Hargreaves Lansdown plc
Report and Financial Statements

For the year ended 30 June 2012

Contents

*Forms part of the Directors' report

Hargreaves Lansdown

One College Square South,
Anchor Road, Bristol, BS1 5HL
Tel: 0117 900 9000
www.hl.co.uk

Hargreaves Lansdown at a glance

We are the UK's largest direct to investor 'investment supermarket' with an annual turnover in excess of £238 million. We administer more than £26 billion of investments in our ISA, SIPP and Investment accounts for over 425,000 clients, and have arranged investments for over a million clients.

We continue to invest in technology to enhance our client services such as new iPhone and Android apps, additional stockbroking facilities and even lower prices.

Our clients saved more than £200 million on investment charges last year.

We provide award winning services. 95% of our clients rated our service as good, very good or excellent.

Our business

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

Highlights

£26.3 billion
Value of investments administered for clients, a 7% increase.

Hargreaves Lansdown's success is built around clients, staff and high quality service. We have had another strong year as we focus on providing excellent service, value, and simplicity.

5.6 million
Number of trades dealt for clients in the year, 8% increase.

£3.2 billion
Value of net new business inflows, a 9% decrease.

Profit before tax (£m)
£152.8m

2012	152.8
2011	126.0
2010	86.3
2009	73.1
2008	60.9

Revenue (£m)
£238.7m

2012	238.7
2011	207.9
2010	159.0
2009	132.8
2008	120.3

425,000
Number of clients using our Vantage service, a 45,000, 12% increase.

Diluted earnings per share (pence)
24.1p

2012	24.1
2011	19.6
2010	13.1
2009	11.1
2008	9.0

Dividend per share (pence)
22.59p

2012	22.59
2011	18.87
2010	11.88
2009	10.10
2008	7.80

Chairman's Statement

"I am pleased to report that Hargreaves Lansdown has had another positive year. The Group has continued to attract significant numbers of new clients and is reporting increased profits despite a year marked by economic and regulatory uncertainty."

Michael Evans - Chairman

20%
increase in dividends

Introduction
The number of investors using Vantage, our investment platform, now stands at 425,000. We have always recognised the need to strive to delight the people who invest through us. Our recent client satisfaction survey confirms 95% of clients rate the Hargreaves Lansdown service as good, very good or excellent and client retention has remained extremely high at 94.4%

Dividend
Capital adequacy requirements have increased over the years and Hargreaves Lansdown has always retained a healthy margin over the regulatory requirement. After careful review of the company's future cash requirements the Board has decided to increase the second (final) dividend and pay an ordinary dividend of 10.65p per share (2011: 8.41p) and an increased special dividend of 6.84p per share (2011: 5.96p) making the total dividend for the year 22.59p per share (2011: 18.87p). Although Hargreaves Lansdown has many initiatives in train, it is the Board's view that these will be easily funded from future cash flow.

The Board
On 3 October 2011, we were delighted to appoint two new independent non-executive directors: Dharmash Mistry and Stephen Robertson. Dharmash is a partner at Balderton Capital LLC and has a deep knowledge in digital media. Stephen is the Director General of the British Retail Consortium. Dharmash and Stephen bring a wealth of complementary experience to Hargreaves Lansdown and broaden the diversity of Board skills.

At this year's Annual General Meeting, Stephen Lansdown will be stepping down from the Board. Having founded this business with Peter Hargreaves in 1981, Stephen has been instrumental to the success of the Group. He has served as a non-executive director for the last two years and will continue to provide his experience and insight in the role of a major shareholder. On behalf of the Board and indeed the whole Group, I would like to express my gratitude to Stephen for his immense contribution to the Group.

Governance
As a financial services company in the FTSE 100, we recognise the need to ensure that our governance continues to be of the highest standard. Our Corporate Governance statement on pages 36 to 43 details our compliance with the UK Corporate Governance Code. The Board Effectiveness Review, which is summarised on page 38, drew out some important conclusions which will form part of my priorities for the coming year. We have engaged with a number of our shareholders on proposed revisions to our remuneration policy, details of which can be found on pages 47-56.

Summary
We have again reported a strong set of results. My gratitude goes to all our staff for their continuing hard work and to the Board for their energy and guidance. As we prepare for the final implementation of the Retail Distribution Review, we continue to focus on the needs of clients; a philosophy which will drive our continued growth.

Michael Evans
Chairman
14 September 2012

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. Over the last year we have saved our clients more than £200 million in discounts on initial and annual charges along with rebates paid to clients via our Loyalty Bonus.

Vantage Service
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 save money.

Access to free education, interactive tools and guides
We keep clients up to date with tax and economic information in our regularly updated free guides, expert comments and HLTV webcasts. Our Investment Times magazine contains investment ideas and expert comments. Our online Knowledge Centre contains expert guides, such as the Guide to Fund Prices and Yields, interactive tools such as Pension calculators, and a wealth of other information to support novice and experienced investors alike with their investment decisions.

Timely, free, independent research to help make better investment decisions
Our research team (headed by investment experts Mark Dampier and Lee Gardhouse) investigate thousands of different investments and meet hundreds of fund managers a year. Its findings are available free via our Wealth 150 list of favourite funds in each sector, latest investment ideas and our Investment Times newsletter. For those Vantage clients seeking some guidance on setting up an investment portfolio we have set up our Master Portfolios which are ready-to-go, diversified portfolios for lump sum investments or regular savings.

“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.”

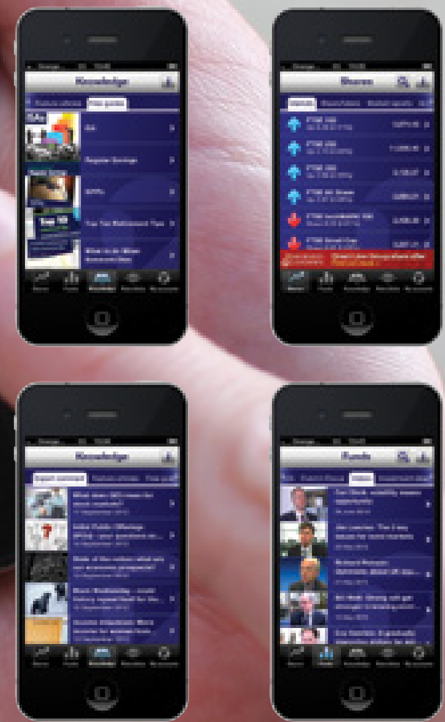
Mr Wade, Norwich, January 2012

Our investment research team

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

“This has become my preferred way to trade. It allows me to react any time any where. HL are fantastic and so is this app.” ★★★★★

App review 05/10/2012



Mobile technology

60,000+

number of HL Live Apps downloaded

BACK TO CONTENTS

Saving for your family
Parents, grandparents and other adults can help build a child's investments for a more financially secure future using a designated account, where they can manage the assets for a child's benefit. It is now possible to start saving into a Self-Invested Personal Pension (SIPP) for children shortly after they are born. In November 2011 the Junior ISA was launched in the UK - Vantage Junior ISA clients can receive the Aardman designed Pedro the Penguin moneybox when they open an account. Investment accounts for the whole family can be managed easily online using the "linked accounts" function.

Saving for retirement
A SIPP is one of the most tax efficient ways of saving for retirement which puts you in control. Whereas traditional pensions typically limit investment choice to a shorter list of funds, normally run by the pension company's own fund managers, a SIPP lets you invest almost anywhere you like. It can be managed completely online, enabling you 24/7 access to your investments at the click of a mouse. Our award-winning Vantage SIPP lets you choose from thousands of funds run by some of the finest fund managers. You can also take your pick from individual shares, corporate bonds, gilts, investment trusts, ETFs and cash.

A retirement service that could increase your 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 cases it could improve income by up to 40% more. 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.

Pedro the Penguin

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

Looking for investment advice?
We understand that not everyone feels confident in making their own investment decisions and some prefer individual advice. Where that is the case we have a team of over 70 highly qualified independent advisers based nationwide who are able to help clients either face-to-face or over the telephone. They can give one-off advice, help build an investment portfolio, or provide access to a full ongoing Portfolio Management Service (PMS). We also provide our own range of Multi-Manager funds. The Hargreaves Lansdown approach is unique and represents the best starting point if you're seeking advice. It's based upon our belief that you should only pay for things you need and value. We believe this is just as true for advice as for any other walk of life.

Corporate Services
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. We also offer a market-leading retirement and annuity broking service allowing employees to obtain a higher income via our annuity search engine.

