT. The limits agreed with shareholders comply with the Association of British Insurers' guidelines restricting dilution from employee share plans. The overall limits under the guidelines are that no more than 10% of a Group's issued share capital may be used in any 10-year period. Within the 10% limit, up to 5% may be used for discretionary share plans. The Committee will review the hedging and dilution position of the Company prior to making grants of new share awards. Potential dilution as at 30 June 2013 was 0.6043%.

**Remuneration policy for non-executive directors****Non-executive directors' contracts**

The Company's policy is that non-executive Directors should have a fixed term contract with a three month notice period. Details of the non-executive Directors contracts for services are as follows:

Name	Commencement Date:	Notice Period	Notes
Michael Evans	1 September 2006	3 months	1
Jonathan Bloomer	18 September 2006	3 months	2
Chris Barling	26 August 2010	3 months	3
Dharmash Mistry	3 October 2011	3 months	
Stephen Robertson	3 October 2011	3 months	

1 Michael Evans' contract for the position of non-executive Chairman took effect from 1 December 2009

2 Jonathan Bloomer's three year contract was renewed for a further three years from 18 September 2012

3 Chris Barling's initial contract was renewed for a further three years on 26 August 2013

**Non-executive director fees paid in the year****Fees for 2012/13**

Michael Evans (Chairman)	£152,500 <sup>1</sup>
Jonathan Bloomer	£66,767 <sup>2</sup>
Stephen Lansdown	£14,454
Chris Barling	£42,500
Dharmash Mistry	£42,500
Stephen Robertson	£42,500

(1) Fees were increased to £152,500 in the year

(2) Fees were increased to £70,000 in the year

**Non-executive director fees**

All non-executive directors have specific terms of engagement, which are available for inspection, and their remuneration is determined by the Board within limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The fees include a fee for membership of the various committees. Details of the membership of the committees are given in the Corporate Governance Report on pages 34 to 42. Where a non-Executive Director chairs a committee, an additional fee is payable.

Non-executive directors cannot participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme.

Appointments are for a fixed term of three years from the commencement date unless terminated by either party on three months' written notice or by the Company at any time with immediate effect on payment in lieu of notice.

Non-executive directors are entitled to reimbursement of all reasonable and properly documented travel, hotel and other incidental expenses incurred in the performance of their duties and the Company maintains appropriate directors' and officers' liability insurance for their benefit.

## AUDITED INFORMATION

The following information is provided in respect of directors who served during the year ended 30 June 2013:

### Aggregate Executive Directors' remuneration

The total amounts for Executive Directors' remuneration were as follows:

	2013 £'000	2012 £'000
Emoluments	3,421	2,638
Pension contributions	94	112
Gains on exercise of share options	1,438	107
Amounts received under long-term incentive schemes	7,829	-
	12,782	2,857

### Executive Directors' pension contributions

Two directors were members of a money purchase scheme during 2013 (2012: 2). Contributions paid by the Company were:

	2013 £	2012 £
Ian Gorham	48,726	74,380
Tracey Taylor	45,611	38,119
	94,337	112,499

### Directors' emoluments

Name of director	Fees/ Basic salary £	Benefits in kind £	Cash performance bonuses £	Deferred performance bonuses £	2013 Total £	2012 Total £
<b>Current Executive directors</b>						
Ian Gorham	412,875	-	1,350,238	149,762	1,912,875	1,640,895
Tracey Taylor	212,130	138	616,500	68,500	897,268	698,867
Peter Hargreaves	2,250	-	250,000	-	252,250	16,574
	627,255	138	2,216,738	218,262	3,062,393	2,356,335
<b>Non- Executive directors</b>						
Michael Evans	152,500	-	-	-	152,500	91,458
Jonathan Bloomer	66,767	-	-	-	66,767	55,000
Chris Barling	42,500	-	-	-	42,500	41,458
Dharmash Mistry	42,500	-	-	-	42,500	31,875
Stephen Robertson	42,500	-	-	-	42,500	31,875
	346,767	-	-	-	346,767	251,667
<b>Former Non-Executive directors</b>						
Stephen Lansdown	11,954	-	-	-	11,954	30,000
	11,954	-	-	-	11,954	30,000
Aggregate emoluments	985,976	138	2,216,738	218,262	3,421,114	2,638,002



The Executive Directors who served during the year had interests in options to acquire shares or interests in jointly owned shares in Hargreaves Lansdown plc as follows:

Name of director	Type of scheme	At 1 July 2012	Exercised	Granted	Lapsed	At 30 June 2013	Exercise Price	Price at date of exercise <sup>1</sup>	Expiration Date	Date from which exercisable
I Gorham	Exec Scheme	10,569	10,569	-	-	-	£2.84	£8.59	Oct 2019	Oct 2012
	Exec Scheme	239,431	239,431	-	-	-	£2.84	£8.59	Oct 2019	Oct 2012
	Exec Scheme	500,000	-	-	-	500,000	£4.09	-	Sept 2020	Sept 2013
	Exec Scheme	800,000	-	-	-	800,000	£4.58	-	Oct 2020	Oct 2013
	JSOP	750,000	750,000	-	-	-	-	£4.47	Dec 2019	Dec 2012
	SAYE	4,109	-	-	-	4,109	£3.65	-	Mar 2022	Mar 2017
	2012 LTIP award	-	-	60,000	-	60,000	£6.87	-	Dec 2018	Jun 2015
T Taylor	Exec Scheme	15,355	-	-	-	15,355	£1.95	-	Mar 2019	Mar 2014
	SAYE	2,373	-	-	-	2,373	£1.75	-	Mar 2014	Oct 2013
	JSOP	1,000,000	1,000,000	-	-	-	-	£4.47	Dec 2019	Dec 2012
	SAYE	3,090	-	-	-	3,090	£3.65	-	Mar 2022	Mar 2017
	2012 LTIP award	-	-	60,000	-	60,000	£6.87	-	Dec 2018	Jun 2015

(1) In respect of the JSOP awards, price represents the amount the director received in respect of their interest in the jointly owned share.

Options granted under the share option and share incentive schemes prior to 30 June 2012 were not subject to performance criteria.

The closing market price of the ordinary 0.4 pence shares at 30 June 2012 was £8.88 and the range during the year to 30 June 2013 was £5.37 to £10.34.

### Compliance Statement

This report has been prepared in accordance with the Companies Act 2006, Statutory Instrument 2008/410 The Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations) and to meet the requirements of the UK Listing Authority's Listing Rules.

The Regulations require our external auditor to report to shareholders on the audited information within this report and to state whether, in their opinion, the relevant parts of the Report have been prepared in accordance with the Companies Act 2006. The audited information is clearly shown within the report.

As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company.

### Approval

This report in its entirety has been approved by the Remuneration Committee and the Board of Directors and signed on its behalf by

**Jonathan Bloomer**

Chairman of the Committee

# Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the directors must not approve the accounts 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**Ian Gorham**  
Chief Executive Officer  
10 September 2013

**Tracey Taylor**  
Chief Financial Officer  
10 September 2013

# Independent Auditor's Report

## to the Members of Hargreaves Lansdown plc

We have audited the financial statements of Hargreaves Lansdown plc for the year ended 30 June 2013 which comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial

statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2013 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly

prepared in accordance with the Companies Act 2006; and

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the Directors' Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Simon Cleveland (Senior statutory auditor) for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor  
Bristol, UK

10 September 2013

## 2013 Financial Statements

## Consolidated Income Statement

	Note	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Revenue</b>	4	<b>292,403</b>	238,741
<b>Total operating income</b>		<b>292,403</b>	238,741
Administrative expenses		(100,475)	(83,355)
FSCS costs *		532	(4,774)
<b>Operating profit</b>		<b>192,460</b>	150,612
Investment revenue	8	2,879	2,229
Other (losses)		(155)	(2)
<b>Profit before tax</b>		<b>195,184</b>	152,839
Tax	9	(46,195)	(39,520)
<b>Profit for the financial year</b>	6	<b>148,989</b>	113,319
<b>Attributable to:</b>			
Equity holders of the Company		148,391	112,960
Non-controlling interest		598	359
		<b>148,989</b>	113,319
<b>Earnings per share</b>			
Basic earnings per share (pence)	11	31.7	24.2
Diluted earnings per share (pence)	11	31.4	24.1

All income, profits and earnings are in respect of continuing operations.

\* FSCS costs are those relating to the levies issued under the Financial Services Compensation Scheme. For the year ended 30 June 2013 a refund was received relating to payments made in earlier years. Prior to the year ended 30 June 2012 these costs were included within administrative expenses.

