# Hargreaves Lansdown plc

## Interim Report and
## Condensed Consolidated Financial Statements
## 6 months ended 31 December 2016

**Embargoed: for release at 0700h, 8 February 2017**

# Interim Management Report

## Contents



*The Interim Management Report contains forward-looking statements which have been made in good faith based on the information available to us at the time of the approval of this report and should be treated with caution due to the inherent risks and uncertainties, including both economic and business risk factors some of which were set out in the 2016 Annual Report, underlying such forward-looking information.*

*Unless otherwise stated, all figures below refer to the six months ended 31 December 2016 ("H1 2017"). Comparative figures are for the six months ended 31 December 2015 ("H1 2016"). Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.*

# Interim Management Report

**Hargreaves Lansdown plc**
**Interim results for the six months ended 31 December 2016**

Hargreaves Lansdown plc ("HL" or "the Group") today announces interim results for the six month period ended 31 December 2016.

## Highlights

- Net revenue up 16% and profit before tax, up 21% on H1 2016.
- Assets under administration at a record level, up 13% since 30 June 2016 to £70.0 billion.
- Net new business inflows of £2.34 billion for the six months (H1 2016: £2.77bn), down 22% in Q1 and up 10% in Q2 on an organic basis.*
- Continued growth in active client numbers, now 876,000, an increase of 40,000 since 30 June 2016 (H1 2016: 47,000 or 40,400 excluding acquired clients).
- Both client and asset retention remained strong at 94.7% and 93.5% (H1 2016: 94.5% and 93.9% respectively).
- Interim dividend up 10% to 8.60 pence per share (H1 2016: 7.8p)

"The diversified nature of the Hargreaves Lansdown business has enabled us to deliver significant growth in both revenue and profit. Despite macroeconomic uncertainties impacting investor confidence and net new business, clients continue to trust us with their money and benefit from our market-leading investment services. Mobile technology is a key part of our strategy and our new generation of iPhone and Android apps offer opportunities to further enhance our clients' mobile experience"

***Organic basis removes the impact of new business flows acquired from Jupiter and JP Morgan in the prior year comparative.**

**Ian Gorham**
**Chief Executive**

| **Financial highlights** | **Unaudited 6 months ended 31 December 2016** | Unaudited 6 months ended 31 December 2015 | **Change %** | Audited year to 30 June 2016 |
|---|---|---|---|---|
| | **(H1 2017)** | (H1 2016) | | (FY 2016) |
| **Net revenue*** | **£184.8m** | £158.8m | **+16%** | £326.5m |
| **Operating profit margin (on net revenue)** | **70.6%** | 67.9% | **+2.7 pts** | 66.8% |
| **Profit before tax** | **£131.0m** | £108.1m | **+21%** | £218.9m |
| **Total assets under administration** | **£70.0bn** | £58.8bn | **+19%** | £61.7bn |
| **Diluted earnings per share** | **22.4p** | 18.3p | **+22%** | 37.3p |
| **Interim dividend per share** | **8.60p** | 7.80p | **+10%** | 7.80p |
| **Net business inflows** | **£2.34bn** | £2.77bn | **-16%** | £6.0bn |

*** Net revenue is total revenue less commission payable / loyalty bonus (see Glossary of alternative performance measures on page 29).**

### About us:

Hargreaves Lansdown operates the UK's largest direct to investor investment service administering over £70.0 billion of investments in ISA, SIPP and Investment accounts for 876,000 active clients. We have been helping clients choose and manage their investments since 1981 and currently provide self-directed, advisory and third party arrangement services for individuals and corporates. Hargreaves Lansdown has built a respected reputation with clients and the wider investment industry and works tirelessly to maintain and improve the lot of retail investors.

Our success is built around a high quality service tailored to the individual needs of our clients in order to help them make more of their money throughout their lifetime. We ensure our clients have access to information to support them with making their own investment decisions or access to highly skilled advisers should they wish to receive personal advice.

Our aim is to be the UK's number one choice for savings and investments. Knowledgeable and helpful staff, technology and experience enable us to deliver a business model that is highly scalable and has a strong track record of delivering growth and value for our shareholders alike.

We are proud of our success and are committed to delivering continued value in the years ahead to both clients and shareholders.

# Interim Management Report

## Contacts:

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Chris Hill, Deputy Chief Executive Officer

## Analyst presentation

Hargreaves Lansdown will be hosting an analyst presentation at 9.00am on 8 February 2017 following the release of these results for the half year ended 31 December 2016. Attendance is by invitation only. A conference call facility will be in place with the following participant dial-in numbers – UK 0800 368 0649, UK (local) 020 3059 8125 and all other locations +44 20 3059 8125. A recording of the results presentation will be made available this morning at www.hl.co.uk/investor-relations following the presentation to the analysts.

# Chief Executive's Statement

## Trading and overview

Hargreaves Lansdown has continued to prosper during the last six months, with continued growth in clients, assets and profits.

Net revenue for the period rose by 16% to £184.8 million (H1 2016: £158.8m) and profit before tax for the period rose 21% to £131.0 million (H1 2016: £108.1m). The key contributors to profit growth were sustained significantly elevated equity trading volumes since the 23 June 2016 "Brexit" vote; higher levels of stock markets generating additional revenue from asset based charges; new revenue from new assets and clients; and continued cost control.

Net new business added during the period was £2.34 billion, down 16% compared to the equivalent six months last year (H1 2016: £2.77bn). The H1 2016 comparative included £264m of new business acquired from Jupiter and JP Morgan Asset Management and, after adjusting for this, organic net new business fell by 7%.

Encouragingly, asset gathering in the three months to December 2016 showed improvement over the first quarter, which as previously reported had been down 22% on 2016. The second quarter adjusted for the acquired business, was up 10% compared to the same period last year (unadjusted: 8% lower).

We were also pleased to welcome 40,000 new clients during the period (H1 2016: 47,000 or 40,400 excluding those acquired from Jupiter and JP Morgan). H1 2016 included c.6,600 new clients acquired through the above transactions, and consequently organic client growth remained on a par with last year. Total active clients now stand at 876,000 and total Assets Under Administration now stand at £70.0 billion (31 Dec 2015: £58.8bn).

The period was unusual in that it encompassed the effects of various political and macroeconomic developments. By far the greatest of these was the UK's vote to leave the European Union on 23 June 2016. The immediate effect has been significantly elevated equity trading levels compared to the prior year which persisted throughout the period. Hargreaves Lansdown saw 1.95 million client driven equity deals in the period, up 51% (H1 2016: 1.29m), with Hargreaves Lansdown's market share increased to 28.0%* (Q4 2015 23.8%). A weak pound has served to boost the value of client assets invested in overseas funds and equities (about 31% of Vantage client assets) and key stock markets have also performed well - the FTSE All Share index ended 10.2% up for the six months at 3873.22 (30 June 2016: 3515.45).

Low investor confidence typically reduces enthusiasm for retail investment. We saw a decline in confidence throughout the period to a low point in November 2016 before a partial recovery after the US Presidential Election. Low investor confidence coupled with higher asset values meant that we saw a higher level of client cash withdrawals during the period. Vantage ISA net new business was £0.6 billion (H1 2016: £0.7bn) and Fund & Share account net new business was also £0.6 billion (H1 2016: £0.8bn). New pension freedoms continue to prove attractive to clients and Vantage SIPP net new business was £1.1 billion (H1 2016: £1.2bn).

Despite the increased cash withdrawals post Brexit, client and asset retention remained steady at 94.7% and 93.5% respectively (H1 2016: 94.5% and 93.9%). Client satisfaction remained high with research indicating a Net Promoter Score[SM] of 53.3% (53.7%[1] in November 2015). Recent data from The Platforum showed Hargreaves Lansdown's market share continues to increase year-on-year and currently stands at 37.8% as at 30 September 2016 (30 September 2015: 35.9%).

Cost control in the period led to profit growth of 21%, in excess of the 16% rise in net revenue.

## Continued opportunities for growth

Hargreaves Lansdown remains well positioned for the structural growth opportunities in the UK savings and investments markets. We continue to invest to maintain our market leadership and take advantage where we see opportunity to develop our services for clients.

### Existing services

Clients enjoy significant discounts when investing in funds through Hargreaves Lansdown. The average annual management charge for a fund on our Wealth 150 list is 0.62%. This remains significantly lower than the standard average retail price for the same Wealth 150 funds of 0.75%.