> "The setting up of the Junior ISA was seamless. I helped Granny add money which was straightforward and my oldest son has used the general research pages to check what he would like to invest in - which we check before we buy for him. Thanks."
>
> **Mr Innes, Renfrewshire.**

Other Services
We offer a foreign currency service to both private clients and companies and for more sophisticated investors the ability to invest in Venture Capital Trusts (VCTs), Enterprise Investment Schemes (EIS), Contracts For Difference and Financial Spread Betting. The full range of our services can be viewed on the website at www.hl.co.uk/investment-services

> "Outstanding Service!
> 1. Transfers speedy and 100% correct.
> 2. Website easy to use.
> 3. Monthly magazine very useful
> 4. Analytical tools of website excellent - no need to do my spreadsheets now."
>
> **Mr Wilson, Heath - September 2011**

Our Clients
We have 425,000 active Vantage clients and 12,000 clients in our Portfolio Management Service. We have client relationships with over 580 companies including 34 FTSE 100 companies. The key to the growth and success of our services is that we listen to our clients and respond to their needs. We welcome comments and criticisms so that we can further improve the service and provide clients with what they want. Our management team reviews and responds to client feedback personally.

The full range of our services can be viewed on the website at: www.hl.co.uk/investment-services

Our Corporate annuity and Corporate Vantage wrap services are provided to many well-known companies.

Award-winning services

We win prestigious awards every year for delivering exceptional service to clients across the financial spectrum.

2012

Best SIPP Provider (07, 08, 09, 10, 11, 12)
What Investment

Best Stocks & Shares ISA Provider
What Investment

Best Share/Fund Dealing Service
What Investment

Best Online Fund Supermarket
MoneyAM Awards

Best Overall Finance Provider
MoneyAM Awards

Best Corporate Wrap/Platform Provider
Professional Pensions Awards 2012

Pensions IFA of the year – Tom McPhail
Unbiased.co.uk Media Adviser Awards

The Direct Platform Best User Experience Ratings
The Platforum

Chief Executive's review

"We present our results for the year ended 30 June 2012. In summary Hargreaves Lansdown has again delivered good growth, with record revenues (+15%) and operating profits (+21%). In addition new, innovative services have furthered growth in assets and client numbers."

Ian Gorham - Chief Executive

We remain committed to an asset gathering strategy. Our motivated staff and strong business model deliver value, efficiency and excellent service to retail investors. 95% of clients rate our services as good, very good or excellent, and client recommendation remains one of the key sources of recruiting new clients.

We are focused on our clients and three areas of major potential growth: the private and occupational pensions market; our investment supermarket; and digital media and the internet. Within this framework we have invested and continue to invest in a wide portfolio of new initiatives.

Review of the economic background

Last year's report commented that the political environment was turbulent and uncertain and noted that much of Western society was heavily indebted, both at a sovereign and personal level. These statements remain equally valid for the year under review, indicative of the fact we are in a drawn-out recession. Concerns about the economy, the future of the euro and debt exposure of countries, banks and individuals are consistent themes.

In our previous financial year to 30 June 2011 we benefited from a 21% stock market rise. This year, the succour of a stock market rise disappeared, with the FTSE All Share reversing by 7% in the year to 30 June 2012, leaving it at our year-end at the level it achieved 14 years ago in February 1998.

All in all, it is not surprising that the general retail investment market fared badly. The Investment Management Association (IMA) net retail sales figures for funds showed a fall of 58% for the year to 30 June 2012 compared to the comparative period last year.

As investor confidence is heavily influenced by stock market momentum, our continued strong growth is a testament to the diligence of our company in focusing on clients and investing in new and innovative services.

Hargreaves Lansdown's 2012 results

We are delighted to report a record profit before tax of £152.8 million, up 21% on last year's £126.0 million. The key contributors to these excellent results have been the success of new services, careful husbandry of existing resources and cost control.

Bearing in mind the headwind of a market fall of 7%, we report a commendable 7% increase in client assets under administration from £24.6 billion to £26.3 billion. Adjusting for the effects of markets, net new client investments for the year were £3.2 billion and 45,000 investors became new clients during the year.

Our Corporate Vantage service continues to expand, with 47 schemes live or in implementation, a 74% increase in schemes which has been accompanied by a 182% increase in Corporate Vantage assets. Although still in its early stages, this project remains long-term, but we are delighted with the success to date and it is clearly on the path to becoming a material part of Hargreaves Lansdown's business. 2013 sees the first phase of pension auto-enrolment in the UK, which is advantageous to this division.

Our mission is to retain our position as the best place in the UK to buy investments. During the year we improved our stockbroking services both in pricing and scope including Investment Trusts, passive funds and ETFs. Our share of the UK stockbroking market rose to 14.3% for the second quarter of 2012. We also introduced our Junior ISA and have gained a 15% share of the entire UK Junior ISA market.

Digital media offers a new means of communication. We continue to invest in advanced online technology and expertise. Our iPhone app has now been downloaded over 60,000 times and 2012 will see us launch complementary iPad applications. Mobile investing will be a key part of the future of Hargreaves Lansdown.

None of this success would be possible without the support of our clients. We continue to work hard to retain client loyalty and deliver high service levels. In 2012 Hargreaves Lansdown has been a shining example that a reputable company focusing on clients can delight the UK public.

2012 market outlook

It is difficult to see the economic storm clouds dissipating in the next 12 months. We believe austerity will continue despite the political clamour for countries to focus on growth. In time a more positive environment might develop, but we do not expect short term improvement.

"Bearing in mind the headwind of a market fall of 7%, we report a commendable 7% increase in client assets under administration from £24.6 billion to £26.3 billion."

+15%
increase in revenues

+21%
increase in operating profit

45,000
investors became new clients

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. The depressed levels of equity markets also offer patient investors the opportunity for future capital growth.

Company outlook

Hargreaves Lansdown's position is strong. We are estimated to have 28.6% of the direct investing market in the UK (Source: The Direct Platform Guide Issue 2 February 2012), a position built through delivering exceptional service, information and value. As a profitable company with no debt we present the financial strength to give investors comfort over the safety of their investments, to reinvest in our business and respond to competitive activity.

In 2013 we shall continue to enhance our services. Many of these improvements will be revealed in due course but include improved SIPP incentives and an online transfer service. An iPad app and improved functionality to allow clients to more easily control their entire family's assets will augment the reasons to consolidate assets with Hargreaves Lansdown.

As we continue to improve our business we share the benefits of scale, technology and success with our clients in a virtuous circle. Returning value to clients has been key to the success of Hargreaves Lansdown. Costs and charges for retail investors will continue to reduce over time. This will affect our revenue margins but we expect the market and our clients to reward us by increased business. The internet, dislocation of the financial advice market and initiatives such as auto-enrolment should aid further growth.

Since the year-end, there has been nothing to change our outlook on the economic backdrop that we operate in, but given our strength of service and offering we are confident that we will continue to enhance the brand of Hargreaves Lansdown subsequently rewarding both clients and shareholders.

The impact of regulation

A by-product of perceived public and political disenchantment with financial services is the likelihood of more regulation. Whilst Hargreaves Lansdown has delivered excellent service and is an example of what a good financial services company should represent, there is no carve-out from regulation in our country for those with a good record. We therefore expect regulatory change to continue.

Additional regulation presents challenge and cost, but also opportunity. Hargreaves Lansdown has the scale, resources and innovative skills to cope with additional regulation. It is an effective barrier to entry to new competitors.

The Retail Distribution Review (RDR) reforms remain a major theme. It seems that as far as Hargreaves Lansdown is concerned the RDR reforms will take place in two phases.

"RDR Phase 1" commences on 31 December 2012 and relates mainly to financial advice. Hargreaves Lansdown is entirely compliant with this regulation well in advance of its commencement. Our financial advisers are qualified well beyond the requisite levels and we charge a fee for any advice. This regulatory change also presents some opportunity, in particular improvements in portability of client investments which may assist clients who wish to transfer their assets to Hargreaves Lansdown.

Although the proposals are still in consultation, it seems "RDR Phase 2" is likely to take place on 31 December 2013. It is likely the reforms then will require the unbundling of pricing on investment products. Fees for investment management and distribution and custodianship must be charged separately to clients. Whilst the detail remains to be confirmed, we remain confident about these proposals. Provided they are applied fairly to all participants in the market and well communicated, our proposition of a strong service and value offering to a loyal client base should help us weather the change well. We have undertaken a range of modelling and preparatory activities and have had dialogue with the FSA.

The coming year will see two new regulators, the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA). Hargreaves Lansdown will be regulated by the FCA. As a reputable firm we continue to consider ourselves to have a constructive relationship with regulators and do not foresee any disruption from the changing regulatory structure.

Costs for contributions to the Financial Services Compensation Scheme (FSCS) continue to rise. Whilst we are highly supportive of a safety net for retail investors, we remain critical of the conduct of the FSCS and the way it is funded. Recent proposals suggesting instigators of frauds should be allowed to claim compensation for their own misdemeanours and that checks on eligibility could be waived have done nothing to soften our view. We continue to campaign for a rational, sensible compensation scheme.