## Consolidated and Company Statements of Comprehensive Income

	Group		Company	
	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Profit for the financial year</b>	<b>148,989</b>	113,319	<b>144,687</b>	109,378
<b>Other comprehensive income for the period:-</b>				
Items that may be classified subsequently to profit or loss:				
(Decrease)/Increase in fair value of available-for-sale investments	(160)	30	-	30
<b>Total comprehensive income for the financial year</b>	<b>148,829</b>	113,349	<b>144,687</b>	109,408
<b>Attributable to:-</b>				
Equity holders of the Company	148,231	112,990	144,687	109,408
Non-controlling interest	598	359	-	-
	<b>148,829</b>	113,349	<b>144,687</b>	109,408



## Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company							Non-controlling interest	Total equity
	Share capital £'000	Share premium account £'000	Investment revaluation reserve £'000	Capital redemption reserve £'000	Shares held by EBT reserve £'000	EBT reserve £'000	Retained earnings £'000		
<b>At 1 July 2011</b>	1,897	8	130	12	(16,529)	10,294	134,989	66	<b>130,867</b>
<b>Profit for the period</b>	-	-	-	-	-	-	112,960	359	<b>113,319</b>
<b>Other comprehensive income:-</b>									
Net fair value gains on available-for-sale assets	-	-	30	-	-	-	-	-	<b>30</b>
<b>Employee Benefit Trust:-</b>									
Shares sold in the year	-	-	-	-	2,500	-	-	-	<b>2,500</b>
EBT share sale net of tax	-	-	-	-	-	(280)	-	-	<b>(280)</b>
<b>Employee share option scheme:-</b>									
Share-based payments expense	-	-	-	-	-	-	2,136	-	<b>2,136</b>
Current tax effect of share based payments	-	-	-	-	-	-	4,636	-	<b>4,636</b>
Deferred tax effect of share-based payments	-	-	-	-	-	-	(5,617)	-	<b>(5,617)</b>
<b>Dividend paid</b>	-	-	-	-	-	-	(90,172)	-	<b>(90,172)</b>
<b>At 30 June 2012</b>	1,897	8	160	12	(14,029)	10,014	158,932	425	<b>157,419</b>
<b>Profit for the period</b>	-	-	-	-	-	-	148,391	598	<b>148,989</b>
<b>Other comprehensive income:-</b>									
Net fair value gains on available-for-sale assets	-	-	(160)	-	-	-	-	-	<b>(160)</b>
<b>Employee Benefit Trust:-</b>									
Shares sold in the year	-	-	-	-	4,343	-	-	-	<b>4,343</b>
Shares acquired in the year	-	-	-	-	(11,771)	-	-	-	<b>(11,771)</b>
EBT share sale net of tax	-	-	-	-	-	3,634	-	-	<b>3,634</b>
<b>Employee share option scheme:-</b>									
Share-based payments expense	-	-	-	-	-	-	2,386	-	<b>2,386</b>
Current tax effect of share based payments	-	-	-	-	-	-	482	-	<b>482</b>
Deferred tax effect of share-based payments	-	-	-	-	-	-	3,546	-	<b>3,546</b>
<b>Dividend paid</b>	-	-	-	-	-	-	(111,223)	(500)	<b>(111,723)</b>
<b>At 30 June 2013</b>	1,897	8	-	12	(21,457)	13,648	202,514	523	<b>197,145</b>

The share premium account represents the difference between the issue price and the nominal value of shares issued.

The investment revaluation reserve represents the change in fair value of available-for-sale investments held by the Group, net of deferred tax.

The capital redemption reserve relates to the repurchase and cancellation of the Company's own shares.

The Shares held by Employee Benefit Trust ("the EBT") reserve represents the cost of shares in Hargreaves Lansdown plc purchased in the market and held by the Hargreaves Lansdown plc Employee Benefit Trust to satisfy options under the Group's share option schemes.

The EBT reserve represents the cumulative gain on disposal of investments held by the Hargreaves Lansdown EBT. The reserve is not distributable by the Company as the assets and liabilities of the EBT are subject to management by the Trustees in accordance with the EBT trust deed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the minority's proportion of the net fair value of the assets and liabilities acquired at the date of the original business combination and the non-controlling interest's change in equity since that date. The non-controlling interest represents a 25% shareholding in Library Information Services Limited, a subsidiary of the Company.

## Company Statement of Changes in Equity

	Share capital £'000	Share premium account £'000	Investment revaluation reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
<b>At 1 July 2011</b>	1,897	8	147	12	69,262	<b>71,326</b>
<b>Profit for the period</b>	-	-	-	-	109,378	<b>109,378</b>
<b>Other comprehensive income:-</b>						
Net fair value gains on available-for-sale assets	-	-	30	-	-	<b>30</b>
<b>Dividend paid</b>	-	-	-	-	(90,172)	<b>(90,172)</b>
<b>At 30 June 2012</b>	1,897	8	177	12	88,468	<b>90,562</b>
<b>Profit for the period</b>	-	-	-	-	144,687	<b>144,687</b>
<b>Other comprehensive income:-</b>						
Net fair value gains on available-for-sale assets	-	-	(177)	-	-	<b>(177)</b>
<b>Dividend paid</b>	-	-	-	-	(111,223)	<b>(111,223)</b>
<b>At 30 June 2013</b>	1,897	8	-	12	121,931	<b>123,848</b>

The share premium account represents the difference between the issue price and the nominal value of shares issued.

The investment revaluation reserve represents the change in fair value of available-for-sale investments held by the Group, net of deferred tax.

The capital redemption reserve relates to the repurchase and cancellation of the Company's own shares.

## Consolidated and Company Balance Sheets

		Group		Company	
		At 30 June 2013 £'000	At 30 June 2012 £'000	At 30 June 2013 £'000	At 30 June 2012 £'000
	Note				
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill	12	1,333	1,333	-	-
Other intangible assets	13	686	168	-	-
Property, plant and equipment	14	9,737	5,792	-	-
Investments	16	-	-	2,152	2,152
Deferred tax assets	18	6,988	2,939	26	31
		18,744	10,232	2,178	2,183
<b>Current assets</b>					
Trade and other receivables	17	264,403	142,606	1,426	104
Cash and cash equivalents	17	197,566	157,719	120,359	105,196
Investments	16	613	2,228	-	1,657
Current tax assets		26	17	-	-
		462,608	302,570	121,785	106,957
<b>Total assets</b>		<b>481,352</b>	<b>312,802</b>	<b>123,963</b>	<b>109,140</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	19	259,945	136,952	105	18,452
Current tax liabilities		23,858	18,154	10	126
		283,803	155,106	115	18,578
<b>Net current assets</b>		<b>178,805</b>	<b>147,464</b>	<b>121,670</b>	<b>88,379</b>
<b>Non-current liabilities</b>					
Provisions	20	404	277	-	-
		404	277	-	-
<b>Total liabilities</b>		<b>284,207</b>	<b>155,383</b>	<b>115</b>	<b>18,578</b>
<b>Net assets</b>		<b>197,145</b>	<b>157,419</b>	<b>123,848</b>	<b>90,562</b>
<b>EQUITY</b>					
Share capital	21	1,897	1,897	1,897	1,897
Share premium account		8	8	8	8
Investment revaluation reserve		-	160	-	177
Capital redemption reserve		12	12	12	12
Shares held by Employee Benefit Trust reserve		(21,457)	(14,029)	-	-
EBT reserve		13,648	10,014	-	-
Retained earnings		202,514	158,932	121,931	88,468
<b>Total equity, attributable to equity shareholders of the parent</b>		<b>196,622</b>	<b>156,994</b>	<b>123,848</b>	<b>90,562</b>
Non-controlling interest		523	425	-	-
<b>Total equity</b>		<b>197,145</b>	<b>157,419</b>	<b>123,848</b>	<b>90,562</b>

The financial statements of Hargreaves Lansdown plc, registered number 02122142, were approved by the Board of directors and authorised for issue on 10 September 2013.

**Ian Gorham**                      **Tracey Taylor**  
Chief Executive Officer      Chief Financial Officer

## Statement of Cash Flows

		Group		Company	
	Note	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Net cash from operating activities, after tax</b>	22	<b>157,363</b>	122,549	<b>(19,824)</b>	18,570
<b>Investing activities</b>					
Interest received		2,769	2,158	790	388
Dividends received from investments		110	71	144,100	109,000
Proceeds on disposal of available-for-sale investments		1,434	42	1,320	-
Proceeds on disposal of plant and equipment		-	2	-	-
Purchase of property, plant and equipment		(5,301)	(998)	-	-
Purchase of intangible fixed assets		(915)	(104)	-	-
Purchase of available-for-sale investments		(97)	-	-	-
<b>Net cash (used)/from investing activities</b>		<b>(2,000)</b>	1,171	<b>146,210</b>	109,388
<b>Financing activities</b>					
Purchase of own shares in EBT		(11,771)	-	-	-
Proceeds on sale of own shares in EBT		7,978	2,220	-	-
Dividends paid		(111,723)	(90,172)	(111,223)	(90,172)
<b>Net cash used in financing activities</b>		<b>(115,516)</b>	(87,952)	<b>(111,223)</b>	(90,172)
<b>Net increase in cash and cash equivalents</b>		<b>39,847</b>	35,768	<b>15,163</b>	37,786
<b>Cash and cash equivalents at beginning of year</b>		<b>157,719</b>	121,951	<b>105,196</b>	67,410
<b>Cash and cash equivalents at end of year</b>		<b>197,566</b>	157,719	<b>120,359</b>	105,196

# Notes to the Financial Statements

## 1. General information

Hargreaves Lansdown plc (the “Company”) is a company incorporated in the United Kingdom under the Companies Act 2006 whose shares are publicly traded on the London Stock Exchange. The address of the registered office is One College Square South, Anchor Road, Bristol BS1 5HL, United Kingdom. The nature of the Group’s operations and its principal activities are set out in the Business Review.

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates.

### Basis of preparation

The consolidated financial statements of Hargreaves Lansdown plc have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together “IFRS”) as adopted by the European Union. The Company’s financial statements have been prepared on the same basis and as permitted by Section 408 of the Companies Act 2006, no income statement is presented for the Company. The Company’s profit after tax for the year was £144,686,825 (2012: £109,378,295).

In the current year, the following new and revised Standards and Interpretations have been adopted and have had no impact on these financial statements.

- Amendments to IAS 1 “Presentation of items of other comprehensive income”

The Group has applied the amendments to IAS 1. The amendment increases the required level of disclosure within the statement of comprehensive income. The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change.

In the current year, the following new and revised Standards and Interpretations have been adopted and have had no impact on these financial statements.

- Amendments to IAS 19 “Employee benefits”

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not yet been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IAS 12 “Deferred Tax: Recovery of Underlying Assets”
- Amendments to IFRS 7 “Financial Instruments Disclosures”
- IFRS 9 “Financial Instruments”
- IFRS 10 “Consolidated financial statements”
- IFRS 11 “Joint arrangements”
- IFRS 12 “Disclosure of interests in other entities”
- IAS 27 “Separate financial statements”
- IAS 28 “Investments in associates and joint ventures”
- IFRS 13 “Fair value measurement”
- Improvements 2011 – “Annual Improvements to IFRSs: 2009-2011 Cycle”

Other than to expand certain disclosures within the financial statements, the directors do not expect that the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the Group in future periods.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below.