The company benefited from net new flows of £481 million into our HL Multi Manager Funds, up 30% on the same period last year (H1 2016: £369m). Our new HL Select Shares fund raised £168m and the value of assets in our Portfolio+ simple

1 *Net Promoter, NPS, and the NPS-related emoticons are registered service marks, and Net Promoter Score and Net Promoter System are service marks, of Bain & Company, Inc., Satmetrix Systems, Inc. and Fred Reichheld.*

investing service now stands at £459m (30 June 2016: 311m). Our ten HL Multi Manager Funds plus the HL Select Shares fund now hold combined assets of £7.5 billion (30 June 2016: £6.3bn, 31 Dec 2015: £5.9bn).

Our Corporate Vantage service welcomed 17 new live schemes (H1 2016: 32 schemes), with total members now at 75,000 holding £2.2 billion (H1 2016: £1.5bn) in assets and contributing £254 million in annual contributions (H1 2016: £218m).

We experienced another period of significant growth in our digital presence and we continue to develop our ability to target and convert prospective clients across our digital platforms. Our website and apps were visited 66.7 million times, up 39% on the same period last year.

**New initiatives**

HL Savings, our new cash deposit service supported by a marketplace lending (peer to peer) capability remains a priority initiative. An internal proof of concept of the deposit service commenced in January 2017, successfully testing the underlying technology, feasibility and banking partner participation. However significant development work remains before the service will be ready to launch to clients at a level of excellence consistent with our Vantage offering. Our current expectation is HL Savings will not be ready to launch to clients until at least October 2017.

Following the success of our fund launches we continue to review our fund management portfolio, given the demand amongst clients for Hargreaves Lansdown's asset management services. We expect to launch further funds in 2017 including the HL Select UK Income Shares fund. This strategy will continue until we are satisfied demand for funds from clients is materially covered across sectors, without creating sub-scale funds.

With mobile technology forming a key part of our strategy, our project to launch a new generation of enhanced HL iPhone and Android apps resulted in the launch of a suite of new apps on 1 February 2017 which were well received with over 160,000 initial downloads and updates in the first few days. We will now focus improvements based on feedback. Whilst our previous mobile apps won awards, we believe advances in technology offer an opportunity to further enhance our clients' mobile experience and the new apps encapsulate these opportunities in their capabilities and presentation.

## Regulation

The changes we announced on 15 January 2014 and implemented on 1 March 2014 addressing the requirements of the Retail Distribution Review (RDR) have now been successfully in place for approaching three years. We do not see any further work required in this area.

On 18 November 2016 the FCA published its interim findings of its asset management market study. Hargreaves Lansdown welcomes the work to improve competition, transparency and reduce costs for investors. The study recognises investors benefit from scale and the work of intermediaries in negotiating lower charges, such as Hargreaves Lansdown Wealth 150+ list achieving a c20% reduction in fund charges compared to the standard pricing. We have evaluated the review's recommendations and proposals and will be responding to the consultation before the 20 February 2017 deadline. The final report and proposed amendments are expected to be published in Q2 2017 after which there will be a period for implementation. At this stage we do not expect the study to have a material impact on trading results.

## Outlook

Many of our charges are based on levels of client assets with 77% of our net income now coming from recurring sources (H1 2016: 80%). The level of our earnings has a direct relationship with the value of the investments within our administration. Therefore the level of world stock markets can have an effect on profits outside of our control.

Hargreaves Lansdown also earns revenue from dealing charges and the period since the "Brexit" vote has seen elevated levels of dealing by clients. The extent to which this elevated dealing level is a short term effect or a newly sustainable level is unknown, however, elevated levels of trading continue with no sign of material reduction six months on from the Brexit vote.

The net revenue margin on cash fell to 0.51% (H1 2016: 0.55%) as a result of the reduction in the base rate of interest in August 2016. The impact of this rate reduction takes time to flow through and impact our margin given that the majority of clients SIPP money is placed on term deposits. As these deposits mature they are typically placed back out again on term at a lower rate of interest and consequently we will see a decline in the margin in the second half of our year. Overall the Directors now expect the interest margin to be in the range of 0.40% to 0.50% for the 2017 financial year.

The second half of our trading year is consistently the stronger half for new business, including as it does the tax year-end, which acts as a natural incentive for clients to use tax allowances. Given the geopolitical backdrop, levels of new business will be influenced by evolving investor confidence and stock market levels. As usual the second half of the year will be impacted by the Financial Services Compensation Scheme levy which for last year resulted in a final charge of £5.2 million.

## Dividend

Hargreaves Lansdown continues to demonstrate strong growth in both profit, assets and clients whilst retaining the capacity to continually deliver new initiatives. Given profit growth and the confidence that we have in our business model, in accordance with our dividend policy the Directors have therefore recommended a 10% rise in the interim dividend to 8.60 pence per share. This reflects the Group's long-term earnings opportunity and excellent cash flow potential.

## Board changes

In line with our succession planning, on 25th January 2017 the Board of Hargreaves Lansdown announced the appointment of Philip Johnson as Chief Financial Officer ("CFO"), subject to regulatory approvals. Philip will be joining the Company on 20 February 2017.

Philip is an experienced Chartered Accountant and financial services CFO. Philip was previously CFO of Jupiter Fund Management plc for seven years and prior to that Group Finance Director of M&G Limited for over five years. Philip qualified as a chartered accountant with Coopers & Lybrand (now PricewaterhouseCoopers LLP).

We are also pleased to confirm that Chris Hill, Deputy Chief Executive and Chief Financial Officer, will be appointed as Chief Executive Officer ("CEO"), and, in line with our plans for an orderly handover, I will step down from the Company's Board and as CEO following today's Interim Results, subject to regulatory approvals.  I will remain an employee of the Company until 30 September 2017. I would like to thank our clients, staff, shareholders and many supporters for their help and assistance during this successful period for Hargreaves Lansdown and I wish the company every success for the future.

**Ian Gorham**
Chief Executive

* Provisional stockbroking data from Compeer Limited XO Quarterly Benchmarking Report Quarter 4 2016 and final Compeer Limited XO Quarterly Benchmarking Report Q4 2015.

# Interim Management Report

## Financial Review

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

During the period the total value of AUA increased by 13% to a record £70.0 billion. The Group achieved net new business inflows of £2.34 billion (H1 2016: £2.77bn), and a positive impact of stock market growth and other factors of £6.0 billion (H1 2016: £0.9 bn). Total assets under administration can be broken down as follows:

| | 31 December 2016<br>£'billion | 31 December 2015<br>£'billion | 30 June 2016<br>£'billion |
|---|---|---|---|
| **Vantage Assets Under Administration (AUA)** | **66.7** | **55.9** | **58.7** |
| **Assets Under Administration and Management (AUM)** | | | |
| Portfolio Management Service (PMS) | 3.2 | 2.9 | 2.9 |
| Multi-Manager funds held outside of PMS | 4.4 | 3.3 | 3.6 |
| **AUM Total** | **7.6** | **6.2** | **6.5** |
| **Less: Multi-Manager funds (AUM) included in Vantage AUA** | (4.3) | (3.3) | (3.5) |
| **Total Assets Under Administration** | **70.0** | **58.8** | **61.7** |

Net new business in the Vantage ISA, SIPP and other Vantage nominee accounts was £0.6 billion, £1.1 billion and £0.6 billion respectively (H1 2016: £0.7bn, £1.2bn, £0.8bn). New business was as a result of 40,000 net new Vantage clients combined with new subscriptions and transfer business from existing clients.

As highlighted in the first quarter trading update, Vantage net new business of £1.11 billion was down 22% compared to the prior year record first quarter, which was boosted by the new pension freedoms and transfers of Child Trust Funds into Junior ISAs. In the second quarter Vantage net new business of £1.21 billion was down 9% versus £1.33 billion in the prior year. The prior year however, included £0.22 billion of new business acquired from Jupiter and JP Morgan Asset Management. Stripping this out would give an increase in net new business of 9% in the second quarter.

As at 31 December 2016, the value of assets within the Vantage ISA was £26.0 billion (30 June 2016: £23.0bn), Vantage SIPP assets were £22.2 billion (30 June 2016: £19.3bn) and Vantage Fund and Share accounts held £18.5 billion (30 June 2016: £16.5bn). Client and asset retention ratios remained high at 94.7% and 93.5% respectively for the period (H1 2016: 94.5% and 93.9%).

The composition of Vantage assets at 31 December 2016 was 10.9% cash (30 June 2016: 11.6%), 55.1% investment funds (30 June 2016: 54.3%) and 34.0% stocks, shares and other (30 June 2016: 34.1%).

Assets invested via the Portfolio+ service, launched in May 2015, grew 123% to £459 million (H1 2016: £206m).