Whilst Hargreaves Lansdown has had great success in promoting Junior ISAs to the public, the fact that many children cannot take part because they are locked into the Child Trust Fund (CTF) regime is a matter of concern on which we continue to lobby the Government. We support improved portability of client assets allowing retail investors to move easily from old, obsolete investment plans to better value modern products such as those offered by Hargreaves Lansdown. We remain the friend of the retail investor and continue to work tirelessly to improve their lot.

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. 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.

Ian Gorham
Chief Executive
14 September 2012

Our strategy and objectives

Hargreaves Lansdown aims to help investors make more of their money by aiming to provide the best information, the best service and the best prices in its areas of operation. This philosophy should create value for clients, shareholders and staff.

Hargreaves Lansdown predominantly derives earnings based on the value of investments under administration or management. The Group is renowned for innovative marketing, and a focus on client satisfaction and retention through first class service and information. The Company employs a unique marketing driven formula, which is cost effective, scalable and profitable.

Fundamental to achieving these objectives is ensuring the retention of trust of our clients by consistently delivering on commitments. We have put the long-term interests of the client first, regardless of short-term pressures, fashions or market conditions. Our clients have rewarded us by delivering more assets and recommending us to others. By creating value for clients, we shall create long-term value for shareholders and provide fulfilling careers for staff.

To fulfil our objectives our strategy is focused into the four key areas shown below.

Our ongoing aims are:

- Attract and retain clients by identifying and satisfying their investment requirements
- Improving the quality of earnings through increasing recurring income
- Increase shareholder value through delivering consistent growth in earnings per share and a growing stream of dividend income
- Managing risk effectively
- Maintaining our entrepreneurial culture where we remain flexible and responsive to opportunities, competition and the changing environment; and
- Motivate and retain our talented employees through rewarding roles and incentives aligned to the goals of our clients

Our strategic focus in the 2013 financial year is:

- Asset gathering from existing and new clients
- Continued commercial improvements to enhance the client experience
- Expansion of digital media use
- Continued operational improvements to improve efficiency and/or reduce risk
- Increased promotion of our SIPP and Corporate Vantage offering
- Continued investment in IT and scalability
- Preparation for regulatory changes

BACK TO CONTENTS

Hargreaves Lansdown plc Report and Financial Statements 2012

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

Strategic priorities and progress

How are we doing?

Our 2012 priorities

Excellent service

- Continued commercial improvements to services to enhance the client experience.

Asset gathering

- Progress the Investment Supermarket strategy.
- Continued energy into new initiatives, such as Corporate Vantage and the Junior ISA.
- Tapping into new channels to market.

Efficiency improvements

- IT and scalability investment.
- Continued operational efficiency improvements.

Quality staff

- Continued focus on retention of quality staff, and expansion of advisory business.

Progress against our objectives

Excellent service

- In 2012 we maintained our excellent client retention rate of 94.4%.
- 95% of clients responding to a June 2012 survey rated our service as good, very good or excellent.
- The scope of online services has been extended. Improved share dealing functions including online overseas dealing, iPhone and Android apps, stops and limits functionality have been developed.
- New charting tools introduced.
- Added Vanguard and SWIP low cost passive funds to Vantage service.
- Introduction of a new cash ISA.

Asset gathering

- In 2012, assets under administration (AUA) increased by £1.6 billion. The asset retention rate remained very high at 93.8%.
- A more competitively priced share dealing tariff was launched on 1 August 2011.
- Corporate Vantage service gained an additional 18 corporate clients during the year with AUA as at 30 June 2012 of £95 million (2011: £33 million).
- Over 8,000 Junior ISA accounts opened with a c15% market share by value.
- Improved coverage of ETF's and Investment Trusts.

Efficiency improvements

- The proportion of Vantage clients who manage their investments online has increased with 87% of share dealing in Vantage carried out online (2011: 83%). 78% of our clients have registered for online access (2011: 74%).
- We have invested in our IT development capacity and initiatives to future proof our systems; principally through the recruitment of additional IT development staff.
- Cost ratio (costs as a proportion of AUA) reduced by 4bps to 28.2bps.

Quality staff

- Continued to develop financial advisers through our internal apprenticeship programme.
- Assisted 180 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. 85% of eligible staff are in one or more SAYE schemes.

Performance indicators

No. of active Vantage clients ('000)

2012	425
2011	380
2010	330
2009	282
2008	252

Vantage asset retention (%)

2012	94
2011	92
2010	90
2009	93
2008	88

Net new business (£bn)

2012	3.2
2011	3.5
2010	3.3
2009	2.0
2008	2.5

Assets under administration (£bn)

2012	26.3
2011	24.6
2010	17.5
2009	11.9
2008	11.1

Operating profit margin (%)

2012	63.1
2011	59.8
2010	53.7
2009	53.6
2008	48.0

Proportion of online clients (%)

2012	78
2011	74
2010	71
2009	66
2008	62

Average number of staff

2012	657
2011	643
2010	628
2009	607
2008	657

Revenue per employee (£'000)

2012	363
2011	323
2010	253
2009	219
2008	183

2013 focus

Excellent service

- Continue to make commercial improvements to services to enhance the client experience.
- Extend the channels by which clients can use our services.

Asset gathering

- Continue to progress the Investment Supermarket strategy.
- Maximizing the use of mobile and digital media.
- Continued energy into new initiatives, such as Corporate Vantage and auto-enrolment.
- Preparation for the implementation of RDR.

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.

Quality staff

- Continue to offer share-based incentives to encourage share ownership amongst staff.
- Ensure that remuneration schemes are in line with shareholder interests and foster appropriate behaviours.

Our Business Model

Fund supermarkets and wrap platforms typically focus on servicing the IFA community and are remunerated for acting as administrator. The IFA is remunerated for acting as distributor. Our investment supermarket and wrap platform goes direct to the private investor, capturing the economics of both the platform provider and distributor.

We strengthen our ability to win and retain clients by discounting initial charges and passing on a portion of the annual management charge as a loyalty bonus. 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 being the leading provider of investment management products and services to private investors in the UK. In 2013 we will build on our position as the best place to buy any mainstream retail investment directly.

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.

‹ BACK TO CONTENTS

Financial Review

"Despite tough economic and market conditions, it has been another record year for the Group in terms of revenue and profits. Despite a fall in stock markets during the year to 30 June 2012, significant levels of organic growth from new business and new clients meant that we ended the year with a record £26.3bn of AUA."

Tracey Taylor - Group Finance Director

	Year ended 30 June 2012 £'million	Year ended 30 June 2011 £'million
Revenue	**238.7**	207.9
Administrative expenses	**(83.3)**	(79.8)
Total FSCS levy costs	**(4.8)**	(3.7)
Operating expenses	**(88.1)**	(83.5)
Operating profit	**150.6**	124.4
Non-operating income	**2.2**	1.6
Profit before taxation	**152.8**	126.0
Taxation	**(39.5)**	(34.1)
Profit after taxation	**113.3**	91.9
Basic earnings per share (pence)	**24.2**	19.8
Diluted earnings per share (pence)	**24.1**	19.6

These record results are testament to our business model and the trust that our clients place in us to deliver the services they require.

Total revenue increased by 15% to £238.7 million. The Vantage division revenue increased by 16%. The key drivers have been the recurring revenue streams of renewal income, interest and management fees, which combined accounted for an increase of £31.4 million. This was offset slightly by a fall in revenue from stockbroking resulting from the introduction of lower tariffs from 1 August 2011.

The Group's operating profit increased by 21% to £150.6 million in 2012 compared to £124.4 million for 2011.

The operating profit margin increased from 59.8% to 63.1%. There was 15% revenue growth, whereas the increase to operating expenses was contained to 6%.

Statutory profit before tax increased by 21% to £152.8 million compared to £126.0 million in the previous year. The effective tax rate for the Group this year was 25.9%, resulting in a reported profit after tax for the year of £113.3 million (2011: £91.9 million).

Divisional performance

The Operational review on pages 17 to 23 contains information about the performance of the Group. In particular further information about Assets Under Administration (AUA) and the performance of the three divisions – Vantage, Discretionary & Managed, and Third Party & Other services.

Operating expenses

Administrative expenses under our control have been contained to a 4% increase. FSCS costs, beyond our control, have increased by 30%. This resulted in a net increase in operating expenses of 6%.

Taken in the context of a 15% increase in revenue and a 21% increase in operating profit year on year, the 4% increase in administration expenses demonstrates a strong focus on cost control, efficiencies and the scalability of our business model.

Staff costs remain our largest cost and increased by 2% points to 52% (2011: 50%), as a percentage of administrative expenses.

The number of staff on a full-time equivalent basis (including directors) employed at 30 June 2012 was 658, and the average number of staff during the year was 657, an increase of 2% against an average of 643 for the comparative year. The increase in numbers resulted mainly from an increased investment in information technology development staff.