# Notes to the Financial Statements

## 2. Significant accounting policies

Accounting policies as shown below have been consistently applied throughout the current and prior financial year.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June 2013. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Group and Company financial statements are prepared on a going concern basis as discussed on page 44.

### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the acquisition date.

Any gains or losses on sale of the Company's own shares held by the Hargreaves Lansdown Employee Benefit Trust ("EBT") are credited directly to the EBT reserve and are treated as undistributable profits.

### Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate, or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS on 1 July 2005 has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 30 June 1997 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is primarily classified as either recurring, transactional or other. Recurring revenue principally comprises the revenue streams of renewal income, management fees and interest income on client money, while transactional revenue principally comprises initial commission on stockbroking transactions. Revenue is recognised as follows:

***Recurring***

Renewal income is earned from fund management groups and is recognised on an accruals basis calculated according to the level of assets under the administration, or agency, of the Group. Management fees are paid by clients and are recognised on an accruals basis calculated according to the level of certain assets where fees apply. The interest income on client money balances is the net interest margin earned by the Group and is accrued on a time basis, according to the client money balances under administration and by reference to the effective interest rate applicable.

***Transactional***

The Group's stockbroking and unit trust management subsidiaries earn commission on securities transactions entered into on behalf of clients. The commission earned is recorded in the accounts on the date of the transaction, as this is the date on which the service is provided to the client and the Group becomes entitled to the income.

The Group also earns initial commission from third party providers on the set up of group pension schemes. Initial commissions are deemed to be earned at the policy inception date on those policies where there are only negligible ongoing services. Where ongoing services are provided, an appropriate proportion of the income is deferred over the relevant period. Where such commission is received on an indemnity basis, a provision is made for clawbacks, if any, which would be due if the policy lapses during the indemnity period.

***Other***

Principally represents the amount of fees receivable from the provision of funds library services, and is recognised on an accruals basis.

**Investment revenue recognition**

Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Operating profit**

Operating profit is stated before investment revenue and finance costs.

**Retirement benefit costs**

The Group operates a group self-invested personal pension plan for staff. Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

**Bonuses payable to employees**

The Group recognises a liability and an expense for staff bonuses where contractually obliged or where there is a past practice.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are recognised for future committed property lease payments when the Group receives no benefit from the property through continuing usage and future receipts from any sub-letting arrangements are not in excess of the Group's future committed payments.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

# Notes to the Financial Statements

## 2. Significant accounting policies (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments to all grants of equity instruments after 7 November 2002 that were unvested at 1 July 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Prior to 15 May 2007 the Company's shares were not listed on a stock exchange and therefore, in the absence of a readily available market price for the shares, the share price was based on the market value agreed with HM Revenue & Customs and share price volatility was estimated as the average of the volatility applying to a comparable group of listed companies.

### Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided, where material, on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly using a straight-line method over its estimated useful life as follows:

#### *Fixtures, fittings, plant and equipment:*

Leasehold property tenants' fixtures	over the life of the lease
IT, office equipment and other fixtures	over 3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### Intangible assets excluding goodwill

Other intangible assets comprise computer software and the Group's key operating system which are stated at cost less amortisation and any recognised impairment loss. Amortisation is provided, where material, on all intangible fixed assets excluding goodwill at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly using a straight-line method over its estimated useful life as follows:

Computer software:	over 3 to 4 years
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The carrying values of computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

### Internally generated assets

IT development costs are capitalised only to the extent that they lead to the creation of an enduring asset, which delivers benefits at least

as great as the amount capitalised. Development work has been undertaken in-house to enhance the key operating systems. Whereas previously this cost was not material and was recognised as an expense, the amounts are now more material and hence the costs are being capitalised as an intangible asset and subsequently depreciated over the estimated useful life of the system. Where such costs relate to an asset that is not yet available for use by the business, they have been separately classified as assets under construction and have not been amortised, but instead been reviewed for impairment.

#### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

#### **Dividend recognition**

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid, or if earlier, in the accounting period when the dividend is approved by the Company's shareholders at the Annual General Meeting.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

##### *Trade receivables*

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties are included as debtors. Market debtors and creditors are presented net where there is a legal right of offset.

##### *Investments*

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time-frame established by the market concerned, and are initially measured at cost, including transaction costs.

The Group's available-for-sale investments have been included at fair value where a fair value can be reliably calculated, with the revaluation gains and losses reflected in the investment revaluation reserve, as shown in the Consolidated Statement of Changes in Equity on page 59, until sale when the cumulative gain or loss is transferred to the income statement. If a fair value cannot be reliably calculated by reference to a quoted market price or other method of valuation, available-for-sale investments are included at cost where the directors believe that cost is not materially different to fair value, with a fair value adjustment recognised upon disposal of the investment.

Investments which are designated as being held at fair value through profit or loss are carried at fair value, being the quoted market price of the listed investment, with any gain or loss reported within the income statement. An investment is classified in this category if it is held principally for the purpose of selling in the short term.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Included within cash balances are amounts held on client settlement accounts as shown in note 17.

##### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

##### *Trade payables*

Trade payables are measured at fair value which is equivalent to amortised cost. In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties are included as creditors. Market debtors and creditors are presented net where there is a legal right of offset.

## Notes to the Financial Statements

### 3. Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The areas where a higher degree of judgement or complexity arise, or areas where assumptions and estimates are significant to the consolidated financial statements, are minimal and discussed below.

#### Share-based payments

In determining the fair value of equity-settled share-based awards and the related charge to the income statement, the Group makes assumptions about the future events and market conditions. In particular, judgement must be formed as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on future estimates, including the Group's future dividend policy, the timing with which the options will be exercised and the future volatility in the price of the Group's shares. Different assumptions about these factors to those made by the Group could materially affect the reported value of share-based payments.

### 4. Revenue

Revenue represents commission receivable from financial services provided to clients, interest income on settlement accounts and management fees charged to clients. It relates to services provided in the UK and is stated net of value added tax. An analysis of the Group's revenue is as follows:

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Revenue from services:-</b>		
Recurring income	<b>233,008</b>	192,609
Transactional income	<b>53,371</b>	42,479
Other income	<b>6,024</b>	3,653
<b>Total operating income</b>	<b>292,403</b>	238,741
Investment revenues (Note 8)	<b>2,879</b>	2,229
<b>Total revenue</b>	<b>295,282</b>	240,970

Recurring income principally comprises renewal income, management fees and interest income on client money. Transactional income principally comprises commission earned from stockbroking transactions. Other income principally represents the amount of fees receivable from the provision of funds library services. The policies adopted for the recognition of each significant revenue stream are set out in note 2 above.

### 5. Segment information

The Group is organised into three business segments, namely the Vantage Division, the Discretionary Division and the Third Party/Other Services Division. This is based upon the Group's internal organisation and management structure and is the primary way in which the Chief Operating Decision Maker (CODM) is provided with financial information. The CODM has been identified as the Board of Executive Directors.

The 'Vantage' division represents all activities relating to the Vantage service, our direct to private investor platform.

The 'Discretionary/Managed' division is focused on the provision of managed services such as our Portfolio Management Service (PMS) and range of Multi-Manager funds.



## 5. Segment information (continued)

The 'Third Party/Other Services' division includes activities relating to the broking of third party investments and pensions, certificated share dealing and other niche services such as currency, CFD's and spread betting. In this division, clients' investments are not administered within the Group.

The 'Group' segment contains items that are shared by the Group as a whole and cannot be reasonably allocated to other operating segments.

Segment expenses are those that are directly attributable to a segment together with the relevant portion of other expenses that can reasonably be allocated to the segment. Gains or losses on the disposal of available-for-sale investments, investment income, interest payable and tax are not allocated by segment.

Segment assets and liabilities include items that are directly attributable to a segment plus an allocation on a reasonable basis of shared items. Corporate assets and liabilities are not included in business segments and are thus unallocated. At 30 June 2013 and 2012, these comprise cash and cash equivalents, short-term investments, tax-related and other assets or liabilities.

Consolidation adjustments relate to the elimination of inter-segment revenues, balances and investments in group subsidiaries required on consolidation.

	Vantage £'000	Discretionary/ Managed £'000	Third Party/ Other Services £'000	Group £'000	Consolidation Adjustment £'000	Consolidated £'000
<b>Year ended 30 June 2013</b>						
Revenue from external customers	227,204	34,140	31,059	-	-	<b>292,403</b>
Inter-segment revenue	-	4,889	-	-	(4,889)	-
Total segment revenue	227,204	39,029	31,059	-	(4,886)	<b>292,403</b>
Depreciation and amortisation	1,243	183	289	-	-	<b>1,715</b>
Investment revenue	-	-	-	2,879	-	<b>2,879</b>
Other losses	-	-	-	(155)	-	<b>(155)</b>
Reportable segment profit before tax	150,230	23,154	19,135	2,665	-	<b>195,184</b>
Reportable segment assets	257,234	20,124	18,072	203,747	(17,825)	<b>481,352</b>
Reportable segment liabilities	(219,475)	(17,473)	(14,360)	(48,572)	15,673	<b>(284,207)</b>
Net segment assets	37,759	2,651	3,712	155,175	(2,152)	<b>197,145</b>
<b>Year ended 30 June 2012</b>						
Revenue from external customers	185,731	27,260	25,718	32	-	<b>238,741</b>
Inter-segment revenue	-	3,796	-	-	(3,796)	-
Total segment revenue	185,731	31,056	25,718	32	(3,796)	<b>238,741</b>
Depreciation and amortisation	1,719	264	432	-	-	<b>2,415</b>
Investment revenue	-	-	-	2,229	-	<b>2,229</b>
Other losses	-	-	-	(2)	-	<b>(2)</b>
Reportable segment profit before tax	118,236	18,367	14,611	1,625	-	<b>152,839</b>
Reportable segment assets	133,036	10,495	14,612	161,883	(7,225)	<b>312,802</b>
Reportable segment liabilities	(99,380)	(7,883)	(13,018)	(40,176)	5,074	<b>(155,383)</b>
Net segment assets	33,656	2,612	1,594	121,707	(2,152)	<b>157,419</b>

### Information about products/services

The Group's operating segments are business units that provide different products and services. The breakdown of revenue from external customers for each type of service is therefore the same as the segmental analysis above.