The value of assets managed by Hargreaves Lansdown within its own range of funds and its Portfolio Management Service (PMS) increased by 23% to £7.6 billion (H1 2016: £6.2bn). Since the prior year period we have launched two new HL Multi-Manager Funds; a Strategic Assets fund launched in February 2016 and a High Income fund launched in April 2016. In addition we launched the HL Select UK Share Fund in December 2016. By 31 December 2016 these three funds held a combined £758 million. Although PMS assets increased from £2.9 billion to £3.2 billion across the period this was almost entirely driven by market growth in the HL Multi-Manager Funds. Net new business was £22 million in the period (H1 2016: £34m). PMS remains a core service but the gathering of new assets and clients remains behind expectations. A review of the service continues with a view to improving lead flows and the quality of the offering for clients.

### Net revenue by division

| **Net Revenue by division:** | Unaudited<br>6 months ended<br>31 December 2016<br>£'million | Unaudited<br>6 months ended<br>31 December 2015<br>£'million | % increase/decrease |
|---|---|---|---|
| **Vantage** | 140.2 | 119.3 | +18% |
| **Discretionary and Managed** | 33.3 | 29.1 | +14% |
| **Third Party & Other Services** | 11.3 | 10.4 | +9% |
| **Total Net Revenue** | **184.8** | **158.8** | **+16%** |

**Vantage**
Net revenue increased by 18% driven by a 19% growth in AUA and a 51% increase in stockbroking revenues. Revenue from funds grew from £74.3 million to £80.6 million with a previously communicated reduction in the revenue margin from 0.45% to 0.42% as a consequence of the sunset clause from 1 April 2016 onwards for which more detail is given below.

Interest on client money grew from £13.9 million to £18.5 million with the impact of higher cash balances more than offsetting the impact of a margin reduction from 0.55% to 0.51% in the period.

Stockbroking commission grew by 51% from £18.6 million to £28.0 million driven by volumes which increased significantly post the Brexit vote and have remained strong throughout the period. There were 2.38 million equity deals in the period compared to 1.65 million in H1 2016. Of these 1.94 million were client driven deals (H1 2016: 1.28m) and 0.43 million were automated deals such as dividend reinvestment and regular savings (H1 2016: 0.37m).

Net revenue margin earned on AUA held on the Vantage platform in the first half of the year was 0.41% (H1 2016: 0.42%). The decrease has been driven by a fall in the cash margin following the Bank of England base rate reduction in August combined with a reduction in the margin on funds since the sunset clause of 1 April 2016. From this point, in accordance with the Retail Distribution Review, any renewal commission received from fund management groups could no longer be retained and instead was passed entirely to clients. These decreases were partly offset by an increase in the revenue margin on other assets primarily because of increased stockbroking trades.

**Discretionary and managed**
Revenue for the division grew 14% with higher management fees driven by growth in assets held within the Multi-Manager Funds from £5.9 billion to £7.5 billion.

**Third party and other**
The Third party and other services division saw a 9% increase in revenue from £10.4 million to £11.3 million. Revenues from Funds Library increased by £0.8 million and Hargreaves Lansdown Currency and Markets (Contracts for Difference, spread betting and currency services) increased by £0.4 million. These were partly offset by a £0.6 million reduction in third party corporate and personal pension business driven by the continued fall in personal annuity volumes following the March 2014 pension reforms and reduction in third party commission on corporate schemes following changes post the Retail Distribution Review.

## Financial performance

| | % movement | Unaudited 6 months ended 31 December 2016 (H1 2017) £'million | Unaudited 6 months ended 31 December 2015 (H1 2016) £'million | Audited Year to 30 June 2016 (FY 2016) £'million |
|---|---|---|---|---|
| Revenue | -8% | 184.9 | 200.7 | 388.3 |
| Commission payable / loyalty bonus | -100% | (0.1) | (41.9) | (61.8) |
| Net revenue | +16% | 184.8 | 158.8 | 326.5 |
| Other operating costs | +7% | (54.7) | (51.0) | (102.7) |
| FSCS levy | | 0.3 | - | (5.5) |
| Operating profit | +21% | 130.5 | 107.8 | 218.3 |
| Non-operating income | +67% | 0.5 | 0.3 | 0.6 |
| Profit before taxation | +21% | 131.0 | 108.1 | 218.9 |
| Taxation | +16% | (24.6) | (21.2) | (41.6) |
| Profit after taxation | +22% | 106.4 | 86.9 | 177.3 |

As highlighted previously, renewal commission on funds and the related client loyalty bonuses ceased from April 2016 as stipulated under the rules of the Retail Distribution Review (known as “the Sunset Clause”). This led to the reduction in revenue and the loyalty bonus payable as shown above.

Total net revenue for the six months to 31 December 2016 rose 16% driven by the increase in AUA and higher stockbroking revenues. Recurring revenue streams are dependent on asset valuations and hence with AUA growing from £58.8 billion to a record £70.0 billion over the last 12 months, we have benefitted from our continued asset gathering and strong client retention. Client reaction post the EU referendum and US Presidential Election have driven higher stockbroking volumes throughout the period.

Net revenue margin earned on AUA showed a slight decline from 0.42% in H1 2016 to 0.41% in line with our expectations. From 6 April 2016 the sole revenue earned from funds held by clients has been the tiered platform fee. Looking forwards we anticipate the overall Vantage revenue margin to remain at c0.42% per annum.

Investment funds on average represented 55% of Vantage AUA. Revenue margin on these funds fell slightly, in line with our expectations to 0.42% (H1: 2016 0.45%).

Shares on average represented 34% of Vantage AUA. Revenue margin on shares and other stock is made up of management fees applied to shares held in the ISA and SIPP, as well as stockbroking commissions on equity deals. Revenue margin increased to 0.33% (H1 2016: 0.27%) as client driven equity deals (excluding automated deals such as dividend reinvestments and regular savings deals) rose 52% to 1.94 million deals.

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Cash on average represented 11% of Vantage AUA. The net revenue margin on client cash balances was 0.51% (H1 2016: 0.55%). The reduction is primarily due to the Bank of England base rate reduction in August 2016. For the current financial year we previously guided the cash revenue margin to be in the range of 0.35% to 0.45% for the year. We are currently above that range but anticipate a reduction in the second half as SIPP client money that matures is likely to be placed back on term deposit at a lower rate following the August rate reduction. Assuming no changes to the Bank of England base rate we now anticipate the cash interest margin for the financial year 2017 will be in the range of 0.40% and 0.50%.

£141.9 million of net revenue is recurring in nature (H1 2016: £126.5m). In the period this represented 77% of revenue (H1 2016: 80%). Recurring revenue stream comprised platform fees of £80.6m, (H1 2016: £68.5m), renewal commissions net of loyalty bonuses paid to clients of £2.8m, (H1 2016: £9.6m), management fees of £40.0m, (H1 2016: £34.6m) and interest on client money of £18.6m, (H1 2016: £13.9m).

## Operating costs

Operating costs comprise the following:

| | **Unaudited 6 months ended 31 December 2016** | **Unaudited 6 months ended 31 December 2015** | **Increase/decrease** |
|---|---|---|---|
| | **£'million** | **£'million** | **%** |
| Staff costs | 31.9 | 30.3 | +5% |
| Marketing and distribution costs | 5.8 | 5.5 | +5% |
| Office running costs | 1.8 | 2.3 | -22% |
| Depreciation, amortisation and financial costs | 3.3 | 2.8 | +18% |
| Other costs | 11.9 | 10.1 | +18% |
| | **54.7** | **51.0** | **+7%** |
| FSCS levy | (0.3) | - | |
| Operating costs | **54.4** | **51.0** | **+7%** |

**Staff costs**
Staff costs increased by 5% on the comparative half year, after the capitalisation of £1.2 million (H1 2016: £0.4m) of Hargreaves Lansdown Savings and other IT developments.

The number of staff employed on a full-time basis (including Directors) at 31 December 2016 was 1,012 and the average number of staff during the period was 970 (H1 2016: 964). The increase in staff numbers is in line with our strategic plans and our commitment to delivering a high level of service to our growing client base which will see us maintain our position as the UK's leading direct to client investment platform. Of particular note are increased staff numbers in HL Savings where we continue to develop a digital cash deposit service and a Peer to Peer platform and in web marketing roles. Other drivers of the increase are inflation and an increase to the staff bonus accrual.

**Marketing and distribution**
Group marketing and distribution spend increased 5% primarily driven by an increase in use of digital marketing opportunities as we reduce spend on traditional paper based marketing.

**Office running costs**
Office running costs made up of rent, rates and utility costs fell by £0.5 million driven entirely by rebates received on previous year's rates charges.