We operate a defined contribution pension scheme with staff and directors participating on equal terms. Pension costs are recognised as an expense when the contribution is payable.

Commission payable includes the share of renewal income which the Group receives on investment funds held in Vantage, which is rebated to clients in our ISA and Fund and Share accounts as a loyalty bonus. It increased by 4%, from £15.7 million to £16.4 million, in line with the rise in value of the related client assets. On average 16% of renewal income earned in Vantage is returned to clients.

Group marketing and distribution spend increased by 2%, from £9.2 million to £9.4 million and includes the costs of printing and sending information and newsletters to existing and potential clients, media advertising, online marketing and client incentives. There has been an overall increase in the level of client communication and direct marketing activity compared to the previous financial year but an increased proportion of marketing is conducted electronically at a cheaper cost and an increased number of clients opt for our online or paperless services. Offering incentives to existing and new clients for transferring business to our platform has been a successful method of gathering assets, although the related costs have increased this year. From 1 January 2013 we have decided to offer additional incentives to SIPP clients. These are estimated to cost £3 million in the financial year ending 30 June 2013 and £6 million per annum thereafter.

Office costs include rent, rates, utility and security costs and have increased by £0.4 million, primarily relating to the rental of a disaster recovery site.

Other costs include dealing costs, irrecoverable VAT, compensation, insurance, legal and professional services, computer maintenance and external administration charges. These collectively decreased by 15% from £8.1 million to £6.9 million. As the company grows certain costs such as computer maintenance and irrecoverable VAT inevitably grow too. More than offsetting such increases this year, however, has been a VAT recovery of £2.2 million following a successful challenge of the VAT treatment of certain services in prior years.

FSCS levy

Unlike administrative expenses where we have a degree of control over them, 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 that falls within each activity class of the scheme. The majority of Hargreaves Lansdown's income is classified as falling into either the Investment Intermediary, Life and Pensions or Fund Management class. Unfortunately many failures such as Arch Cru, Keydata and Wills & Co fall into the investment intermediary sub-class because the investments were sold through independent financial advisers. The investment intermediary sub-class also includes execution only business, and, as the majority of Hargreaves Lansdown's income is derived from execution-only business, we make a significant contribution to the cost of compensation on investments we would never have recommended to anyone. The number of failures and the cost of compensation do not seem to be abating despite increased regulation from the FSA, the cost of which is also borne by successful firms. The total amount levied for FSCS costs increased from £3.7 million last year to £4.8 million.

	Year ended 30 June 2012 £'million	Year ended 30 June 2011 £'million
Staff costs	43.5	40.1
Commission payable	16.4	15.7
Marketing and distribution costs	9.4	9.2
Office running costs	4.5	4.1
Depreciation, amortisation and financial costs	2.6	2.6
Other costs	6.9	8.1
Total administrative expenses	83.3	79.8
Total FSCS levy costs	4.8	3.7
Total operating expenses	88.1	83.5

Non-operating income

Includes investment revenues up from £1.6 million to £2.2 million driven by an increase in the average cash balances held and higher interest rates achieved on those balances.

Introduction
Strategic Review
Performance Review
Governance
Financial Statements
‹ BACK TO CONTENTS
‹ ›

Taxation
Taxation increased from £34.1 million to £39.5 million. The effect of the increase in pre-tax profits was slightly softened by the effective tax rate decreasing from 27.0% to 25.9%, the chief factor being a reduction in the corporation tax rate from 26% to 24% as from 1 April 2012.

The Group's policy on tax 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.

Earnings per share (EPS)
The diluted EPS increased by 22% from 19.6 pence to 24.0 pence. This 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.

Balance sheet and cash flow
We have continued to maintain a clean balance sheet with high cash reserves and no debt. Group net assets increased from £130.9 million to £157.4 million. Retained profits helped to increase the Group's own cash balances to £145.1 million. The most significant cash outflow during the current year was the payment of dividends totalling £90.2 million.

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 2012 the Group has no direct counterparty exposure to these countries.

Capital expenditure
This year the capital expenditure of £1.1 million, like last year's amount of £1.9 million was mainly on IT hardware and software. Although the headline capital expenditure looks low, particularly given the extent of our client platform and service improvements, it is worth noting that our systems are maintained in-house. As such we have significant IT resource dedicated to IT development. For the year ended 30 June 2012 57 staff were employed in IT and the related cost was expensed within staff costs, rather than a significant proportion of it being capitalised and subsequently depreciated. Going forwards we shall continue to invest in strengthening our IT infrastructure and although the overall cost may increase a bit the majority will continue to be expensed.

Dividend
The directors are now declaring a second (final) ordinary dividend of 10.65 pence and a special dividend of 6.84 pence per ordinary share, payable on 28 September 2012 to all shareholders on the register at the close of business on 14 September 2012. This brings the total dividends in respect of the year to 22.59 pence per ordinary share (2011: 18.87p), an increase of 20%.

Dividend per share	2012	2011	Change
Interim dividend paid	**5.1p**	4.5p	+13%
Second (final) dividend declared	**10.65p**	8.41p	+27%
Special dividend declared	**6.84p**	5.96p	+15%
Total dividend for the year	**22.59p**	18.87p	+20%

Cash flow and treasury policy
The Group is highly cash generative, with 104% of operating profit converted to operating cash flow during the year.

The total cash balance of £157.7 million reported in the balance sheet includes £12.6 million of client settlement account balances. The Group's own cash balances of £145.1 million includes cash held within the EBT which has increased from £0.5 million as at 30 June 2011 to £2.7 million at 30 June 2012 following the sale of Hargreaves Lansdown plc shares held in the EBT upon the maturity of share options in the year.

The Group has no borrowings, and deposits its liquid funds with selected financial institutions with strong credit ratings and financial ratios. The Treasury Committee reviews the deployment of banks on a regular basis with the primary objective of ensuring the security of its assets and the secondary but important objective of maximising return. The Group actively maintains cash balances on short-term deposit to ensure that it has sufficient funds for operations. This policy is designed to ensure that the Group takes no material credit risk. The Group is not exposed to significant foreign exchange translation or transaction risk.

Decrease 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 £93.4 million (2011: £134.3 million) and £105.6 million (2011: £146.7 million) respectively of counterparty balances.

Capital requirement
The Group has four subsidiary companies authorised and regulated by the Financial Services Authority (FSA). These firms maintain capital resources at a level which satisfies both their regulatory capital requirements as well as their working capital requirements. Within the industry generally, regulatory capital requirements have increased in recent years and we expect this to continue as a result of FSA requirements. During the 2012 financial year we held a healthy margin of at least six times the Pillar 1 minimum capital requirement. This equates to a margin of approximately three times the Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that we believe is adequate as identified during our Individual Capital Adequacy Assessment Process (ICAAP). As at 30 June 2012, the aggregated Pillar 1 regulatory capital requirement across the four regulated subsidiary companies was approximately £8.4 million compared to capital resources of approximately £65.3 million held in the four subsidiaries and £157.2 million held across the Group.

Hargreaves Lansdown plc Report and Financial Statements 2012

Operational review

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

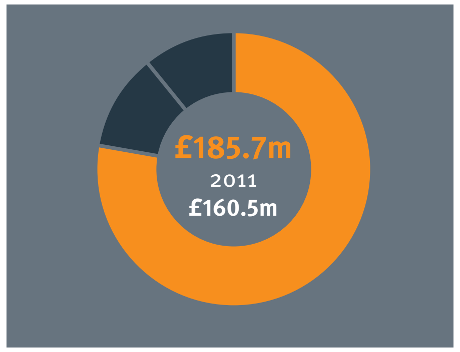
The Group is organised into three core operating divisions, based around products and services:

Vantage
The Group's flagship service, Vantage, is a direct-to-investor platform. Vantage offers clients the administrative convenience of being able to hold centrally and manage their investments, including unit trusts, OEICs, equities, ETFs, bonds, investment trusts and cash, irrespective of the tax vehicle they benefit from, with consolidated valuation reports, a single dealing service and instant online tablet or mobile access. In the 2012 financial year Vantage represented 78% of Group revenue and 78.5% of operating profit. 425,000 active clients use the Vantage service.

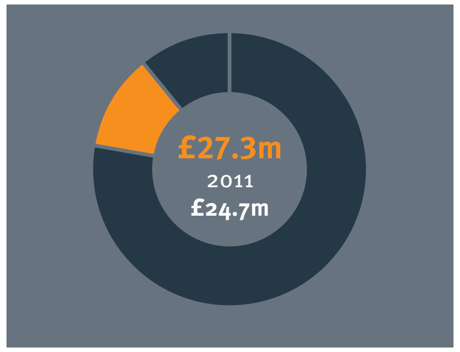
Discretionary and Managed
The Discretionary and Managed division incorporates our advisory Portfolio Management Service (PMS) and our own range of Multi-Manager funds. The investments within these services, referred to as Assets Under Management (AUM), are both administered and managed by us on behalf of clients. The division accounted for 11% of Group revenue and 12.2% of underlying operating profit in the 2012 financial year. More than 12,000 clients use our PMS service.