### Information about geographical area

All business activities are located within the UK.

### Information about major customers

The Group does not rely on any individual customer.

## Notes to the Financial Statements

### 6. Profit for the financial year

Profit for the year has been arrived at after charging:

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Depreciation of owned plant and equipment	1,352	2,186
Amortisation of other intangible assets	363	229
Operating lease rentals payable – property	2,412	2,638
Staff costs (Note 7)	50,265	43,471

The analysis of auditor remuneration is as follows:

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Audit fees:</b>		
Fees payable for the audit of the Company's annual accounts	5	5
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	88	85
Fees payable for the review of the Company's half-yearly financial report	10	10
Other audit related assurance services	13	13
<b>Non-audit fees:</b>		
Other non-audit services	-	31
<b>Total fees:</b>	<b>116</b>	<b>144</b>

### 7. Staff costs

The average monthly number of employees of the Group (including executive directors) was:

	Year ended 30 June 2013 No.	Year ended 30 June 2012 No.
Operating and support functions	524	474
Administrative functions	207	183
	<b>731</b>	<b>657</b>

Of which the following number were employed by the parent company:

Administrative functions	3	3
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Their aggregate remuneration comprised:

	£'000	£'000
Wages and salaries	38,195	34,244
Social security costs	6,304	4,056
Share-based payment expenses	2,386	2,136
Other pension costs	3,380	3,035
	<b>50,265</b>	<b>43,471</b>

The Group aims to attract, motivate and retain high calibre employees by rewarding them with competitive salary and benefit packages, which may be linked to the creation of long-term shareholder value. Salary ranges are established by reference to those prevailing in the employment market generally for employees of comparable status, responsibility and skills. All employees are eligible to be considered for an annual discretionary bonus. In addition to cash bonuses, the Group operates various share-based remuneration schemes as described in note 24. Other pension costs relate wholly to defined contribution schemes.

## 8. Investment revenue

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Interest on bank deposits	2,769	2,158
Dividends from equity investment	110	71
	2,879	2,229

## 9. Tax

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Current tax	46,698	39,959
Deferred tax (Note 18)	(503)	(439)
	46,195	39,520

Corporation tax is calculated at 23.75% of the estimated assessable profit for the year to 30 June 2013 (2012: 25.5%).

In addition to the amount charged to the income statement, certain tax amounts have been charged or credited directly to equity as follows:

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Deferred tax relating to share-based payments	(3,546)	5,617
Current tax relating to share-based payments	(482)	(4,636)
	(4,028)	981

### Factors affecting tax charge for the year

It is expected that the ongoing effective tax rate will remain at a rate approximating to the standard UK corporation tax rate in the medium term. The standard UK corporation tax rate was reduced to 23% (from 24%) on 1 April 2013. Deferred tax has been recognised at 23%, being the rate in force at the balance sheet date. A deferred tax asset in respect of future share option deductions has been recognised based on the Company's share price as at 30 June 2013.

### Factors affecting future tax charge

Any increase or decrease to the Company's share price will impact the amount of tax deduction available in future years on the value of shares acquired by staff under share incentive schemes. The Finance Act 2013 received Royal Assent on 17 July 2013 and will reduce the standard rate of UK corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015. The reduction to 21% will reduce the deferred tax assets shown in note 18 by an estimated £449,000; this will be recognised in the financial statements for the year ended 30 June 2014.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Profit before tax from continuing operations	195,184	152,839
Theoretical tax charge	46,358	38,976
-at the UK corporation tax rate of	23.75%	25.5%
Items (allowable)/not allowable for tax	(148)	397
Effect of adjustments relating to prior year	(107)	7
Impact of the change in tax rate	92	140
<b>Tax expense for the year</b>	<b>46,195</b>	<b>39,520</b>
<b>Effective tax rate</b>	<b>23.7%</b>	<b>25.9%</b>

## Notes to the Financial Statements

### 10. Dividends

Amounts recognised as distributions to equity holders in the period:

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
2012 Final dividend of 10.65p (2011: 8.41p) per share	49,756	38,947
2012 Final special dividend of 6.84p (2011: 5.96p) per share	31,956	27,601
2013 First interim dividend of 6.3p (2012: 5.1p) per share	29,511	23,624

After the balance sheet date, the directors declared a second interim (final) ordinary dividend of 14.38 pence per share and a special dividend of 8.91 pence per share payable on 27 September 2013 to shareholders on the register on 13 September 2013. Dividends are required to be recognised in the financial statements when paid, and accordingly the declared dividend amounts are not recognised in these financial statements, but will be included in the 2014 financial statements as follows:

	£'000
2013 Second interim (final) dividend of 14.38p per share	67,355
2013 Special dividend of 8.91p per share	41,734

Under an arrangement dated 30 June 1997 the Hargreaves Lansdown Employee Benefit Trust, which held the following number of ordinary shares in Hargreaves Lansdown plc at the date shown, has agreed to waive all dividends.

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Number of shares held by the Hargreaves Lansdown Employee Benefit Trust	5,923,930	7,263,396
Representing % of called-up share capital	1.25%	1.53%

### 11. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in free issue during the period, including ordinary shares held in the EBT reserve which have vested unconditionally with employees.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The weighted average number of anti-dilutive share options and awards excluded from the calculation of diluted earnings per share was 320,210 at 30 June 2012 (2012: 2,806,402).

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Earnings (all from continuing operations):</b>	<b>£'000</b>	<b>£'000</b>
Earnings for the purposes of basic & diluted EPS - net profit attributable to equity holders of parent company	148,391	112,960
<b>Number of shares:</b>	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for the purposes of diluted EPS	471,923,756	469,424,156
Weighted average number of shares held by HL EBT which have not vested unconditionally with employees	(3,981,223)	(2,304,199)
<b>Weighted average number of ordinary shares for the purposes of basic EPS</b>	<b>467,942,533</b>	<b>467,119,957</b>
<b>Earnings per share:</b>	<b>Pence</b>	<b>Pence</b>
Basic EPS	31.7	24.2
Diluted EPS	31.4	24.1

## 12. Goodwill - Group

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Cost</b>		
At beginning and end of year	1,450	1,450
<b>Accumulated impairment losses</b>		
At beginning and end of year	117	117
<b>Carrying amount</b>		
At end of year	1,333	1,333

The net carrying value of goodwill relates entirely to the acquisition of Hargreaves Lansdown Pensions Direct Limited (HLPD). During the year as part of a restructuring exercise, HLPD changed its name to Hargreaves Lansdown Advisory Services Limited (HLAS). From 1 January 2013 advisory services previously provided by Hargreaves Lansdown Asset Management Limited (HLAM), including those in respect of the Portfolio Management Service, are now provided by HLAS. Certain administration services previously provided by HLAS are now provided by HLAM. The overall impact to the group is nil but the impact on HLAS is that it will have less revenue and profits than previously.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The Group has prepared financial forecasts for the business for the period to June 2016 which show that the Group as a whole will remain highly profitable and cash generative. Within the forecast, the revenue streams which belong to HLAS, although lower than before the restructuring, are forecast to grow and the company will continue to be profitable. HLAS is profit making (profit before tax for year ended 30 June 2013 was £44.9 million) and has a net assets position as at 30 June 2013 of £23.2 million, therefore the directors see no reason to impair the value of goodwill and continue to hold it at its carrying amount.

## 13. Other intangible assets - Group

	Assets under construction £'000	Computer software £'000	Total £'000
<b>Cost</b>			
At 1 July 2011	-	2,680	2,680
Additions	-	104	104
Other movements	-	(8)	(8)
At 30 June 2012	-	2,776	2,776
Additions	249	666	915
Other movements	-	(476)	(476)
At 30 June 2013	249	2,966	3,215
<b>Accumulated amortisation</b>			
At 1 July 2011	-	2,384	2,384
Charge	-	229	229
Other movements	-	(5)	(5)
At 30 June 2012	-	2,608	2,608
Charge	-	363	363
Other movements	-	(442)	(442)
At 30 June 2013	-	2,529	2,529
<b>Carrying amount</b>			
At 30 June 2013	249	437	686
At 30 June 2012	-	168	168

Other movements relate to assets that are no longer in use by the Group.



## Notes to the Financial Statements

### 14. Property, plant and equipment

#### Fixtures, fittings, plant and equipment:

	Group £'000	Company £'000
<b>Cost</b>		
At 1 July 2011	14,218	70
Additions	998	-
Other movements	(199)	-
At 30 June 2012	15,017	70
Additions	5,301	-
Other movements	(1,197)	(70)
At 30 June 2013	19,121	-
<b>Accumulated depreciation</b>		
At 30 June 2011	7,238	700
Charge	2,186	-
Other movements	(199)	(630)
At 30 June 2012	9,225	70
Charge	1,352	-
Other movements	(1,193)	(70)
At 30 June 2013	9,384	-
<b>Carrying amount</b>		
At 30 June 2013	9,737	-
At 30 June 2012	5,792	-

Other movements relate to assets that are no longer in use.