**Depreciation, amortisation and financial costs**
Depreciation, amortisation and financial costs increased by £0.5 million primarily as a result of increased capital spend on essential hardware and software as well as an increase in bank processing costs.

**Other costs**
Other costs rose by £1.8 million, with the main increase relating to dealing costs which rose by £0.9 million on the back of the 44% increase in total equity dealing volumes (including regular savings and income reinvestment deals) in the period. The balance of the increase is attributed to data costs of £0.4 million, increased IT maintenance of £0.3 million and irrecoverable VAT of £0.2m.

## Taxation

The charge for taxation in the income statement increased from £21.2 million to £24.6 million resulting in an effective tax rate of 18.8% (H1 2016: 19.6%). The standard UK corporation tax has been 20% throughout the period. An adjustment in respect of increased capital allowances and employee share acquisition relief in the period, however, reduced the effective corporation tax rate below the standard 19.75% to 18.8%. In total, taxation of £0.3 million has also been charged to equity relating to share-based payments.

# Interim Management Report

## Dividend

The Board has declared an interim dividend of 8.60 pence per share (H1 2016: 7.8p). The interim dividend will be paid on 30 March 2017 to all shareholders on the register at 10 March 2017. This amounts to a total interim dividend of £40.7 million.

An arrangement exists under which the Hargreaves Lansdown Employee Benefit Trusts (the "EBTs") have agreed to waive all dividends. As at 31 December 2016 the EBTs held 1,540,551 shares.

During the period the Board became aware of a technical issue in respect of a number of historic dividends paid by the Company. Details are included in Note 11 to the condensed consolidated financial statements. A circular will be sent to shareholders shortly and will be available on the Company's website at www.hl.co.uk/investor-relations.

## Capital expenditure

Capital expenditure totalled £5.0 million for the six months ended 31 December 2016 (H1 2016: £3.3m). Replacement of office equipment and hardware ensuring the capacity and the security of the IT infrastructure amounted to £1.7 million (H1 2016: £2.2m). £2.1 million was spent on computer software (H1 2016: £0.7m) and capitalisation of other intangibles was £1.2 million (H1 2016: £0.4m).

Other intangibles are primarily internally generated, being IT development on an upgrade of the core IT platform for the business £0.4 million (H1 2016: £0.4m) and development of a new IT platform for a digital cash deposit service £0.8 million (H1 2016: £nil).

## Liquidity and capital resources

The group maintains a robust balance sheet which is free from debt, has a healthy ratio of current assets to current liabilities and retains a capital base over and above the regulatory capital adequacy requirements. In addition to being attractive to clients, this 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 100% in H1 2017 compared to 93% in H1 2016.

Group cash balances excluding restricted cash totalled £189.8 million at the end of the period (H1 2016: £165.7m). The only significant cash outflow from profits has been the final and special dividends totalling £123.8 million paid during September 2016 (H1 2016: £121.4m).

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. As at 31 December it was £236.4 million (H1 2016: £214.7m) and this capital is managed via the net assets to which it relates. The Group has four subsidiary companies authorised and regulated by the Financial Conduct Authority. These firms have capital resources at a level which satisfies both their regulatory capital requirements and their working capital requirements and, as a group, we maintain a robust balance sheet retaining a capital base over and above regulatory capital requirements. Further disclosures are published in the Pillar 3 document on the Group's website at www.hl.co.uk.

## Related party transactions

Except for the transaction disclosed in Note 19 to the financial statements no other related party transactions have taken place that materially affect the financial position or performance of the Group and there have been no material changes to the related party transactions described in the last Annual Report and Accounts.

## Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group were detailed on pages 36 to 39 of the Group's Annual Report and Financial Statements 2016, a copy of which is available on the Group's website www.hl.co.uk. The key risks and uncertainties have not changed and are highlighted in Note 6 to the financial statements. These are not expected to change in the second half of the 2017 financial year, and they are regularly reviewed by the Board.

## Responsibility Statement

The directors confirm that to the best of their knowledge:

a) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by Disclosure and Transparency Rules (DTR) 4.2.4R;

b) the interim management report includes a fair review of the information required by DTR 4.2.7R - "indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year"; and

c) the interim management report includes a fair review of the information required by DTR4.2.8R - "disclosure of related party transactions and changes therein".

A list of current directors is shown on page 28.

On behalf of the Board

**Ian Gorham**
Chief Executive
7 February 2017

# Independent Review Report to Hargreaves Lansdown plc

## Report on the condensed consolidated interim financial statements

### Our conclusion

We have reviewed Hargreaves Lansdown plc's condensed consolidated financial statements (the "interim financial statements") in the interim report and condensed consolidated financial statements of Hargreaves Lansdown plc for the 6 month period ended 31 December 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 31 December 2016;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim report and condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Responsibilities for the condensed consolidated interim financial statements and the review

### Our responsibilities and those of the directors

The interim report and condensed consolidated financial statements, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report and condensed consolidated financial statements in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report and condensed consolidated financial statements based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What a review of condensed consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report and condensed consolidated financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

**PricewaterhouseCoopers LLP**
Chartered Accountants
London
7 February 2017

a) The maintenance and integrity of the Hargreaves Lansdown plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Condensed Consolidated Income Statement
### for the period ended 31 December 2016

| | Note | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| **Revenue** | 8 | 184,899 | 200,742 | 388,333 |
| Commission payable | | (66) | (41,941) | (61,797) |
| Net revenue | | 184,833 | 158,801 | 326,536 |
| Staff costs | | (31,851) | (30,308) | (60,217) |
| Other operating costs | | (22,793) | (20,652) | (42,575) |
| FSCS refund/(costs)** | | 291 | - | (5,494) |
| **Operating profit** | | 130,480 | 107,841 | 218,250 |
| Investment revenue | 9 | 443 | 269 | 629 |
| Other gains and losses | | 55 | - | - |
| **Profit before tax** | | 130,978 | 108,110 | 218,879 |
| Tax | 10 | (24,628) | (21,214) | (41,623) |
| **Profit for the period** | | 106,350 | 86,896 | 177,256 |
| **Attributable to:** | | | | |
| Owners of the parent | | 106,072 | 86,711 | 176,895 |
| Non-controlling interest | | 278 | 185 | 361 |
| | | 106,350 | 86,896 | 177,256 |
| **Earnings per share (pence)** | 12 | | | |
| Basic earnings per share | | 22.4 | 18.3 | 37.4 |
| Diluted earnings per share | | 22.4 | 18.3 | 37.3 |

** FSCS costs are those relating to the running of and the levies issued under the Financial Services Compensation Scheme.

The results relate entirely to continuing operations.

After the balance sheet date, the directors declared an ordinary interim dividend of 8.60 pence per share payable on 30 March 2017 to shareholders on the register at 10 March 2017.

# Condensed Consolidated Statement of Comprehensive Income
## for the period ended 31 December 2016

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Profit for the period** | 106,350 | 86,896 | 177,256 |
| **Total comprehensive income for the financial period** | 106,350 | 86,896 | 177,256 |
| **Attributable to:** | | | |
| Owners of the parent | 106,072 | 86,711 | 176,895 |
| Non-controlling interest | 278 | 185 | 361 |
| | 106,350 | 86,896 | 177,256 |