Third Party and Other services
The Third Party and Other services division distributes investment products that are not held in Vantage accounts. These include corporate pensions, personal pensions, annuities, third party investment products and venture capital trusts. The division also includes certificated share dealing, currency services and third party / white labelled CFDs and spread betting. The division represents 11% of Group revenue and 9.3% of underlying operating profit.

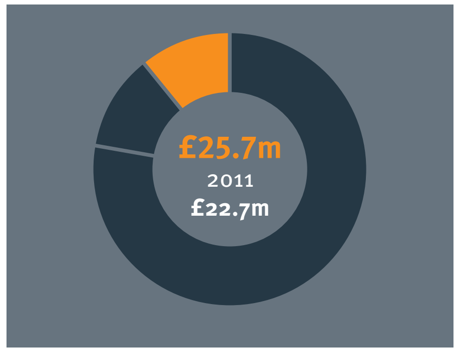
Revenue - Vantage



Revenue - Discretionary and Managed



Revenue - Third Party & Other



Vantage

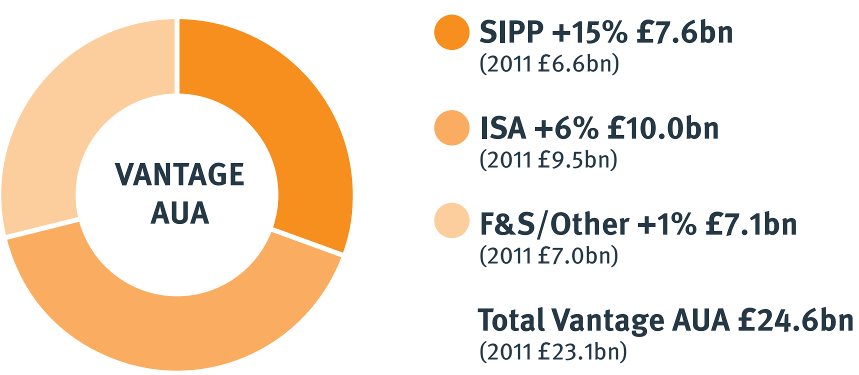
The Vantage division increased its revenues by £25.2 million or 16%, from £160.5 million to £185.7 million. This was driven primarily by growth in Assets Under Administration (AUA) by 6% from £23.1 billion to £24.6 billion and the impact of a full year's income on assets gathered during the previous year.

The £1.5 billion (2011: £6.8 billion) increase in Vantage assets from £23.1 billion to £24.6 billion can be attributed primarily to £3.1 billion of net new business inflows (2011: £3.4 billion). This was moderated by the stock market decline which had a negative effect of £1.5 billion (net of interest credited to clients on cash balances) on assets compared to £3.2 billion of market growth in 2011. Despite the volatile financial markets and low investor confidence, the growth in AUA resulting from net new business inflows, or 'organic growth', has in this climate been commendable at 13% (2011: 21%).

The decline in AUA derived from stock market and other growth factors was 6% (2011: growth +21%). Stock market declines had the biggest impact on the Fund and Share account where there is a bias towards equities rather than bonds and cash as compared with the SIPP and ISA. Markets caused a 7.8% fall in the Fund and Share AUA compared to declines of 5.9% and 5.6% in the SIPP and ISA. The combined impact of organic growth and market declines resulted in SIPP AUA growing by 15%, ISA by 6% and the Fund and Share account (traditionally most sensitive to markets) by 1%. Included within the Fund and Share account is a significant holding in Hargreaves Lansdown shares which decreased in value by 12% during the year. Removing this, the growth in Fund and Share AUA was 5%. As at 30 June 2012, the value of the Vantage ISA was £10.0 billion, (30 June 2011: £9.5 billion), the Vantage SIPP was £7.6 billion (30 June 2011: £6.6 billion) and the Vantage Fund and Share Account was £7.1 billion (30 June 2011: £7.0 billion).

The ISA allowance has been increased from £10,680 to £11,280 in the tax year ending 5 April 2013 and as usual we saw increased activity levels around the tax year-end as clients ensured they did not miss last year's allowance and also sought to utilise the current year's allowance as soon as possible. The adult ISA has now been complemented with the introduction of the new Junior ISA as from 1 November 2011. The annual allowance is £3,200 and as at 30 June 2012 almost 9,000 such accounts had been opened totalling £26 million. A competitive cash ISA was launched on 9 March 2012 which gives clients a fixed rate of interest for either one or two years. Upon maturity new competitive offers will be available unlike the derisory level in so many competitor offerings. As at 30 June 2012 there were just over 3,000 cash ISA accounts totalling £24 million. The introduction of the Junior ISA helps to broaden the eligible client base of Vantage and enables us to build a valuable and loyal relationship with clients of the future. The introduction of the cash ISA affords us the opportunity to win a share of the c£200 billion invested in cash ISAs.

The welcomed simplification of the pension tax relief rules means that, subject to earnings, clients can now contribute and receive tax relief on up to a £50,000 pension contribution each year in addition to any unused £50,000 allowance from the previous three tax years. This has led to an 18% increase in the average value of contributions in the SIPP (2011: -17%). An increased number of clients made contributions of new monies into their SIPP accounts this year (SIPP +18%) but fewer contributed to their ISAs (-2%) with average contributions into the ISA also reducing by 2% due to investors having reduced spare monies for investment and the effect of the Junior and Cash ISAs where subscription limits are lower. This resulted in an overall increase in value of new contributions in these accounts of £0.1 billion.



Despite the volatile financial markets and low investor confidence, the growth in AUA resulting from net new business inflows, or 'organic growth', has in this climate been commendable.

Clients continued to transfer SIPP and ISA investments held by third parties into our Vantage service. Although the value of transfers decreased by 6%, net inflows of new business have been achieved across all the Vantage services with the SIPP achieving £1.4 billion (2011: £1.4 billion), the ISA £1.1 billion (2011: £1.3 billion) and the Fund and Share account £0.6 billion (2011: £0.7 billion).

During the year the number of active Vantage clients increased by 45,000 to 425,000. Some of these clients hold more than one type of account with us, and hence when we look at the increase in accounts aggregated across the three main Vantage services the increase in accounts was higher at 63,000; SIPP accounts increased by 22,000, ISA by 28,000 and Fund and Share by 13,000.

A number of our clients make regular contributions into their ISA, SIPP or Fund and Share account. The 'Regular Savers' service has been growing steadily since being introduced nine years ago, and as at 30 June 2012 we had 53,000 clients (2011: 47,000) saving a total of £19 million each month by way of direct debit instruction. Our Corporate Vantage service has the potential to make a significant increase to the value of regular monthly savings, currently circa £2.4 million each month.

Vantage clients increased their cash weightings during the period as worldwide stock markets remained volatile and investor confidence was relatively low. The composition of assets across the whole of Vantage changed during the period: as at 30 June 2012, Vantage assets were 31% in direct stocks and shares (30 June 2011: 30%), 57% in funds (30 June 2011: 60%) and 12% in cash (30 June 2011: 10%).

Vantage clients increased by 12% over the year and the volume of fund deals increased by 5%, reflecting low investor confidence and the switch to holding cash. Share deals fared better, showing a 16% increase in volume thanks to lower dealing charges and improved functionality launched in August 2011. Vantage clients transacted 4.1 million fund deals (2011: 3.9 million) and 1.5 million share deals in the year (2011: 1.3 million). No charge is made to our clients for dealing in investment funds and therefore fund dealing does not impact revenues. Although the share dealing charge was lowered, increased volumes resulted in a reduction to stockbroking commission of only £2.3m.

The overall average gross revenue margin within Vantage increased from 78bps to 81bps. The improvement was driven by slightly higher interest rates achieved on client money held, which more than offset the reduction in margin relating to equities as a result of the lower dealing tariffs. The margin made on funds held by clients remained consistent with last year. Throughout the year we have again faced all-time historically low interest rates, with the Bank of England base rate being just 0.5%. The improved margin on cash we have achieved has enabled us to offer more fixed interest fixed term deposits to our clients, helping them to achieve better returns on their cash.

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. Revenues in the Discretionary division increased by 11% from £24.7 million to £27.3 million. Increased renewal income and management fees resulting from the increase in AUA were the key drivers of the increased revenue.

The value of assets managed by Hargreaves Lansdown through its own range of Multi-Manager funds and PMS increased by £0.1 billion to £2.4 billion as at 30 June 2012 (2011: £2.3 billion). Of these, £0.8 billion of the Group's Multi-Manager funds were held within Vantage as at 30 June 2012 (2011: £0.8 billion). The growth in assets is due to net new business of £0.2 billion combined with a market decline of £0.1 billion.