### 15. Subsidiaries

A list of the investments in subsidiaries, all of which are incorporated in the UK and included in the consolidated results of Hargreaves Lansdown Plc, is shown below:

**Hargreaves Lansdown Asset Management Ltd (100% shares held)**  
Unit trust equity broking, investment fund management, life and pensions consultancy

**Hargreaves Lansdown Stockbrokers Ltd (100% shares held)**  
Stockbroking

**Hargreaves Lansdown Fund Managers Ltd (100% shares held)**  
Unit trust management

**Hargreaves Lansdown Advisory Services Ltd (formerly Hargreaves Lansdown Pensions Direct - 100% shares held)**  
Advisory services

**Hargreaves Lansdown Nominees Ltd (100% shares held)**  
Nominee services

**Hargreaves Lansdown Insurance Brokers Ltd (100% shares held)**  
Dormant company

**Hargreaves Lansdown Investment Management Ltd (100% shares held)**  
Dormant company

**Hargreaves Lansdown Pensions Ltd (100% shares held)**  
Dormant company

**Library Information Services Ltd (75% shares held)**  
Data provider

**Hargreaves Lansdown EBT Trustees Ltd (100% shares held)**  
Trustee of the Employee Benefit Trust

**Hargreaves Lansdown Trustee Company Ltd (100% shares held)**  
Trustee of the Share Incentive Plan

**Hargreaves Lansdown Pensions Trustees Ltd (100% shares held)**  
Dormant company

**Hargreaves Lansdown IT & Administration Services Ltd (100% shares held)** – Dormant company

## 16. Investments

### Group's investments

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
At beginning of year	2,228	2,240
Sales	(1,712)	(42)
Purchases	97	-
Net increase in the value of available-for-sale investments	-	30
At end of year	613	2,228
<b>Comprising:</b>		
Current asset investment - UK listed securities valued at quoted market price	349	1,487
Current asset investment - Unlisted securities valued at cost	264	741

£349,000 (2012: £308,000) of investments are classified as held at fair value through profit and loss and £264,000 (2012: £1,920,000) are classified as available-for-sale. Available-for-sale investments have been included at fair value where a fair value can be reliably calculated, with the revaluation gains and losses reflected in the investment revaluation reserve as shown in the Consolidated Statement of Changes in Equity, until sale when the cumulative gain or loss is transferred to the income statement. If a fair value cannot be reliably calculated by reference to a quoted market price or other method of valuation, available-for-sale investments are included at cost where the directors believe that this is not significantly different to fair value, with a fair value adjustment recognised upon disposal of the investment.

### Company's investments

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
At beginning of year	3,809	3,778
Sales	(1,657)	-
Net increase in the value of available-for-sale investments	-	30
At end of year	2,152	3,809
<b>Comprising:</b>		
Current asset investment - UK listed securities valued at quoted market price	-	1,179
Current asset investment - Unlisted securities valued at cost	-	478
Non-current investments - Investments in subsidiaries valued at cost less impairment	2,152	2,152

No investments are classified as available-for-sale (2012: £1,657,000). Available-for-sale investments have been included at fair value where a fair value can be reliably calculated, with the revaluation gains and losses reflected in the investment revaluation reserve in the Consolidated Statement of Changes in Equity, until sale when the cumulative gain or loss is transferred to the income statement. If a fair value cannot be reliably calculated by reference to a quoted market price or other method of valuation, available-for-sale investments are included at cost where the directors believe that this is not significantly different to fair value, with a fair value adjustment recognised upon disposal of the investment.

## Notes to the Financial Statements

### 17. Other financial assets

	Group		Company	
	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Trade and other receivables</b>				
Amounts receivable from subsidiaries and EBT	-	-	1,150	32
Trade receivables	229,885	105,654	-	-
Other receivables	962	91	-	-
Prepayments and accrued income	33,556	36,861	276	72
	<b>264,403</b>	<b>142,606</b>	<b>1,426</b>	<b>104</b>
<b>Cash and cash equivalents</b>				
Restricted cash – client settlement account balances	19,812	12,644	-	-
Restricted cash – balances held by EBT	37	2,695	-	-
Group cash and cash equivalent balances	177,717	142,380	120,359	105,196
	<b>197,566</b>	<b>157,719</b>	<b>120,359</b>	<b>105,196</b>

Trade and other receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties are included in debtors. Trade receivables include £211.4 million (2012: £93.4 million) of counterparty balances.

Cash and cash equivalents comprise cash held by the Group and institutional cash funds with near-instant access. Included in cash and cash equivalents are amounts of cash held on client settlement accounts as shown above.

At 30 June 2013 segregated deposit amounts held by the Group on behalf of clients in accordance with the client money rules of the Financial Conduct Authority amounted to £3,561 million (2012: £2,922 million). The client retains the beneficial interest in these deposits and accordingly they are not included in the balance sheet of the Group.

### 18. Deferred tax

The following are the major deferred tax assets recognised and movements thereon during the current and prior reporting years. Deferred tax has been recognised at 23%, being the rate in force at the balance sheet date. The Finance Act 2013 reduces the standard UK corporation tax rate to 21% from 1 April 2014 and 20% from 1 April 2015 which will reduce the deferred tax assets and liabilities shown below.

	Accelerated tax depreciation £'000	Future relief on capital losses £'000	Share-based payments £'000	Other deductible temporary differences £'000	Total £'000
<b>Group</b>					
At 1 July 2011	583	-	6,734	800	8,117
Credit to income	67	22	45	305	439
Charge to equity	-	-	(5,617)	-	(5,617)
At 30 June 2012	650	22	1,162	1,105	2,939
(Charge)/credit to income	(203)	(22)	465	263	503
Credit to equity	-	-	3,546	-	3,546
At 30 June 2013	447	-	5,173	1,368	6,988
<b>Company</b>					
At 1 July 2011	26	-	-	12	38
Charge to income	(6)	-	-	(1)	(7)
At 30 June 2012	20	-	-	11	31
Charge to income	(5)	-	-	-	(5)
At 30 June 2013	15	-	-	11	26

## 19. Other financial liabilities

### Trade and other payables – current payables

	Group		Company	
	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Amounts payable to subsidiaries	-	-	15	18,355
Trade payables	231,192	107,206	-	-
Social security and other taxes	10,063	7,615	4	4
Other payables	7,311	7,806	27	25
Accruals and deferred income	11,379	14,325	59	68
	259,945	136,952	105	18,452

In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties are included in creditors. Trade payables include £230.0 million (2012: £105.6 million) of counterparty balances. Accruals and deferred income principally comprise amounts outstanding for trade purchases and revenue received but not yet earned on group pension schemes where an ongoing service is still being provided. Other payables principally comprise amounts owed to clients as a loyalty bonus and to staff as a bonus.

## 20. Provisions - Group

	Commission on indemnity terms £'000	Property costs £'000	Total £'000
<b>Included within non-current liabilities:</b>			
At 1 July 2011	-	59	59
Charged during the year	-	218	218
At 30 June 2012	-	277	277
Charged during the year	127	-	127
At 30 June 2013	127	277	404

The indemnity provision represents management's best estimate of the Group's liability to repay commission received on indemnity terms. The provision was based on past experience and the volume of indemnified commission.

The provision on property related costs represents the Group's future committed lease payments on non-cancellable leases and other contractual obligations that arise on the surrendering of operating leases. These property provisions are not expected to be fully utilised until 2026.

## 21. Share capital

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Authorised:</b>		
525,000,000 ordinary shares of 0.4p each	2,100	2,100
<b>Issued and fully paid:</b>		
Ordinary shares of 0.4p each	1,897	1,897
	<b>No. of shares</b>	<b>No. of shares</b>
<b>Issued and fully paid:</b>		
Number of ordinary shares of 0.4p each	474,318,625	474,318,625

The company has one class of ordinary shares which carry no right to fixed income.

## Notes to the Financial Statements

### 22. Notes to the consolidated cash flow statement

	Group		Company	
	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Profit for the year after tax</b>	<b>148,989</b>	113,319	<b>144,687</b>	109,378
<b>Adjustments for:</b>				
Investment revenues	(2,879)	(2,158)	(144,890)	(109,388)
Other (losses)/gains	-	(71)	159	-
Income tax expense	46,195	39,520	144	134
Depreciation of plant and equipment	1,352	2,186	-	-
Amortisation of intangible assets	363	229	-	-
Loss on disposal	155	2	-	-
Share-based payment expense	2,386	2,136	-	-
Increase in provisions	127	218	-	-
<b>Operating cash flows before movements in working capital</b>	<b>196,688</b>	155,381	<b>100</b>	124
(Increase)/decrease in receivables	(121,797)	33,572	(1,321)	164
Increase/(decrease) in payables	122,993	(30,487)	(18,347)	18,399
<b>Operating cash flows</b>	<b>197,884</b>	158,466	<b>(19,568)</b>	18,687
Income taxes paid	(40,521)	(35,917)	(256)	(117)
<b>Net cash from/(used in) operating activities, after tax</b>	<b>157,363</b>	122,549	<b>(19,824)</b>	18,570

### 23. Commitments

#### Operating lease commitments – The Group as lessee

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Minimum lease payments under operating lease recognised as an expense in the year	2,412	2,638
At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under the remaining term of non-cancellable operating leases, which fall due as follows:		
Within one year	2,896	2,896
In the second to fifth years inclusive	11,349	11,454
After five years	22,976	25,767
<b>Total minimum lease payments</b>	<b>37,221</b>	40,117

Operating lease payments represent rentals payable by the Group for its office properties. The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation values and renewal rights.

#### VAT group registration

As a result of group registration for VAT purposes, the Company is contingently liable for VAT liabilities arising in other companies within the VAT group which at 30 June 2013 amounted to £380,000 (2012: £188,000).

#### Capital commitments

At the balance sheet date, the Group had capital commitments of £1,385,000 for IT server equipment (2012: £nil).



## 24. Share-based payments

### Equity-settled share option scheme

The Group seeks to facilitate significant equity ownership by employees, principally through schemes which encourage and assist the purchase of the Company's shares.

The Group operates four share option plans: the Employee Savings-Related Share Option Scheme ("SAYE"), the Hargreaves Lansdown plc Share Incentive Plan ("SIP"), the Hargreaves Lansdown Company Share Option Scheme (the "Executive Option Scheme") and the Hargreaves Lansdown Joint Share Ownership Plan ("JSOP"). Awards granted under the Employee SAYE scheme vest over five years. Awards granted under the Employee Share Incentive Plan vest over a three-year period.