# Condensed Consolidated Statement of Changes in Equity
## for the period ended 31 December 2016

| | ----------------------------- Attributable to the owners of the parent ----------------------------- | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Capital redemption reserve | Shares held by EBT reserve | EBT reserve | Retained earnings | **Total** | Non-controlling interest | **Total equity** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | **£'000** | £'000 | **£'000** |
| **At 1 July 2015** | 1,897 | 8 | 12 | (13,018) | 12,704 | 234,963 | **236,566** | 501 | **237,067** |
| **Total comprehensive income** | - | - | - | - | - | 86,711 | **86,711** | 185 | **86,896** |
| **Employee Benefit Trust:** | | | | | | | | | |
| Shares sold during the period | - | - | - | 8,272 | - | - | **8,272** | - | **8,272** |
| Shares acquired in the period | - | - | - | - | - | - | **-** | - | **-** |
| EBT share sale | - | - | - | - | (747) | - | **(747)** | - | **(747)** |
| **Employee share option scheme:** | | | | | | | | | |
| Share-based payments expense | - | - | - | - | - | 1,124 | **1,124** | - | **1,124** |
| Current tax effect of share-based payments | - | - | - | - | - | 2,446 | **2,446** | - | **2,446** |
| Deferred tax effect of share-based payments | - | - | - | - | - | 1,015 | **1,015** | - | **1,015** |
| **Dividend paid (note 11)** | - | - | - | - | - | (121,365) | **(121,365)** | - | **(121,365)** |
| **At 31 December 2015** | 1,897 | 8 | 12 | (4,746) | 11,957 | 204,894 | **214,022** | 686 | **214,708** |
| **At 1 July 2016** | 1,897 | 8 | 12 | (14,850) | 11,999 | 254,632 | **253,698** | 466 | **254,164** |
| **Total comprehensive income** | - | - | - | - | - | 106,072 | **106,072** | 278 | **106,350** |
| **Employee Benefit Trust:** | | | | | | | | | |
| Shares sold during the period | - | - | - | 4,134 | - | - | **4,134** | - | **4,134** |
| Shares acquired in the period | - | - | - | (2,908) | - | - | **(2,908)** | - | **(2,908)** |
| EBT share sale | - | - | - | - | (2,522) | - | **(2,522)** | - | **(2,522)** |
| Reserve transfer on exercise of share options | - | - | - | - | 1,010 | (1,010) | **-** | - | **-** |
| **Employee share option scheme:** | | | | | | | | | |
| Share-based payments expense | - | - | - | - | - | 1,345 | **1,345** | 3 | **1,348** |
| Current tax effect of share-based payments | - | - | - | - | - | 183 | **183** | - | **183** |
| Deferred tax effect of share-based payments | - | - | - | - | - | (459) | **(459)** | - | **(459)** |
| **Dividend paid (note 11)** | - | - | - | - | - | (123,846) | **(123,846)** | - | **(123,846)** |
| **At 31 December 2016** | 1,897 | 8 | 12 | (13,624) | 10,487 | 236,917 | **235,697** | 747 | **236,444** |

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

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 22% shareholding in Library Information Services Limited and a 7.5% shareholding in Hargreaves Lansdown Savings Limited, both subsidiaries of the Company.

# Condensed Consolidated Statement of Financial Position
## as at 31 December 2016

| | Note | Unaudited at 31 December 2016 | Unaudited at 31 December 2015 | Audited at 30 June 2016 |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| **ASSETS:** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | 1,333 | 1,333 | 1,333 |
| Other intangible assets | | 9,270 | 4,946 | 7,050 |
| Property, plant and equipment | | 10,903 | 12,506 | 10,987 |
| Deferred tax assets | | 3,362 | 6,833 | 2,775 |
| | | 24,868 | 25,618 | 22,145 |
| **Current assets** | | | | |
| Trade and other receivables | 14 | 353,744 | 308,233 | 617,013 |
| Cash and cash equivalents | 15 | 192,738 | 181,716 | 211,393 |
| Investments | 13 | 1,818 | 727 | 994 |
| Current tax assets | | - | - | 33 |
| | | 548,300 | 490,676 | 829,433 |
| **Total assets** | | 573,168 | 516,294 | 851,578 |
| **LIABILITIES:** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 16 | 314,123 | 282,876 | 581,685 |
| Current tax liabilities | | 22,113 | 18,478 | 15,242 |
| | | 336,236 | 301,354 | 596,927 |
| **Net current assets** | | 212,064 | 189,322 | 232,506 |
| **Non-current liabilities** | | | | |
| Provisions | | 488 | 232 | 487 |
| **Total liabilities** | | 336,724 | 301,586 | 597,414 |
| **Net assets** | | 236,444 | 214,708 | 254,164 |
| **EQUITY:** | | | | |
| Share capital | 17 | 1,897 | 1,897 | 1,897 |
| Share premium account | | 8 | 8 | 8 |
| Capital redemption reserve | | 12 | 12 | 12 |
| Shares held by Employee Benefit Trust reserve | | (13,624) | (4,746) | (14,850) |
| EBT reserve | | 10,487 | 11,957 | 11,999 |
| Retained earnings | | 236,917 | 204,894 | 254,632 |
| **Total equity, attributable to the owners of the parent** | | 235,697 | 214,022 | 253,698 |
| Non-controlling interest | | 747 | 686 | 466 |
| **Total equity** | | 236,444 | 214,708 | 254,164 |

The condensed consolidated financial statements on pages 12 to 29 of Hargreaves Lansdown plc, registered number 02122142, were approved by the board of directors on 7 February 2017, signed on its behalf and authorised for issue by:

**Ian Gorham**
Chief Executive

## Condensed Consolidated Statement of Cash Flows
### for the period ended 31 December 2016

| | Note | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| **Net cash from operating activities** | | | | |
| Cash generated from operations | 18 | 130,369 | 100,546 | 205,360 |
| Income tax paid | | (18,585) | (18,850) | (40,766) |
| **Net cash generated from operating activities** | | 111,784 | 81,696 | 164,594 |
| **Investing activities** | | | | |
| Interest received | | 440 | 242 | 458 |
| Dividends received from investments | | 3 | 27 | 171 |
| Proceeds on disposal of investments | | - | 182 | - |
| Purchase of property, plant and equipment | | (1,717) | (2,242) | (2,534) |
| Purchase of intangible assets | | (3,273) | (1,101) | (4,114) |
| Purchase of available-for-sale investments | | (824) | - | (85) |
| **Net cash used in investing activities** | | (5,371) | (2,892) | (6,104) |
| **Financing activities** | | | | |
| Purchase of own shares in EBT | | (2,908) | - | (15,927) |
| Proceeds on sale of own shares in EBT | | 1,611 | 7,524 | 10,655 |
| Proceeds from the sale of an investment in a subsidiary | | 75 | - | - |
| Dividends paid to owners of the parent | | (123,846) | (121,365) | (158,182) |
| Dividends paid to non-controlling interests | | - | - | (396) |
| **Net cash used in financing activities** | | (125,068) | (113,841) | (163,850) |
| **Net (decrease) in cash and cash equivalents** | | (18,655) | (35,037) | (5,360) |
| **Cash and cash equivalents at beginning of period** | | 211,393 | 216,753 | 216,753 |
| **Cash and cash equivalents at end of period** | 15 | 192,738 | 181,716 | 211,393 |

# Notes to the Condensed Consolidated Financial Statements

**1. Basis of preparation**

The consolidated Interim Financial Statements of Hargreaves Lansdown plc for the six months to 31 December 2016 have been prepared using accounting policies in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority. The Interim Financial Statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates.

The financial information contained in these Interim Financial Statements does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the company's auditor, PricewaterhouseCoopers LLP, and their report appears earlier in this document. The financial information for the year ended 30 June 2016 has been derived from the audited financial statements of Hargreaves Lansdown plc for that year, which have been reported on by PricewaterhouseCoopers LLP and delivered to the Registrar of Companies. Copies are available on-line at www.hl.co.uk. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by the way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The same accounting policies, methods of computation and presentation have been followed in the preparation of the Interim Financial Statements for the six months ended 31 December 2016 as were applied in the Audited Annual Financial Statements for the year ended 30 June 2016.

**Going concern**

Throughout the period, the Group was debt free, has continued to generate significant cash and has considerable financial resources enabling it to meet its day-to-day working capital requirements.

The Directors have considered the resilience of the Group, taking account of its current financial position, the principal risks facing the business in severe but reasonable scenarios and the effectiveness of any mitigating actions. As a consequence, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook and have adequate financial resources to continue in operational existence for a period of at least 12 months from the date of approval of these interim financial statements. They therefore continue to adopt the going concern basis in preparing the consolidated interim financial statements.

**2. Seasonality of operations**

A high proportion of the Group's revenue is derived from the value of assets under administration or management in either the Vantage Service or the Portfolio Management Service (PMS). The values of these assets are influenced predominantly by new business volumes, the stock market and client withdrawals. Of these factors, new business within Vantage tends to be seasonal with greater inflows in the second half of the financial year between January and June. This can be attributed to the timing of the UK tax year-end and the fact that many individuals review their investments around this time. The receipt of new business into PMS is less seasonal than this as a result of being distributed through our Financial Advisers. In this instance, the inflow of business is also influenced by the timing of when advisers meet with clients.

As new business only accounts for a small proportion of asset values and because of other revenue streams and market effects, overall Group net revenue is less seasonal than new business inflows. In the year ended 30 June 2016 51% of revenue was earned during the second half of the year (2015: 51%).

**3. Segment information**

The Group is organised into three business segments, namely the Vantage division, the Discretionary/Managed 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 Executive Directors.

The 'Vantage' division represents all activities relating to 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.

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, CFDs and spread betting. In this division, clients' investments are not administered within the Group. In addition this division includes the costs related to Hargreaves Lansdown Savings Limited ("HLS") in establishing its digital cash deposit service and P2P platform. To date no revenue has been generated by HLS.