This division earns initial advice fees and management fees on assets introduced into PMS. £113m of net new business was introduced into PMS during the year (2011: £109m). Distribution of PMS is through the Group's team of advisers. The number of advisers as at 30 June 2012 was 68, the same as last year-end. The proportion of PMS assets invested in Hargreaves Lansdown Multi-Manager funds as at 30 June 2012 was 90% (2011: 91%).

Third Party and Other Services
The division as a whole saw an increase in revenues of 13%, from £22.7 million to £25.7 million.

Although the Group continues to write some third party pension business, the focus has shifted towards the Corporate Vantage service and hence third party business will see a gradual decline. Other services, however, are delivering growth. Revenue from our Funds Library service increased by £1.2 million, driven by a general improvement on all revenues and in particular the user licence fees as we have made additional data services available to a larger client base.

We now administer more than £26 billion of investments on behalf of our clients

Total assets under administration can be broken down as follows:

	At 30 June 2012 (£'bn)	At 30 June 2011 (£'bn)
Vantage Assets Under Administration (AUA)	**24.6**	23.1
Assets Under Administration and Management (AUM)		
- Portfolio Management Service (PMS)	**1.6**	1.5
- Multi-Manager funds outside PMS	**0.8**	0.8
AUM Total	**2.4**	2.3
Less: Multi-Manager funds included in both AUA and AUM	**(0.8)**	(0.8)
Total Assets Under Administration	**26.3**	24.6

The total revenues from Hargreaves Lansdown markets (CFDs, spread betting and currency services) were up £0.7m on last year as increased numbers of clients utilise these additional services that we offer thus driving transactional volumes higher.

Assets under administration
Total Assets under administration (AUA) have increased by 7%. Vantage AUA are up by 6% and the assets in PMS and our Multi-Manager funds by 4%. These increases have helped to deliver revenue growth.

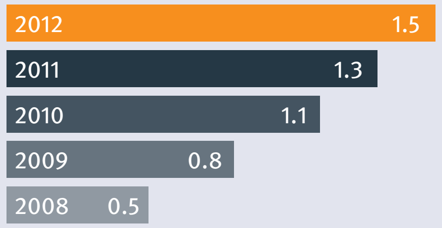
Net new business inflows decreased from £3.5 billion in 2011 to £3.2 billion this year. There was an 18% increase in the number of clients contributing new money into their SIPP accounts and on average they contributed 18% more into them compared to last year. For ISAs both measures fell 2% year-on-year.

Stockbroking services

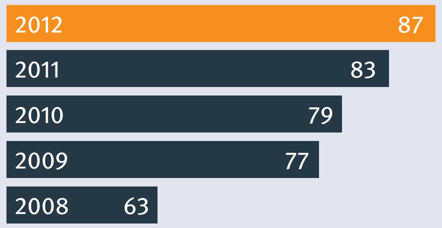
Our Stockbroking business has transacted a record 1.5 million deals, up 15%.

From 1 August 2011 the stockbroking tariff was improved. For online deals, clients pay as little as £5.95 and a maximum of £11.95. We expected the average online dealing charge to reduce from the £16.90 to c£10.40; in reality the average dealing charge has only fallen to £10.65 or to £12.73 if we include currency commission for online overseas deals. The functionality of our service was improved with the launch of our iPhone and Android apps, stop loss and limit order service, and online overseas share dealing. Our initiatives have driven increased dealing volumes and substantial online overseas dealing which attracts a foreign currency commission margin. The increased volumes helped offset the loss in revenue from the drop in the average dealing charge.

Share dealing volumes



Share dealing online (%)



15% growth in share deal volumes

87% of Vantage share deals are dealt online

IT and systems
Our core in-house bespoke systems are continually improved and developed. The advantage of no third party dependency is a key factor in our ability to improve both functionality and efficiency across our systems. Having control of our own platform gives the ability to control service levels and react quickly to changing markets, regulation and the needs of our clients. This flexibility was evidenced with the prompt and effective delivery of the Junior ISA in November last year.

We continue to invest in IT infrastructure ensuring our clients receive high service levels whether online, paper-based or over the telephone. This investment has necessitated a near 20% increase in headcount in IT since September last year with further plans to continue this trend. The scalability of our systems and infrastructure, and broadening of functionality is always under review and we intend to keep expanding capacity.

During the financial year our website (www.hl.co.uk) was visited 30.4 million times, up 10.7% on the previous year. These visits gave rise to over 327 million page views (up 8.2%). Our website as at 11 September 2012 was ranked 610th based on UK traffic volumes compared to 679th in August 2011 (source: alexa.com). There are over 100,000 pages on our website.

The iPhone and Android apps have helped to increase the reach of our services, having been downloaded more than 60,000 times since their launch in August 2011. More than 10% of clients who log into their account in any one month are now doing so via the apps. These apps have also proven successful in attracting new clients particularly to the share dealing service. Developments are underway to enhance the mobile apps and increase the number of devices on which they are available.

Our business continuity provision has been strengthened by the appointment of a third party supplier to complement the in-house solution. Commitment to quarterly testing readiness for disaster, whether IT systems or personnel related remains steadfast, and over the past year has included a test at the third party location.

Staff
We continue to focus on motivating and retaining our talented staff.

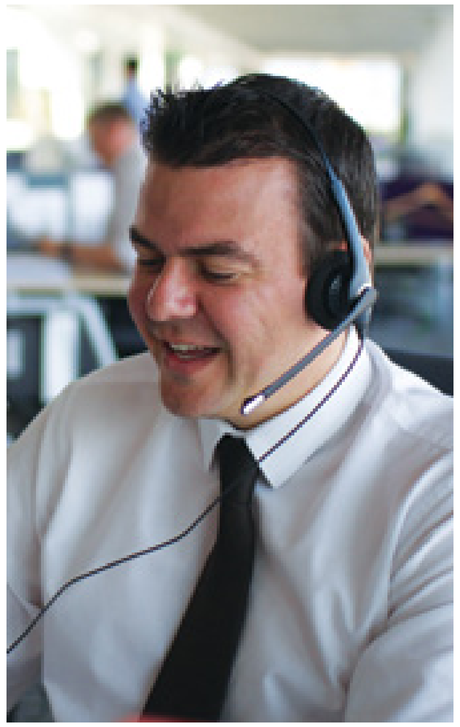
The Board believes in the use of share schemes which align staff interests with those of other shareholders. During April 2012 we granted new options under a SAYE scheme. We now have 85% of eligible staff participating in one or more schemes. This year the majority of employees also received an annual bonus related to the overall profitability 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

Regulation
The Chief Executive has highlighted changes to the regulatory landscape, in particular the FSA's Retail Distribution Review and its latest consultation paper CP 12/12. As expected, the consultation paper has confirmed that the FSA's direction of travel relating to Platforms is unchanged. The proposals are scheduled to be introduced in two phases. Stage One will take effect from 31 December 2012 relating to a range of matters including qualification standards for advisers, adviser charging, disclosure of platform income, re-registration standards and the provision of unit-holder information. Stage Two will relate to changes to Platforms. Further detail on the aims and timings of Stage Two are given below under the section "Principal risks and uncertainties". Overall we support increased transparency and investor choice, but will continue to lobby the FSA to ensure the proposals do not create an uneven playing field.

We continue to invest in IT infrastructure ensuring our clients receive high service levels whether online, paper-based or over the telephone.