Awards granted under the Executive Option Scheme vest between nil and ten years. Options are exercisable at a price equal to the market value of the Company's shares on the date of grant. There are currently no performance conditions attached to any options granted under any of the schemes, although options are forfeited (in most circumstances) if the employee leaves the Group before the options vest.

Interests in shares purchased under the JSOP were settled at under market value, with tax and National Insurance being paid on the difference. The shares must be held for a minimum of three years under the terms of the Deeds and are realisable in only very limited circumstances before that date. There are no performance conditions attached to the shares.

The recognition and measurement principles in IFRS 2 have been applied to all grants after 7 November 2002 which had not vested by 1 July 2005. They have not been applied to any grants made prior to 7 November 2002.

Details of the share options outstanding during the year are as follows:

	Year ended 30 June 2013		Year ended 30 June 2012	
	Share options No.	Weighted average exercise price Pence	Share options No.	Weighted average exercise price Pence
<b>SIP</b>				
Outstanding at beginning of the year	182,635	23.5	685,575	23.5
Exercised during the year	(82,723)	23.5	(502,940)	23.5
Outstanding at the end of the year	99,912	23.5	182,635	23.5
Exercisable at the end of the year	99,912	23.5	182,635	23.5
<b>SAYE</b>				
Outstanding at beginning of the year	1,444,992	306.2	4,844,858	97.6
Granted during the year	115,701	868.0	665,352	365.0
Exercised during the year	(14,547)	193.9	(3,919,734)	55.1
Forfeited during the year	(89,060)	359.1	(145,484)	392.4
Outstanding at the end of the year	1,457,086	348.6	1,444,992	306.2
Exercisable at the end of the year	5,820	276.9	12,509	219.4
<b>Executive Option Scheme</b>				
Outstanding at beginning of the year	5,900,053	417.4	4,660,641	406.3
Granted during the year	1,093,500	669.9	1,309,999	449.0
Exercised during the year	(463,995)	319.5	(30,710)	195.4
Forfeited during the year	(75,818)	401.6	(39,877)	328.7
Outstanding at the end of the year	6,453,740	467.4	5,900,053	417.4
Exercisable at the end of the year	15,355	195.4	198,640	374.3
<b>JSOP</b>				
Outstanding at beginning of the year	2,750,000	-	2,750,000	-
Exercised during the year	(2,416,666)	-	-	-
Outstanding at the end of the year	333,334	-	2,750,000	-
Exercisable at the end of the year	333,334	-	-	-

The weighted average market share price at the date of exercise for options exercised during the year was 737.89 pence (2012: 518.87pence).

## Notes to the Financial Statements

### 24. Share-based payments (continued)

The share options outstanding at the end of each year have exercise prices and expected remaining lives as follows:

	Year ended 30 June 2013		Year ended 30 June 2012	
	Share options No	Weighted average exercise price Pence	Share options No	Weighted average exercise price Pence
<b>Options exercise price range (pence)</b>				
23.5	99,912	0 years	182,635	0 years
175.0	317,769	0.3 years	337,038	1.3 years
195.4	690,975	0.8 years	721,685	1.8 years
268.3	312,896	1.7 years	340,194	2.7 years
268.8	333,334	0 years	2,750,000	0.4 years
283.8	-	0 years	250,000	0.3 years
347.2	203,680	1.7 years	262,320	2.7 years
365.0	622,295	3.7 years	661,292	4.7 years
388.8	982,365	2.2 years	1,127,442	3.2 years
409.8	500,000	0.2 years	500,000	1.2 years
441.3	200,000	1.7 years	200,000	2.7 years
447.6	400,000	1.2 years	400,000	2.2 years
451.9	645,523	3.2 years	700,909	4.2 years
458.0	800,000	0.3 years	800,000	1.3 years
477.1	91,858	2.7 years	106,467	3.7 years
595.0	212,897	2.7 years	212,897	3.7 years
606.3	724,800	0.9 years	724,800	1.9 years
631.5	493,500	4.3 years	-	-
687.0	540,000	2.3 years	-	-
831.0	60,000	4.6 years	-	-
868.0	112,267	4.7 years	-	-
	<b>8,344,071</b>	<b>1.8 years</b>	<b>10,277,679</b>	<b>1.9 years</b>

## 24. Share-based payments (continued)

The fair value at the date of grant of options awarded during the year ended 30 June 2013 and the year ended 30 June 2012 has been estimated by the Black-Scholes methodology and the principal assumptions required by the methodology were as follows:

	At 30 June 2013	At 30 June 2012
Weighted average share price	<b>761.84p</b>	479.97p
Expected dividend yields	<b>4.13%</b>	4.99%
<b>SAYE</b>		
Weighted average exercise price	<b>868.00p</b>	365.00p
Expected volatility	<b>63%</b>	50%
Risk-free rate	<b>2.50%</b>	2.50%
Expected life	<b>5 years</b>	5 years
<b>Executive scheme</b>		
Weighted average exercise price	<b>669.85p</b>	449.41p
Expected volatility	<b>63%</b>	39%
Risk-free rate	<b>2.50%</b>	2.50%
Expected life	<b>4 years</b>	4 years

### The expected volatility

The expected Hargreaves Lansdown Plc share price volatility was determined by calculating the historical volatility of the Group's share price since flotation in May 2007.

Prior to 15 May 2007 the Company's shares were not listed on a stock exchange and therefore no readily available market price existed for the shares. The share price of share option awards granted prior to 15 May 2007 were based on the latest market value agreed with HM Revenue & Customs using an earnings multiples approach based on comparable quoted companies. Similarly, share price volatility was estimated as the average of the volatility experienced by a comparable group of quoted companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Since 15 May 2007, a quoted market price has been available for the Company's shares.

The Group recognised total expenses related to equity-settled share-based payment transactions as shown in note 7.

## 25. Events after balance sheet date

On 4 September 2013 the Directors proposed a second interim (final) ordinary dividend payment of 14.38 pence per ordinary share and a special dividend of 8.91 pence per ordinary share, payable on 27 September 2013 to all shareholders on the register at the close of business on 13 September 2013 as detailed in note 10.

## 26. Related party transactions

The Plc Company has a related party relationship with its subsidiaries, and with its directors and members of the Executive Committee (the "key management personnel"). Transactions between the Company and its key management personnel are disclosed below. Details of transactions between the Company and other related parties are also disclosed below.

### Trading transactions

The Company entered into the following transactions with directors within the Hargreaves Lansdown Group and related parties who are not members of the Group:

During the years ended 30 June 2013 and 30 June 2012 the Company has been party to a lease with P K Hargreaves, a current director and S P Lansdown, a director until 23 November 2012, for rental of the old head office premises at Kendal House. A ten-year lease was signed on 6 April 2011 for a rental of part of the building, to be used for disaster recovery purposes at a rent of £105,000 per annum. No amount was outstanding at either year-end. Shortly before the year-end P K Hargreaves bought out the 50% ownership in Kendal House held by S P Lansdown.

## Notes to the Financial Statements

### 26. Related party transactions (continued)

During the years ended 30 June 2013 and 30 June 2012 the Group has provided a range of investment services to shareholders, directors and staff on normal third party business terms.

#### Remuneration of key management personnel

The remuneration of the key management personnel of the Group being those personnel who were either a member of the Board of a Group company or a member of the Executive Committee during the relevant year shown below, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Short-term employee benefits	11,035	9,165
Defined contribution pension costs	416	420
Share-based payments	1,528	1,540
Gains on exercise of share options	1,438	947
Amounts received under long-term incentive schemes	11,364	-
	25,781	12,072

Included within the previous table are the following amounts paid to directors of the Company who served during the relevant year. Full details of directors' remuneration are shown in the Remuneration Committee report.

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Wages and salaries	4,471	3,022
Defined pension contributions	94	112
Share-based payments	733	912
Gains on exercise of share options	1,438	107
Amounts received under long-term incentive schemes	7,829	-
	14,566	4,153
Emoluments of the highest paid director	2,836	1,896
Number of directors who were members of money purchase pension schemes	2	2

Transactions between subsidiaries and between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The parent Company, Hargreaves Lansdown plc, entered into the following transactions with subsidiaries and the Employee Benefit Trust, which are related parties.

	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
Dividends received from subsidiaries	142,600	109,000
Management charges to subsidiaries	718	720
Amount owed to related parties at 30 June	15	32
Amounts owed by related parties at 30 June	1,150	18,355

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received in respect of amounts outstanding. No provisions have been made for doubtful debts in respect of the amounts owed by the related parties.

## 27. Financial instruments

### Fair value

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values. Market values have been used to determine the fair values of cash and cash equivalents, and available-for-sale financial assets where there is a quoted market price. Investments in equity instruments which do not have a quoted market price in an active market or whose fair value cannot be reliably measured are measured at cost which the directors believe is not significantly different to fair value.

### Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

Level 1 - Fair value measured using unadjusted quoted market prices

Level 2 - Fair value measured using inputs derived from observable market data

Level 3 - Fair value measured using valuation techniques that include inputs that are not based on observable market data

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>At 30 June 2013</b>				
Financial assets at fair value through profit or loss	349	-	-	<b>349</b>
Available-for-sale financial assets	-	-	264	<b>264</b>
	<b>349</b>	<b>-</b>	<b>264</b>	<b>613</b>
<b>At 30 June 2012</b>				
Financial assets at fair value through profit or loss	308	-	-	<b>308</b>
Available-for-sale financial assets	1,179	-	741	<b>1,920</b>
	<b>1,487</b>	<b>-</b>	<b>741</b>	<b>2,228</b>

There were no transfers between Level 1 and Level 2 during the year. The reduction in value of Level 3 financial assets relates to a single disposal of an investment held at a cost of £477,000, which was disposed of for £142,000, giving rise to a loss on disposal of £335,000 which was charged to the income statement within "other losses".