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

# Notes to the Condensed Consolidated Financial Statements

**3. Segment information (continued)**

thus unallocated. At 31 December 2016 and 2015, 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 at arm's length prices, balances and investments in Group subsidiaries required on consolidation.

PMS platform is provided for Vantage products hence platform fees charged by PMS is included under the Vantage segment.

| | Vantage | Discretionary and Managed | Third Party/ Other Services | Group | Consolidation Adjustment | Consolidated |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **6 months ended 31 December 2016** | | | | | | |
| Revenue from external customers | 140,252 | 33,290 | 11,357 | - | - | **184,899** |
| Commission payable | (5) | (28) | (33) | - | - | **(66)** |
| Total segment net revenue | 140,247 | 33,262 | 11,324 | - | - | **184,833** |
| Depreciation and amortisation | (2,227) | (202) | (407) | - | - | **(2,836)** |
| Investment revenue | - | - | - | 443 | - | **443** |
| Other gains | - | - | - | 55 | - | **55** |
| Reportable segment profit before tax | 100,862 | 27,241 | 3,101 | (226) | - | **130,978** |
| Reportable segment assets | 345,244 | 31,731 | 4,057 | 223,970 | (31,834) | **573,168** |
| Reportable segment liabilities | (296,180) | (29,281) | (493) | (42,604) | 31,834 | **(336,724)** |
| Net segment assets | 49,064 | 2,450 | 3,564 | 181,366 | - | **236,444** |
| **6 months ended 31 December 2015** | | | | | | |
| Revenue from external customers | 161,135 | 29,197 | 10,410 | - | - | **200,742** |
| Commission payable | (41,878) | (27) | (36) | - | - | **(41,941)** |
| Total segment net revenue | 119,257 | 29,170 | 10,374 | - | - | **158,801** |
| Depreciation and amortisation | (1,984) | (185) | (326) | - | - | **(2,495)** |
| Investment revenue | - | - | - | 269 | - | **269** |
| Reportable segment profit before tax | 81,494 | 22,924 | 4,092 | (400) | - | **108,110** |
| Reportable segment assets | 294,377 | 18,948 | 12,143 | 211,010 | (20,184) | **516,294** |
| Reportable segment liabilities | (265,877) | (18,550) | (356) | (36,987) | 20,184 | **(301,586)** |
| Net segment assets | 28,500 | 398 | 11,787 | 174,023 | - | **214,708** |

**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.

## 4. Material events after interim period-end

After the interim balance sheet date, an ordinary interim dividend of 8.60 pence per share (H1 2016: interim dividend 7.80p) amounting to a total dividend of £40.7 million (2016: £36.9m) was declared by the plc Directors. These financial statements do not reflect this dividend payable.

There have been no other material events after the end of the interim period.

## 5. Changes in capital expenditure and capital commitments since the last annual balance sheet date

***Capital expenditure***

During the six months ended 31 December 2016, the Group acquired fixtures, fittings, plant, equipment and software assets and internally generated intangibles with a cost of £5.0 million (H1 2016: £3.3m, year to 30 June 2016: £6.6m).

***Capital commitment***

At the balance sheet date, the Group had capital commitments of £0.5 million relating to property, plant and equipment (31 December 2015: £0.8m, 30 June 2016: £1.1m).

## 6. Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group for the remainder of the financial year are those detailed on pages 36 to 39 of the Group's Annual Report and Financial Statements 2016, a copy of which is available on the Group's website www.hl.co.uk. These remain the principal risks and uncertainties for the second half of this financial year and beyond; the key ones of which are listed below and they are regularly considered by the Board.

***Operational risks***

- Cybercrime, fraud or security breaches in respect of the Group's information, data, software or information technology systems.
- Business continuity event.
- Changing markets and increased competition.

***Financial risks***

- Risk of a decline in earnings due to a decline in interest rates or regulatory changes affecting interest income.
- Fluctuations in the capital markets adversely affecting trading activity and /or the value of the Group's assets under administration.

The Group is exposed to interest rate risk, the risk of sustaining losses from adverse movements in interest bearing assets. These assets comprise cash and cash equivalents. At 31 December 2016 the value of such assets on the Group balance sheet was £193 million (at 31 December 2015: £182m). A 50bps (0.5%) move in interest rates, in isolation, would therefore, not have a material direct impact on the Group balance sheet or results. This exposure is continually monitored to ensure that the Group is maximizing 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.

As a source of revenue is based on the value of client cash under administration, the Group also has an indirect exposure to interest rate risk on cash balances held for clients. These balances are disclosed in Note 15 and are not on the Group balance sheet.

## 7. Staff numbers

| | **Unaudited 6 months ended 31 December 2016** | **Unaudited 6 months ended 31 December 2015** | **Audited Year to 30 June 2016** |
|---|---|---|---|
| | **No.** | **No.** | **No.** |
| Average number of employees of the Group (including executive directors) | 970 | 964 | 969 |

# Notes to the Condensed Consolidated Financial Statements

**8. Revenue**

Revenue represents platform and management fees charged to clients, transactional costs in relation to stockbroking and interest income on client money. 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:

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| **Revenue from services** | **£'000** | **£'000** | **£'000** |
| Recurring income | 141,992 | 168,416 | 317,089 |
| Transactional income | 39,166 | 29,453 | 65,035 |
| Other income | 3,741 | 2,873 | 6,209 |
| Total revenue | 184,899 | 200,742 | 388,333 |

Recurring income principally comprises £2.9 million of renewal income (H1 2016: £51.5m 2016: £76.9m), £13.7 million of management fees relating to the PMS Service and Vantage SIPP and ISA accounts (H1 2016: £13.1m, 2016: £25.5m), £26.3 million of management fees relating to the Hargreaves Lansdown Multi-Manager Funds (H1 2016: £21.4m, 2016: £44.1m), £80.6 million of platform fees (H1 2016: £68.5m, 2016: £139.4m) and £18.6 million of interest income on client money (H1 2016: £13.9m, 2015: £31.2m).

Transactional income comprises £30.2 million of commission earned from stockbroking transactions (H1 2016: £20.4m, 2016: £46.8m), adviser charges of £4.9 million (H1 2016: £5.4m, 2016: £10.5m) and other income of £4.1 million (H1 2016: £3.7m, 2016: £7.7m).

Other income represents the amount of fees receivable from the provision of funds data services and research through Library Information Services Ltd to external parties.

Following the implementation of the Retail Distribution Review ("RDR") on 1 March 2014, total revenue earned from investment funds held by clients significantly increased as a new platform fee was introduced. At the same time commission income was being received from the fund management groups on funds purchased by clients before the RDR implementation date. Where we still received commission on these pre RDR or "legacy funds" the vast majority was passed back to our clients in the form of a significantly higher loyalty bonus which was shown within commission payable in the income statement. From 1 April 2016 any renewal income received from fund management groups relating to legacy funds was passed back entirely to the client. This commission was therefore no longer recorded as a revenue and the loyalty payment to clients was no longer recorded as a cost. In order to aid comparability across this transitional period the measure of net revenue is felt to be more meaningful and hence has been used in assessing the financial performance and is shown in the income statement. Net revenue is measured as revenue less commission payable.

**9. Investment revenues**

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Interest on bank deposits | 440 | 242 | 458 |
| Dividends from equity investment | 3 | 27 | 171 |
| | 443 | 269 | 629 |

## Notes to the Condensed Consolidated Financial Statements

**10. Tax**

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |

The tax charge for the period is based on the prevailing effective standard rate of tax for the year to 30 June 2017 of 19.75% (30 June 2016: 20%).

| | | | |
|---|---|---|---|
| Current tax - on profits for the period | 25,478 | 21,269 | 40,771 |
| Current tax - adjustments in respect of prior years | 197 | (356) | (536) |
| Deferred tax | (1,047) | 72 | 231 |
| Deferred tax - adjustments in respect of prior years | - | 229 | 1,157 |
| | 24,628 | 21,214 | 41,623 |

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

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Deferred tax relating to share-based payments | 459 | (1,015) | 1,955 |
| Current tax relating to share-based payments | (183) | (2,446) | (3,122) |
| | 276 | (3,461) | (1,167) |

**11. Dividends paid**

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Amounts recognised as distributions to equity holders in the period:** | | | |
| 2016 Special dividend of 9.90p per share | 46,797 | - | - |
| 2016 Second interim dividend of 16.30p per share | 77,049 | - | - |
| 2016 First interim dividend of 7.80p per share | - | - | 36,817 |
| 2015 Second interim dividend of 14.30p per share | - | 67,515 | 67,515 |
| 2015 Special dividend of 11.40p per share | - | 53,850 | 53,850 |
| **Total** | 123,846 | 121,365 | 158,182 |

The Hargreaves Lansdown Employee Benefit Trust (the "EBT"), which held the following number of ordinary shares in Hargreaves Lansdown plc at the date shown, has agreed to waive all dividends.