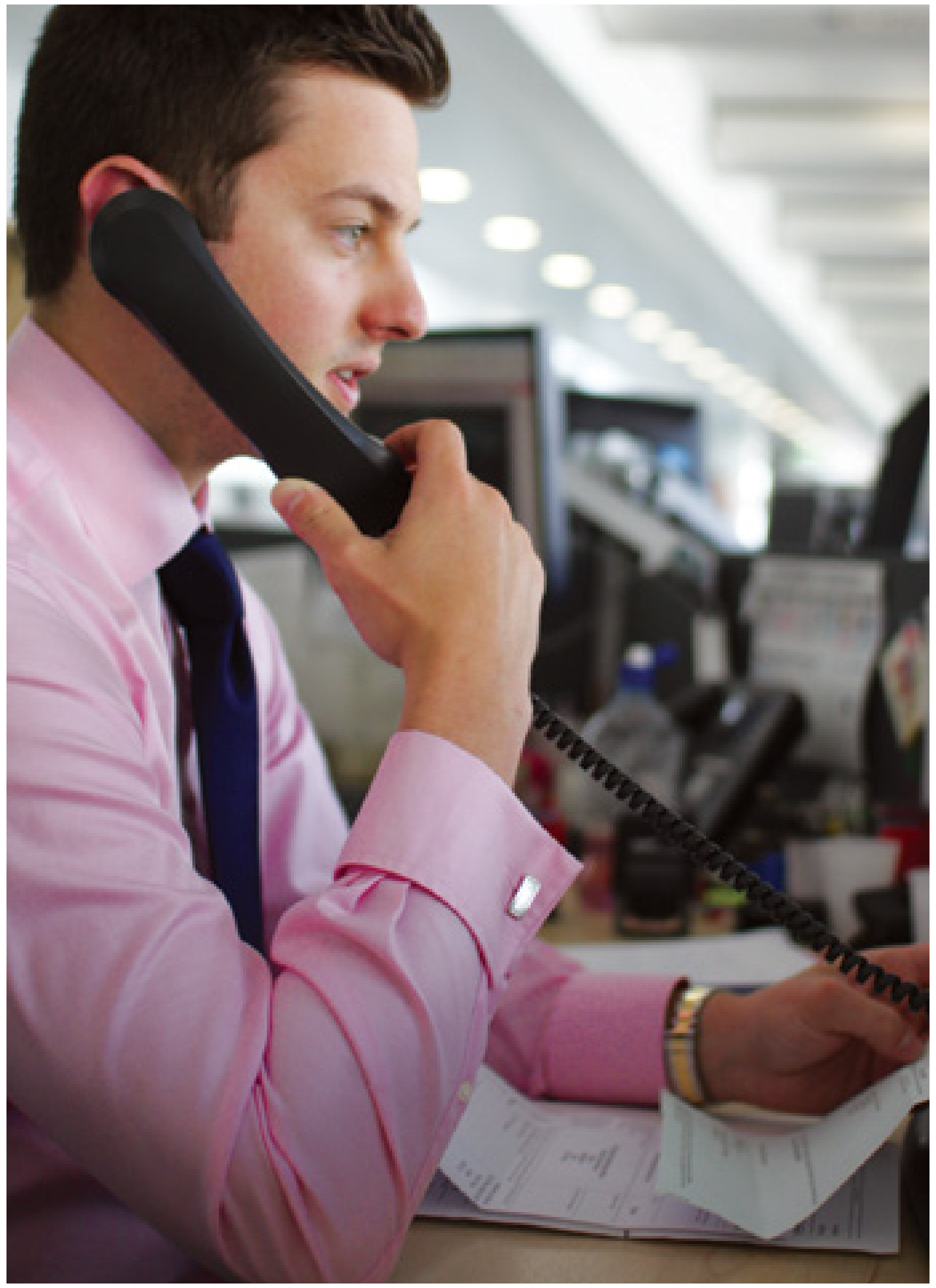


Introduction
Strategic Review
Performance Review
Governance
Financial Statements
BACK TO CONTENTS

During the history of Hargreaves Lansdown there have been many external factors which when initially revealed, could have projected serious pressure on profitability. Most of these potentially harmful circumstances revolved around the reduction of margin. In every single case, our response resulted in increased volumes of business which more than compensated for any reduction in margin. We are currently in the process of discussing the finer detail of our response to the Platform paper, however, 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.

At 28.6%, we have the largest market share of the UK direct-to-consumer platform market.

(Source: Platforum February 2012).



Competition and markets

The markets in which Hargreaves Lansdown operates are highly fragmented. Competitors include IFAs, execution-only brokers, banks, building societies, life assurers, fund supermarkets and certain wrap platforms.

Given the success of our business, direct competition is likely to increase and we expect this to expand our markets as awareness is raised. Significant barriers to entry do exist. We have 31 years experience and have developed the IT systems and infrastructure in-house, both to facilitate efficient administration and more specifically to fulfil our clients' needs of which we have unparalleled knowledge. Our direct postal marketing reach is in excess of 1.6 million people, a contact list which would be difficult to compile today.

Official HMRC statistics showed that as at April 2011 there was c£193 billion held in Stocks & Shares ISAs and c£192 billion in cash ISAs. Subscriptions into these two ISA types for that tax year were c£16 billion and c£38 billion respectively. This shows the sheer scale of the ISA market and with our ISA standing at £10 billion as at 30 June 2012 there remains huge growth potential in a market that is growing significantly thanks to the tax breaks afforded to this investment.

Defining the size of the UK pension market is not particularly easy given the diverse nature of pensions but in terms of those that can possibly be transferred into a SIPP we estimate that currently this is in excess of £500 billion in value. The actual amount currently held as a SIPP is estimated at £100 billion and as at 30 June 2012 our SIPP held £7.6 billion.

Hargreaves Lansdown operates as an investment supermarket platform and it is the platform market which is experiencing the most significant growth as the distributor of investment products in the UK. The Platform (an advisory and research business specialising in investment platforms) stated that as at 30 September 2011 the direct platform market in which we operate held £73.2 billion in AUA with Hargreaves Lansdown's market share of 28.6% being the largest. The Platform also identified

that there are 6.5 million active private investors in the UK of which 1.25 million are direct platform clients holding some 3.2 million accounts. We anticipate that the number of private investors willing to make their own investment decisions is set to increase as financial advisers only target the more profitable high net worth clients, partly as a result of the RDR. In the new financial year we will be making further service improvements and along with the continued development of our digital marketing strategy we will increase our active client numbers further including those who perhaps will no longer be advised by Independent Financial Advisers.

Our reputation and brand is highly regarded with clients, investors and industry experts. Our significant client numbers and AUA gives us significant economies of scale, allowing us to focus on aiming to provide the best service, information and prices for our clients. This puts us in a great position to seize the opportunities from the growing markets in which we operate and to increase our client numbers and AUA, thus helping to grow the business further.

Demographics

Longevity means people will be increasingly less able to rely on state assistance. Many are faced with reduced employer pension provision. The ageing population and lower birth rates create a 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 by the UK Government through introducing auto-enrolment in October 2012. This requires employers to enrol their employees in a pension scheme with a minimum of 4% employer and employee contributions, although employees can opt out. Our own Vantage SIPP can be used to provide a workplace or individual pension.

Greater emphasis on pension savings should expand the pension market. The current market is estimated at around £2.5 trillion and within this the growing element relates to defined contribution schemes where our SIPP is ideal. The SIPP market itself is expected to grow rapidly over the next few years. With our great SIPP offering, growing reputation and targeting of both individual and corporate clients, this will prove to be a key growth market.

Pension tax relief and SIPPs

Last year we welcomed the simpler pension tax relief rules introduced from 6 April 2011. The new £50,000 annual limit and three- year carry-forward rule allows higher earners to make larger contributions than they were able to under the previous interim rules. This, together with the end of compulsory annuitisation, has simplified pension rules and offers individuals more choice and flexibility over their pension savings and retirement planning and has helped increase average contributions to the SIPP during 2012 to £10,370 (2011: £8,820).

During the year Protected Rights under personal pensions were abolished with effect from 6 April 2012. This removed restrictions that had previously applied and make it easier to manage SIPPs as a single account going forward.

ISAs

We continue to see good growth in the ISA market. HMRC figures show that new subscriptions into stocks and share ISAs have grown by more than 20% in the last three tax years. With continued low interest rates people are turning towards investing their annual ISA allowances into equities and funds. The allowance currently stands at £11,280 for a stocks and share ISA and £5,640 for a cash ISA.

The launch of the Junior ISA in November 2011 has widened the ISA market with the ability to save up to £3,600 for each child. According to HMRC 72,000 Junior ISA accounts were opened in the first five months following introduction, holding a value of £116 million. During those five months we opened just over seven thousand accounts with a value of £17.6 million giving us a market share by account numbers and value of circa 10% and 15% respectively. As a company, along with various other financial institutions, we are actively lobbying the Treasury to permit transfers from Child Trust Funds (CTFs) to Junior ISAs on the basis that we share our clients' and the wider investor concerns that children with a CTF risk being disadvantaged compared to those eligible for a Junior ISA. Approximately six million children are excluded from the interest rates and investment choice offered by Junior ISAs under the current rules.

In March 2012 we launched a competitive cash ISA product. This means we can actively look to gain market share in this significant savings market too. HMRC stated that as at April 2011 there was £193 billion held in stocks and shares ISAs and £192 billion in cash ISAs.

Each year our excellent customer service results in net positive ISA transfers from other ISA providers. Existing clients look to gather their investments in one place and transfer other ISAs they hold elsewhere on to the Vantage Platform and new clients transfer as they look to benefit from a better service than they currently receive. This year 24,262 clients transferred £554 million of investments to us.

Conclusion

Despite the continued economic headwinds, Hargreaves Lansdown has continued its growth in client numbers, AUA and profits, which is clearly an endorsement of the excellent service we provide. The investment landscape is constantly changing and we aim to always adapt accordingly to ensure we provide the best proposition for our existing clients and to win the business of new clients. The implementation of the RDR for both advisers and platforms will ensure the landscape will continue to change and there remains uncertainty in how the post RDR world will look. As the UK's leading investment supermarket, Hargreaves Lansdown will play its part in shaping the future and we are confident that we can continue to grow the business for many years to come by putting our clients first and meeting their investment needs.