### Nature and extent of risks arising from financial instruments

#### (a) Financial risk management

Financial assets principally comprise trade and other receivables, cash and cash equivalents, and current asset listed and unlisted investments. Financial liabilities comprise certain provisions and trade and other payables. The main risks arising from financial instruments are market risk (including interest rate risk, foreign exchange risk and price risk), liquidity risk, and credit risk. Each of these risks is discussed in detail below.

The Group monitors financial risks on a consolidated basis. Hargreaves Lansdown's financial risk management is based upon sound economic objectives and good corporate practice. No hedging transactions have taken place during the years presented. The Group has designed a framework to manage the risks of its business and to ensure that the Directors have in place risk management practices appropriate to a listed company. The management of risk within the Group is governed by the Board.

#### (b) Market risk

##### • Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest-bearing assets. There is an exposure to interest rates on banking deposits held in the ordinary course of business. At 30 June 2013 the value of financial instruments on the Group balance sheet exposed to interest rate risk was £197,566,000 (2012: £157,719,000) comprising cash and cash equivalents. A 100bps (1%) move in interest rates, in isolation, would not have a material impact on the Group balance sheet or results. This exposure is continually monitored to ensure that the Group is maximising its interest earning potential within accepted liquidity and credit constraints. The Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are also made for varying periods of between one day and 13 months depending on the immediate cash requirements of the Group and earn interest at the respective fixed term deposit rates. As a source of revenue is based on the value of client cash under administration, the Group has an indirect exposure to interest rate risk on cash balances held for clients. These balances are not on the Group balance sheet.

##### • Foreign exchange translation and transaction risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates. With substantially all of the Group's businesses located within the UK, and therefore with minimal net assets and transactions of the Group denominated in foreign currencies, the Group is not exposed to significant foreign exchange translation or transaction risk and as such does not hedge any foreign current assets or liabilities. The Group deals in foreign currencies on a matched basis on behalf of clients, limiting foreign exchange exposure.

## Notes to the Financial Statements

### 27. Financial instruments (continued)

- Price risk**

Price risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group as a result of an asset not meeting its expected value.

The Group is exposed to price risk on corporate investments held on the Group balance sheet. At 30 June 2013, the fair value of investments recognised on the Group balance sheet was £613,000 (2012: £2,228,000). A 20% move in equity prices, in isolation, would not have a material impact on the Group balance sheet or results.

As a main source of revenue is based on the value of client assets under administration, the Group has an indirect exposure to security price risk on investments held for clients. These assets are not on the Group balance sheet. The risk of lower revenues is partially mitigated by asset class diversification. The Group does not hedge its revenue exposure to movements in the value of client assets arising from these risks, and so the interests of the Group are aligned to those of its clients.

In addition, the Group acts as a private client investment manager, unit trust manager and agency stockbroker on a matched basis so its exposure to market price movements in this capacity is limited to when there is a trade mismatch or error, or if one matched counterparty fails to fulfil its obligations. The impact of these risks is minimised by limits and monitoring controls.

#### (c) Liquidity risk

The Group is exposed to liquidity risk, namely the risk that it may be unable to meet its payment obligations as they fall due. The Group is highly cash generative and holds significant liquid assets. The Group actively maintains cash balances on short-term deposit to ensure that the Group has sufficient available funds for operations.

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Group based on the remaining period to the contractual maturity date at the balance sheet date.

	0-3 months £'000	3-6 months £'000	6-12 months £'000	Over 1 year £'000	Total £'000
<b>At 30 June 2013</b>					
<i>Trade and other payables:</i>					
Trade payables	231,192	-	-	-	<b>231,192</b>
Social security and other taxes	8,491	476	224	872	<b>10,063</b>
Other payables	7,310	-	-	-	<b>7,310</b>
Accruals and deferred income	4,193	-	-	-	<b>4,193</b>
	251,186	476	224	872	<b>252,758</b>
Current tax	12,700	11,158	-	-	<b>23,858</b>
Long-term provisions	128	-	-	276	<b>404</b>
<b>Total financial liability exposed to liquidity risk</b>	<b>264,014</b>	<b>11,634</b>	<b>224</b>	<b>1,148</b>	<b>277,020</b>
<b>At 30 June 2012</b>					
<i>Trade and other payables:</i>					
Trade payables	107,206	-	-	-	<b>107,206</b>
Social security and other taxes	7,352	15	-	248	<b>7,615</b>
Other payables	7,806	-	-	-	<b>7,806</b>
Accruals and deferred income	10,016	-	-	1,800	<b>11,816</b>
	132,380	15	-	2,048	<b>134,443</b>
Current tax	8,800	9,354	-	-	<b>18,154</b>
Long-term provisions	1	-	-	276	<b>277</b>
<b>Total financial liability exposed to liquidity risk</b>	<b>141,181</b>	<b>9,369</b>	<b>-</b>	<b>2,324</b>	<b>152,874</b>



**(d) Credit risk**

The Group has no significant concentration of credit risk as credit exposure is spread over a large number of counterparties and customers.

Within the Group's Stockbroking operation, the Group is exposed to credit risk from counterparties to a securities transaction during the period between the trade date and the settlement date. This period is generally three business days. The Group has credit exposure that extends beyond the original settlement date if the counterparty fails either to make payment or to deliver securities. These transactions are with financial institutions and clients. Settlement risk is substantially mitigated as a result of the delivery versus payment mechanism whereby, if a counterparty fails to make payment, the securities would not be delivered to the counterparty. In that instance, the securities could be sold in the market and therefore the economic substance of the transaction is that securities serve as collateral in the case of delivery versus payment trade debtors. As a result, the risk exposure is effectively to an adverse movement in market prices between the time of trade and settlement.

Other credit risk within the Group is primarily attributable to its trade receivables and the majority represents balances due from other regulated financial institutions where there is an ongoing relationship between the Group and institution. Credit risk is therefore considered to be limited. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Cash is held with UK banks. The credit risk on liquid funds is limited because the counterparties are banks with strong credit-ratings assigned by international credit-rating agencies and since November 2008 the banks consist of certain eligible banks under the UK Government Credit Guarantee Scheme. The Group takes a conservative approach to treasury management and selection of banking counterparties, and carries out regular reviews of all its banks' and custodians' credit ratings.

The following table discloses the Group's maximum exposure to credit risk on financial assets:

	At 30 June 2013 £'000	At 30 June 2012 £'000
<b>Receivables at cost:</b>		
Cash and cash equivalents	197,566	157,719
Trade and other receivables	264,403	142,606
<b>Financial assets at fair value through profit or loss:</b>		
Financial investments	349	308
<b>Available-for-sale financial assets:</b>		
Financial investments	264	1,920
	<b>462,582</b>	<b>302,553</b>

The following table contains an analysis of financial assets that are past due but not impaired at the balance sheet date. An asset is past due when the counterparty has failed to make a payment when contractually due.

## Notes to the Financial Statements

### 27. Financial instruments (continued)

	Neither impaired nor past due £'000	0-3 months past due £'000	3-6 months past due £'000	6-12 months past due £'000	Over 12 months past due £'000	Total £'000
<b>At 30 June 2013</b>						
Trade and other receivables:						
Trade receivables	227,450	2,039	244	107	45	229,885
Other receivables	962	-	-	-	-	962
Prepayments and accrued income	33,556	-	-	-	-	33,556
	261,968	2,039	244	107	45	264,403
Held-for-trading assets	349	-	-	-	-	349
Available-for-sale assets	264	-	-	-	-	264
	262,581	2,039	244	107	45	265,016
<b>At 30 June 2012</b>						
Trade and other receivables:						
Trade receivables	104,587	828	89	60	73	105,637
Other receivables	107	-	-	-	1	108
Prepayments and accrued income	36,861	-	-	-	-	36,861
	141,555	828	89	60	74	142,606
Held-for-trading assets	308	-	-	-	-	308
Available-for-sale assets	1,920	-	-	-	-	1,920
	143,783	828	89	60	74	144,834

The table overleaf shows the credit quality of financial assets that are neither past due nor impaired using the following counterparty gradings:

- Financial institutions**

In respect of trade receivables, £13.6 million (2012: £6.2 million) is due from financial institutions regulated by the FCA in the course of settlement as a result of daily trading and £15.6 million (2012: £11.0 million) relates to revenue items due from financial institutions regulated by the FCA.

For prepayments and accrued income, the balance predominantly relates to accrued interest due from financial institutions regulated by the FCA on own and client cash balances.

- Corporate clients**

Prepayments relating to businesses other than financial institutions, mainly purchase suppliers.

- Individuals**

In respect of trade receivables, the balance is related to amounts due from individual clients in the course of settlement as a result of daily trading.

In respect of prepayments and accrued income, the balance includes management fees and charges due from clients.

	Financial institutions £'000	Corporate clients £'000	Individuals £'000	Total £'000
<b>At 30 June 2013</b>				
Trade receivables	29,268	73	198,109	227,450
Other receivables	962	-	-	962
Prepayments and accrued income	28,180	3,757	1,619	33,556
Held-for-trading assets	349	-	-	349
Available-for-sale assets	264	-	-	264
	59,023	3,830	199,728	262,581
<b>At 30 June 2012</b>				
Trade receivables	17,042	80	87,465	104,587
Other receivables	108	-	-	108
Prepayments and accrued income	31,909	2,689	2,263	36,861
Held-for-trading assets	308	-	-	308
Available-for-sale assets	1,920	-	-	1,920
	51,286	2,769	89,728	143,783

The disclosures for financial instruments in the above tables of note 27 to the financial statements have only been made in respect of the Group. They have not been made in respect of the Company as the only significant financial instruments held by the Company are cash and cash equivalents as shown in note 17.

### Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 30 June 2013 was £197.1 million (2012: £157.4 million) and this capital is managed via the net assets to which it relates.