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| Number of shares held by the Hargreaves Lansdown Employee Benefit Trust (HL EBT) | 1,540,551 | 1,098,096 | 1,724,330 |
| Representing % of called-up share capital | 0.32% | 0.23% | 0.36% |

### 11. Dividends paid (continued)

**Breach of Companies Acts requirements in respect of historic dividend payments – circular to shareholders**

The Board has become aware of a technical issue in respect of the payment of a number of historic dividends paid by the Company.

The Company has always filed its statutory annual accounts on time in accordance with the requirements of the Companies Act 2006 (and before that, the Companies Act 1985) (the "Acts"), and at all times had sufficient profits and other distributable reserves to justify the payment of dividends.

However, the Company has not satisfied certain procedural requirements of the Acts before paying certain of the dividends in the years since the Company's IPO (the "Relevant Distributions"). These procedural requirements relate to the failure to file interim accounts at Companies House which justified the payment of interim dividends or the payment of final dividends before the circulation to members of the audited accounts of the Company in respect of the relevant financial year.

The Company has been advised that, as a consequence of the above distributions being made otherwise than in accordance with the Acts, it may have claims against past and present shareholders who were recipients of the Relevant Distributions and against those persons who were directors of the Company at the time of the Relevant Distributions.

The Company wishes to put all potentially affected parties so far as possible in the position in which they were always intended to be had the Relevant Distributions been made in accordance with the procedural requirements of the Acts.

Accordingly, the Company intends to convene a general meeting at which a resolution will be proposed, which will, if passed, give the Board authority to enter into deeds of release to discharge these parties from any obligation to repay any amount to the Company in connection with the Relevant Distributions.

The entry by the Company into the Shareholders' Deed of Release constitutes a related party transaction (as defined in the Listing Rules). This is because Peter Hargreaves and Stephen Lansdown, who each hold more than 10% of the Company's voting rights and are therefore deemed to be related parties under the Listing Rules, will be released from any liability to repay any amounts of the Relevant Distributions received by them, in the same manner as other shareholders. In addition, the entry by the Company into the Directors' Deed of Release will also constitute a related party transaction with respect to the Directors. Therefore, the resolution to be proposed will also seek the specific approval of the Company’s shareholders for the entry into each of the Shareholders’ Deed of Release and the Directors’ Deed of Release as a related party transaction, in accordance with the requirements of the Listing Rules.

The proposed ratification of the Relevant Distributions, and the entry by the Company into the Shareholders’ Deed of Release and Directors' Deed of Release will not have any effect on the Company’s financial position.

A circular to shareholders to convene the general meeting and giving more information about the Relevant Distributions will be sent to shareholders shortly.

### 12. 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 by adjusting the weighted average number of ordinary shares outstanding by assuming the 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 1,807,900 as at 31 December 2016 (283,152 at 31 December 2015 and 1,285,073 at 30 June 2016).

# Notes to the Condensed Consolidated Financial Statements

## 12. Earnings per share (continued)

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| **Earnings (all from continuing operations)** | **£'000** | **£'000** | **£'000** |
| Earnings for the purposes of basic and diluted EPS being net profit attributable to equity holders of the parent Company | 106,072 | 86,711 | 176,895 |
| **Number of shares** | **Number** | **Number** | **Number** |
| **Weighted average number of ordinary shares** | 474,318,625 | 474,318,625 | 474,318,625 |
| Weighted average number of shares held by HL EBT | (1,594,886) | (2,015,387) | (1,976,360) |
| Weighted average number of share options held by HL EBT which have vested unconditionally with employees | 893,358 | 720,836 | 559,604, |
| **Weighted average number of shares for the purposes of basic EPS** | 473,617,097 | 473,024,074 | 472,901,869 |
| Weighted average number of dilutive share options held by HL EBT which have not vested unconditionally with employees | 731,379 | 1,581,090 | 1,818,222 |
| **Weighted average number of shares for the purpose of diluted EPS** | 474,348,476 | 474,605,164 | 474,720,091 |
| **Earnings per share** | **Pence** | **Pence** | **Pence** |
| Basic EPS | 22.4 | 18.3 | 37.4 |
| Diluted EPS | 22.4 | 18.3 | 37.3 |

## 13. Investments

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| At beginning of period | 994 | 909 | 909 |
| Sales | - | (182) | - |
| Purchases | 824 | - | 85 |
| At end of period | 1,818 | 727 | 994 |
| **Comprising:** | | | |
| Current asset investment - UK listed securities valued at quoted market price | 1,554 | 463 | 730 |
| Current asset investment - Unlisted securities valued at cost | 264 | 264 | 264 |

£1,554,000 (31 December 2015: £463,000, 30 June 2016: £730,000) of investments are classified as held at fair value through profit and loss and £264,000 (31 December 2015: £264,000, 30 June 2016: £264,000) 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 Condensed 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, with a fair value adjustment recognised upon disposal of the investment.

# Notes to the Condensed Consolidated Financial Statements

## 14. Trade and other receivables

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Financial assets:** | | | |
| Trade receivables | 301,527 | 271,035 | 576,402 |
| Other receivables | 1,507 | 899 | 559 |
| | 303,034 | 271,934 | 576,961 |
| **Non-financial assets:** | | | |
| Accrued income | 46,053 | 32,616 | 33,546 |
| Prepayments | 4,657 | 3,683 | 6,506 |
| | 353,744 | 308,233 | 617,013 |

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 totalling £291.2 million (31 December 2015: £252.5m, 30 June 2016: £560.9m) are included in trade receivables. These balances are presented net where there is a legal right of offset and the ability and intention to settle net. The gross amount of trade receivables is £349.9 million and the gross amount of offset in the balance sheet with trade payables is £58.7 million. Other than counterparty balances trade receivables primarily consist of fees and amounts owed by clients. There are no balances where there is a legal right of offset but not a right of offset in accordance with accounting standards, and no collateral has been posted for the balances that have been offset.

## 15. Cash and cash equivalents

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Restricted cash - balances held by Hargreaves Lansdown EBT | 2,895 | 15,985 | 3,184 |
| Group cash and cash equivalent balances | 189,843 | 165,731 | 208,209 |
| | 192,738 | 181,716 | 211,393 |

Cash and cash equivalents comprise cash on hand and demand deposits held by the Group that are readily convertible to a known amount of cash. The carrying amount of these assets is approximately equal to their fair value.

At 31 December 2016 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 £7,423 million (31 December 2015: £5,125m, 30 June 2016 £6,953m). In addition there were currency service cash accounts held on behalf of clients not governed by the client money rules of £35 million (31 December 2015: £7m, 30 June 2016 £18m). The client retains the beneficial interest in both these deposits and cash accounts and accordingly they are not included in the balance sheet of the Group.

**16. Trade and other payables**

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Financial liabilities:** | | | |
| Trade payables | 286,042 | 251,414 | 556,754 |
| Social security and other taxes | 3,844 | 5,290 | 7,404 |
| Other payables | 15,148 | 19,191 | 3,888 |
| | 305,034 | 275,895 | 568,046 |
| **Non-financial liabilities:** | | | |
| Accruals | 8,780 | 6,748 | 13,369 |
| Deferred income | 309 | 233 | 270 |
| | 314,123 | 282,876 | 581,685 |

In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties totalling £286.0 million (31 December 2015: £250.0m, 30 June 2016: £555.5m) are included in trade payables. As stated in Note 14, where we have a legal right of offset and the ability and intention to settle net, trade payable balances have been presented net. The gross amount of trade payables is £344.7 million and the gross amount offset in the balance sheet with trade receivables is £58.7 million. There are no balances where there is a legal right of offset but not a right of offset in accordance with accounting standards, and no collateral has been posted for the balances that have been offset.

Other payables principally comprise amounts owed to clients as a loyalty bonus and to staff as a bonus. 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.