Regulatory capital is determined in accordance with the requirements of the Capital Requirements Directive prescribed in the UK by the Financial Conduct Authority ("FCA"), and the Group's regulatory capital is divided into two tiers:

-Tier 1 capital, which is the total of issued share capital, retained earnings and reserves created by appropriations of retained earnings, net of the book value of goodwill and other intangible assets; and

- Tier 2 capital, which is unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

The Group's objectives when managing capital are i) to comply with the regulatory capital requirements set by the FCA; ii) to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and iii) to maintain a strong capital base to support the development of its business.

All regulated entities within the Group are required to meet the Pillar 1 regulatory Capital Resources Requirements (CRR) set out in the Capital Requirements Directive (the "Directive"). The CRR is the higher of i) the fixed overhead requirement and ii) the sum of the credit risk capital requirement and the market risk capital requirement.

The Group is also required to comply with the requirements of the Directive under Pillar 2 (Operational Risk) and Pillar 3 (Disclosure) in respect of the Group's regulatory capital requirements. The Directive requires continual assessment of the Group's risks in order to ensure that the higher of Pillar 1 and 2 requirements is met, the objective being to ensure that the regulated firms have adequate capital to enable them to manage their risks. The Group completes its assessment of regulatory capital requirements using its Individual Capital Adequacy Assessment Process ("ICAAP") under Pillar 2, which is a forward looking exercise that includes stress testing on major risks, such as a significant market downturn, and identifying mitigating action. The ICAAP covers current as well as projected capital requirements, and is used to manage regulatory capital. Under the requirements of Pillar 3, the Group is required to disclose regulatory capital information, and has done so by making the disclosures available in the Group's website at <http://www.hl.co.uk/investor-relations/pillar-3-disclosures>.

All of the regulated firms maintained surplus regulated capital throughout the year. The aggregated regulatory Pillar 1 capital surplus across the four regulated subsidiaries was approximately £47.1 million at 30 June 2013 (2012: £43.8 million). The regulated subsidiaries are limited in the distributions that can be paid up to the parent by their individual capital requirements. Capital adequacy and the use of regulatory capital are monitored by the Group's management.

# Directors, Company Secretary, Advisers and Shareholder Information

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## **Executive Directors**

Ian Gorham  
Peter Hargreaves  
Tracey Taylor

## **Non-Executive Directors**

Chris Barling  
Jonathan Bloomer  
Michael Evans  
Dharmash Mistry  
Stephen Robertson

## **Company Secretary**

Judy Matthews

## **Auditor**

Deloitte LLP, Bristol

## **Solicitors**

Burges Salmon LLP, Bristol

## **Principal Bankers**

Lloyds TSB Bank plc, Bristol

## **Brokers**

Barclays  
Numis Securities Limited

## **Registrars**

Equiniti Limited

## **Registered Office**

One College Square South  
Anchor Road  
Bristol  
BS1 5HL

## **Website**

[www.hl.co.uk](http://www.hl.co.uk)

## **Company Number**

02122142

# Five Year Summary

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
<b>Revenue</b>	<b>292,403</b>	<b>238,741</b>	<b>207,904</b>	<b>158,970</b>	<b>132,845</b>
Administrative expenses	(100,475)	(83,355)	(79,813)	(69,159)	(63,038)
<b>Underlying operating profit</b>	<b>190,407</b>	<b>155,386</b>	<b>128,091</b>	<b>89,811</b>	<b>69,807</b>
One-off administrative expenses *	-	-	-	(4,429)	-
FSCS costs **	532	(4,774)	(3,646)	-	-
<b>Operating profit</b>	<b>192,460</b>	<b>150,612</b>	<b>124,445</b>	<b>85,382</b>	<b>69,807</b>
Investment revenue	2,879	2,229	1,496	854	2,534
Other (losses) and gains	(155)	(2)	72	59	740
<b>Profit before tax</b>	<b>195,184</b>	<b>152,839</b>	<b>126,013</b>	<b>86,295</b>	<b>73,081</b>
Tax	(46,195)	(39,520)	(34,066)	(25,020)	(20,968)
<b>Profit after tax</b>	<b>148,989</b>	<b>113,319</b>	<b>91,947</b>	<b>61,275</b>	<b>52,113</b>
Equity minority interests	(598)	(359)	(127)	(9)	10
<b>Profit for the financial year attributable to members of the parent company</b>	<b>148,391</b>	<b>112,960</b>	<b>91,820</b>	<b>61,266</b>	<b>52,123</b>
Equity shareholders' funds	196,622	156,994	130,801	66,114	84,720
Weighted average number of shares for the purposes of diluted EPS (million)	471.92	469.42	469.07	468.42	469.32

	2013 Pence	2012 pence	2011 pence	2010 pence	2009 pence
Total equity dividends per share paid during year	23.79	19.47	6.78	16.636	7.809
Total equity dividends per share proposed or paid in respect of the financial year	29.59	22.59	18.87	11.88	10.10
Basic earnings per share	31.7	24.2	19.8	13.2	11.2
Diluted earnings per share	31.4	24.1	19.6	13.1	11.1
Underlying basic earnings per share	-	-	20.3	14.0	11.3
Underlying diluted earnings per share	-	-	20.0	13.9	11.3

	2013	2012	2011	2010	2009
Total assets under administration (£billion)	36.4	26.3	24.6	17.6	11.9
Net new business (£billion)	5.1	3.2	3.5	3.3	2.0
Total active clients ('000)	507	432	386	336	288

\* Relates to the costs of an office move

\*\* Relates to the Financial Services Compensation Scheme (FSCS) levies. In 2011 these costs were shown split between one-off costs of £3,036k and administrative expenses of £610k.

# Definition of Terms

<b>AGM</b> Annual General Meeting	<b>HL Live Apps</b> A software application which is designed for use on mobile phones and other portable electronic devices to allow clients access to their accounts and other information on the move	<b>Pillar 1 and 2 capital requirements</b> The Basel Committee on Banking Supervision set out certain capital requirements which must be met by qualifying financial institutions
<b>Asset retention rate</b> Based on the monthly lost AUA as a percentage of the opening months AUA and averaging for the year	<b>HMRC</b> HM Revenue and Customs	<b>Platform</b> The advisory and research business specialising in investment platforms which compiles the "Direct Platform Guide"
<b>AUA</b> Assets Under Administration is the total value of all assets administered or managed by Hargreaves Lansdown on behalf of its clients	<b>IFA</b> Independent Financial Advisor	<b>PMS</b> Portfolio Management Service
<b>AUM</b> Assets Under Management is the total value of all assets managed by Hargreaves Lansdown comprising our Multi-Manager funds and assets held within PMS	<b>IMA</b> Investment Management Association	<b>RDR</b> Retail Distribution Review
<b>Basic EPS</b> Basic Earnings Per Share	<b>ICAAP</b> Internal Capital Adequacy Assessment Process	<b>SAYE scheme</b> Save As You Earn scheme
<b>Board</b> The board of directors of Hargreaves Lansdown plc	<b>Investment Supermarket Platform</b> A service which allows clients to buy, sell and hold a wide range of investments in one place	<b>SIPP</b> Self-invested Personal Pension
<b>Client retention rate</b> Based on the monthly lost clients as a percentage of the opening months total clients and averaging for the year	<b>ISA</b> Individual Savings Account	<b>Treating clients fairly</b> A central concept to the FSA's retail regulatory agenda, which aims to ensure an efficient and effective market and thereby help consumers achieve a fair deal
<b>Company</b> Hargreaves Lansdown plc	<b>IT</b> Information Technology	<b>UK Corporate Governance Code</b> A code which sets out standards for best boardroom practice with a focus on board leadership and effectiveness, remuneration, accountability and relations with shareholders
<b>CRC Energy efficiency scheme</b> The Carbon Reduction Commitment efficiency scheme is a mandatory government scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations	<b>JSOP</b> Joint Share Ownership Plan	<b>Vantage</b> The Group's flagship service, Vantage, is a direct-to-investor platform
<b>Corporate Vantage</b> Our corporate wrap allows employers to offer the benefits of the Hargreaves Lansdown Vantage service to employees via the workplace	<b>Loyalty Bonus</b> A reward to customers for holding certain collective investments within the Vantage wrapper. This is paid on a regular basis as a percentage of qualifying assets	<b>Wealth 150</b> A research-led list of our favourite funds for new investment in the main fund sectors
<b>CTF</b> Child Trust Fund	<b>LTIP</b> Long term incentive plan	<b>Year-end/financial year</b> Our financial year starts on 1 July and ends on 30 June
<b>Diluted EPS</b> Diluted Earnings Per Share	<b>Master Portfolios</b> An interactive tool to help investors start their own portfolio. It provides five portfolios with different levels of risk and time horizons	
<b>EBT</b> Employee Benefit Trust	<b>Multi-Manager funds</b> A range of funds offered by Hargreaves Lansdown which are managed under the fund of funds format	
<b>FCA</b> Financial Conduct Authority, the regulator of the UK financial services industry	<b>Net new business inflows</b> Represents subscriptions, cash receipts, cash and stock transfers in less cash withdrawals, cash and stock transfers out	
<b>FSCS</b> Financial Services Compensation Scheme	<b>Number of new Clients</b> Unique number of clients holding at least one account (PMS, ISA, SIPP or Fund and Share Account) with a value greater than £100 at the year-end	
<b>Fund of Funds</b> An investment strategy whereby a portfolio is created by investing in funds rather than directly into equities and other securities	<b>OEIC</b> Open Ended Investment Company	
<b>Group</b> Hargreaves Lansdown plc and its controlled entities	<b>Operating profit margin</b> Operating profit (profit before investment gains) divided by revenue	
<b>HL</b> Hargreaves Lansdown	<b>Organic growth</b> Growth in assets under administration can be attributed to two main causes. The first is growth due to the appreciation in the value of existing assets and the second is organic growth through additional contributions	



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## Cautionary statement

This Annual Report has been prepared for the members of the Company and no-one else. The Company, its Directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Certain statements included or incorporated by reference within this report may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any

forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast.

This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares and other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by English Law. Nothing in this report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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