**17. Share capital**

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Issued and fully paid:** | | | |
| Ordinary shares of 0.4p | 1,897 | 1,897 | 1,897 |
| | **Shares** | **Shares** | **Shares** |
| **Issued and fully paid:** | | | |
| Number of ordinary shares of 0.4p | 474,318,625 | 474,318,625 | 474,318,625 |

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

**18. Notes to the consolidated cash flow statement**

| | Unaudited 6 months ended 31 December 2016 | Unaudited 6 months ended 31 December 2015 | Audited Year to 30 June 2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Profit for the period after tax** | 106,350 | 86,896 | 177,256 |
| Adjustments for: | | | |
| Investment revenues | (443) | (269) | (629) |
| Income tax expense | 24,628 | 21,214 | 41,623 |
| Depreciation of plant and equipment | 1,783 | 1,726 | 3,537 |
| Amortisation of intangible assets | 1,053 | 769 | 1,678 |
| (Profit) on disposal | (55) | - | - |
| Share-based payment expense | 1,348 | 1,124 | 2,525 |
| Increase in provisions | - | - | 255 |
| **Operating cash flows before movements in working capital** | 134,664 | 111,460 | 226,245 |
| Decrease/(increase) in receivables | 263,268 | 103,472 | (205,308) |
| (Decrease)/increase in payables | (267,563) | (114,386) | 184,423 |
| **Cash generated from operations** | 130,369 | 100,546 | 205,360 |

**19. Related party transactions**

The Company has a related party relationship with its directors and members of the Executive Committee (the "key management personnel"). Apart from the transaction disclosed below there were no material changes to the related party transactions during the financial period; transactions are consistent in nature with the disclosure in Note 27 to the 2016 Annual Report.

On 12 October 2016, the Company sold 7.5% of the ordinary share capital it held in its subsidiary undertaking Hargreaves Lansdown Savings Limited (HLS). The shares were sold to Stuart Louden, the Group Savings Director and currently the only other shareholder, who is an employee of Hargreaves Lansdown Asset Management Limited. The price paid per share was £1,000. As there is no readily available market for these shares the Directors had to assess a valuation based on the risks and rewards of the parties involved given the uncertainty of establishing a new start up entity and its future potential. As a result HLS was valued at £1 million and the directors of the Company therefore, deemed £1,000 per share to be a fair price in the circumstances. The total amount paid was £75,000 and this was settled immediately in cash. Following the share sale the Company now holds 92.5% of the ordinary share capital in HLS and Stuart Louden holds 7.5%. The transaction was completed in order to provide incentive to Stuart Louden to successfully develop the business of HLS into a profitable company. In addition the Company has granted Stuart Louden an option to purchase a further 2.5% of the ordinary share capital at a price of £500,000. This purchase option may be exercised at any time prior to 31 August 2021 provided that at the time of exercise Stuart Louden is an employee of a Hargreaves Lansdown Group Company and he has not at any time given notice to terminate such employment.

**20. Financial instruments' fair value disclosure**

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 value of 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. There have been no transfers of assets or liabilities between levels of the fair value hierarchy and there are no non-recurring fair value measurements.

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** Quoted prices for similar instruments | **Level 2** Directly observable market inputs other than Level 1 inputs | **Level 3** Inputs not based on observable market data | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | | **£'000** |
| **Unaudited at 31 December 2016** | | | | |
| Financial assets at fair value through profit or loss | 1,554 | - | - | **1,554** |
| Available-for-sale financial assets | - | - | - | **-** |
| | 1,554 | - | - | **1,554** |
| **Unaudited at 31 December 2015** | | | | |
| Financial assets at fair value through profit or loss | 463 | - | - | **463** |
| Available-for-sale financial assets | - | - | - | **-** |
| | 463 | - | - | **463** |
| **Audited at 30 June 2016** | | | | |
| Financial assets at fair value through profit or loss | 730 | - | - | **730** |
| Available-for-sale financial assets | - | - | - | **-** |
| | 730 | - | - | **730** |

# Glossary of Alternative Performance Measures

**EXECUTIVE DIRECTORS**
Ian Gorham
Christopher Hill

**NON-EXECUTIVE DIRECTORS**
Chris Barling
Mike Evans
Shirley Garrood
Jayne Styles
Stephen Robertson

**COMPANY SECRETARY**
Judy Matthews

**INDEPENDENT AUDITOR**
PricewaterhouseCoopers LLP, London

**SOLICITORS**
Osborne Clarke LLP, Bristol

**PRINCIPAL BANKERS**
Lloyds Bank plc, Bristol

**BROKERS**
Barclays
Numis Securities Limited

**REGISTRARS**
Equiniti Limited

**REGISTERED OFFICE**
1 College Square South
Anchor Road
Bristol
BS1 5HL

**REGISTERED NUMBER**
02122142

**WEBSITE**
www.hl.co.uk

**DIVIDEND CALENDAR 2016/17**

| | First dividend (interim) |
|---|---|
| **Ex-dividend date*** | 9 March 2017 |
| **Record date**** | 10 March 2017 |
| **Payment date** | 30 March 2017 |

* Shares bought on or after the ex-dividend date will not qualify for the dividend.
** Shareholders must be on the Hargreaves Lansdown plc share register on this date to receive the dividend.

## Glossary of Alternative Performance Measures

Within the Interim Report and Condensed Financial Statements various Alternative Financial Performance Measures are referred to, which are non-GAAP (Generally Accepted Accounting Practice) measures. They are used in order to provide a better understanding of the performance of the Group and the table below states those which have been used, how they have been calculated and why they have been used.

| Measure | Calculation | Why we use this measure |
|---|---|---|
| Cash conversion ratio (%) | The operating cash flows for the year divided by the operating profits for the period. | Provides a measure of the efficiency with which profits are converted into cash. |
| Dividend per share (pence per share) | Total dividend payable relating to a financial year divided by the total number of shares eligible to receive a dividend. Note ordinary shares held in the Hargreaves Lansdown Employee Benefit Trust have agreed to waive all dividends. | Dividend per share is pertinent information to shareholders and investors and provides them with the ability to assess the dividend yield of the Hargreaves Lansdown plc shares. |
| Operating Costs | The costs per the Income Statement excluding commission payable (i.e. the aggregate of staff costs, other operating costs and FSCS costs). | In light of the transitional period relating to the Retail Distribution Review (see Net Revenue below) and the impact this had on commission payable in the form of loyalty bonuses, this measure of Operating Costs provides a more useful comparative measure over time. |
| Organic new business | Represents new business other than that which has been acquired in deals to acquire books of business from Asset Management groups. | This has been used to better compare the net new business on a like-for-like basis. |
| Net new business inflows | Represents subscriptions, cash receipts, cash and stock transfers in less cash withdrawals, cash and stock transfers out. | Provides a measure of tracking the success of gathering assets on to the platform over time. |
| Net revenue (£)<br><br>(See Income Statement on page 13 for the reconciliation of net revenue) | Total revenue less commission payments which are primarily loyalty bonuses paid to Vantage clients. | Because of the changes brought about to the client charging structure by the Retail Distribution Review ("RDR") there was a transitional period (from 1 March 2014 to 1 April 2016). From 1 March 2014 revenue was increased as Hargreaves Lansdown earned both a new platform fee from clients and the existing renewal commission from the Fund Management Groups based on the value of funds held by clients. At the same time the loyalty bonus paid to clients was significantly increased on the pre-RDR funds to largely mitigate the impact of the new platform fee. In order to aid comparability during the period of transition to 1 April 2016 the net revenue measure became the most useful comparative measure of revenue as it better reflected the underlying income relating to funds held by clients. |
| Percentage of recurring net revenue (%) | The total value of renewal commission (after deducting loyalty bonuses), platform fees, management fees and interest earned on client money divided by the total net revenue. | Provides a measure of the quality of our earnings. We believe recurring revenue provides greater profit resilience and hence it is of higher quality. |
| Vantage net revenue margin (%) | Total Vantage net revenue divided by the average value of assets under administration which includes the Portfolio Management Services assets under management held in funds on which a platform fee is charged. | Provides the most comparable means of tracking, over time, the margin earned on the assets under administration and is used by management to assess business performance. |
| Vantage net revenue margin from cash (%) | Net revenue from cash (net interest earned on the value of client money held on the Vantage platform divided by the average value of assets under administration held as client money. | Provides a means of tracking, over time, the margin earned on cash held by our clients. |
| Vantage net revenue margin from funds (%) | Net revenue derived from funds held by clients (platform fees, initial commission less loyalty bonus) divided by the average value of assets under administration held as funds, which includes the Portfolio Management Services assets under management held in funds on which a platform fee is charged. | Provides the most comparable means of tracking, over time, the margin earned on funds held by our clients. |
| Vantage net revenue margin from shares (%) | Net revenue from shares (stockbroking commissions, management fees where shares are held in a SIPP or ISA, less the cost of dealing errors) divided by the average value of assets under administration held as shares. | Provides a means of tracking, over time, the margin earned on shares held by our clients. |