Tracey Taylor
Group Finance Director
14 September 2012

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. Within the Group, responsibility for risk management and internal control rests with the Board. The Board and senior management of Hargreaves Lansdown are proactive in identifying, assessing and managing risk. The Executive management implements and maintains the systems of internal control. Further details of our systems for internal control and risk management can be found in the Corporate Governance statement.

The low risk profile of the business has not changed significantly this year. One of our highlighted risks each year is market volatility and this has certainly been experienced in 2012. Although the markets remained volatile in 2012 and in fact were down circa7% for the year, the business still managed to grow organically such that the value of clients' investments grew which in turn helped increase the Group revenue. Market volatility arising from such factors as the Euro crisis remains an accepted risk, although the high percentage of assets in tax wrappers and a cash option on our platform does reduce the impact of such market turbulence on our performance.

In terms of regulatory risk, on 27 June 2012, the FSA issued Consultation Paper CP 12/12 "The Platform Paper". In this paper the FSA repeated messages made in earlier papers about the future regulation of Platforms.

The FSA is consulting on the following:

1. Banning Platforms from being funded by product providers for both advised and non-advised business
2. Permitting the only platform charge to be a charge payable by the platform client
3. Permitting unit rebates to be provided to Platform clients to enhance the value of their investments
4. Banning cash rebates to clients for both advised and non-advised business

The FSA is also asking whether it should extend the above points to all retail investments and not just focus on Platforms.

The FSA aim to publish final rules by the end of 2012 which would then take effect on 31 December 2013. Hargreaves Lansdown believes that if these proposals are likely to be implemented, there are a range of recurring revenue models available and currently used in the business, which could be extended to mitigate the loss of revenue from product providers. Although payments from product providers currently represent a significant revenue stream, we believe changes to our revenue model can be made whilst remaining highly competitive to existing and potential clients. Having the ability to provide unit rebates to clients will help us to continue to offer clients highly competitive pricing and discounts. With any rule changes only commencing from 31 December 2013 at the earliest, there is time to successfully make a transition to an alternative model.

We continue to engage with the FSA on its work on platform regulation. We will respond to the Consultation Paper and we will work to ensure we can provide the good outcomes for our clients.

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 Management Framework

Industry Risks

Risk	Mitigating Factors/Controls
Fluctuations in the capital markets 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.	• Focus on recurring revenue streams over the more volatile transaction-based alternative. • High proportion of assets under administration in tax wrappers so clients less likely to withdraw funds and lose tax benefits. • Cash option enables clients to shelter from market volatility.
Changing markets and increased competition 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.	• Strong market position with pricing power. • Full control over flexible platform. • Experienced management team with a strong track record of innovation and responsiveness to the market. • Organisational structure and culture promotes responsiveness. • Client focused with a loyal customer base.
Evolving technology The Group's technology needs to remain current if we are to develop and enhance our systems to accommodate changing preferences, new products and the emergence of new industry standards.	• Track record of successful development. • High awareness and sponsorship of the importance of technology at Board level. • Substantial development team in place. • Scalability project team in place
Regulatory risk 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. The Group will need to replace a significant revenue stream if the FSA bans payments from product providers to platforms as stated as a desirable intention in its Consultation Paper CP 12/12.	• Strong compliance culture. • Business model and culture geared towards FSA principle of treating clients fairly. • Financial strength of the organisation provides comfort should the capital resource requirement be increased. • Alternative recurring revenue models are already successfully operated by the Group and these could be used to offset the potential reduction in revenue from product providers. • There is no guarantee that such a ban on revenue from product providers will ultimately be implemented as much consultation will first need to take place. This means there is plenty of time to make representations and carefully review and implement the most appropriate strategic change to our revenue model that works for both our clients and the profitability of the Group. • 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 should it occur.
Changes in taxation law Changes made to tax legislation could reduce the attractiveness of some of the Group's investment products such as ISAs and SIPPs.	• The Government has a clear priority to reinvigorate savings in order to plan for an ageing population, which is currently under-provided for. This will create opportunities for SIPP and ISA business.
Damage to the Group's reputation The risk of reputational damage through the actions of unassociated third parties (such as copycat websites to fraudulently target client funds) needs to be minimised.	• Clients educated to improve awareness of potential 'boiler room' and other online scams. • Hargreaves Lansdown security procedures are well communicated to clients so they are more likely to question anything out of the ordinary. • Ongoing intensive monitoring and response.

Operational Risks

Risk	Mitigating Factors/Controls
Errors, breakdowns or security breaches in respect of the Group's software or information technology systems Serious or prolonged breaches, errors or breakdowns in the Group's software or IT systems must be avoided.	• High level of resilience built into daily operations. • IT performance, scalability and security are deemed top priorities by the Board and are included in the IT Strategy. • Large, experienced in-house team of IT professionals and established name suppliers. • Internal procedures benchmarked against industry best practice.
Business continuity The risk of disruption to the business as a result of IT or power failure, fire, flood, acts of terrorism, relocation problems and similar must be minimised.	• Critical applications and infrastructure mirrored across primary and two secondary sites. • Business Continuity Plan produced in line with best practice methodologies and tested regularly.
Damage to the Group's reputation The risk of reputational damage from employee misconduct, failure to manage inside information or conflicts of interest and fraud or improper practice must be controlled.	• High level of internal controls including checks on new staff. • Well trained staff. • Strong compliance culture.
Key personnel risk Key personnel must be recruited and retained to prevent a material adverse effect on the Group's business, results of operations or financial condition.	• Succession planning encouraged throughout Group via management and staff objectives. • Success of the Group should attract high calibre candidates. • A continuous programme of SAYE and other share option schemes are in operation to incentivise staff and encourage retention.
Litigation or claims made against the Group The Group needs to protect against the risk of litigation from clients or third parties and actions taken by regulatory agencies.	• High levels of Professional Indemnity Insurance cover. • Comprehensive internal review procedures for marketing literature.
Reliance on third parties Outsourced service providers must meet appropriate standards to protect the Group from the risk of regulatory sanctions and reputational damage.	• Due diligence forms part of the selection process for key suppliers. • Ongoing review by our internal audit team of key business partners.
Strategic risk Management must remain focused on appropriate strategies and implement the Group's strategy effectively.	• Very experienced management team, with a highly successful track record to date. • Management has demonstrated an excellent understanding of the market and continues to monitor this effectively through regular dialogue with clients.
Performance of in-house managed funds 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.	• Only manage Funds of Funds, divested equity management to focus on core strength. • Fund analysis focuses on 'stock selection' skills of manager rather than basic performance analysis. • Multi-Manager funds well diversified at the underlying fund level as well as by number of funds. • Well established and proven investment process overseen by an Internal Investment Committee. • Our Funds of Funds give investors exposure to a broad range of underlying investments. They are therefore less vulnerable to sector specific poor performance than specialised or focused funds.

Financial Risks

Risk	Mitigating Factors/Controls
Liquidity risks The Group must remain able to meet liabilities as they become due and be able to liquidate assets or obtain adequate funding as necessary.	• Highly cash generative business. • Low working capital requirement. • Group maintains a substantial surplus above regulatory and working capital requirements. • Treasury management policy provides for the availability of liquid funds at short notice.
Bank default 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.	• Only use banks with strong financial ratios where we do not believe the Government would allow them to fail. • Deposits spread across several banks, with limits placed on each. • Regular review and challenge of treasury policy by management.
Interest rate risks Risk of decline in earnings due to a decline in interest rates.	• Access to competitive interest rates due to large value of cash deposits placed. • Regular fixed high interest cash offers available to clients.

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

‹ BACK TO CONTENTS
‹ ›

Key Performance Indicators

We use a range of indicators in order to assess performance. We consider the following measures to be the key financial 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[1]	2012	2011	+/-
Growing the value of assets under administration and management	Total assets under administration (AUA) FTSE All-Share index (2)	£26.3bn 2891.45	£24.6bn 3096.72	+7% -7%
Improving earnings quality	Percentage of recurring revenue (3) Proportion of assets earning recurring revenue (4)	81% 85%	78% 84%	+3% +1%
Generating growth in Vantage	Number of active Vantage clients (5) Net new Vantage business inflows (6)	425,000 £3.1bn	380,000 £3.4bn	+15% -9%
Maintaining tight cost control and operating efficiency	Operating profit margin (7)	63.1%	59.8%	+4.5pts
Shareholder value and superior financial performance	Diluted earnings per share (8)	24.1p	19.6p	+23%

1. We have reviewed our performance indicators to ensure we have appropriate measures for the Group. We aim to report on various non-financial indicators in our 2013 report.
2. The closing values as at 30 June 2012 and 30 June 2011, sourced from ProQuote.
3. Total value of renewal commission, management fees and interest earned on client money, as a percentage of total revenue.
4. 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.
5. Unique number of clients holding at least one Vantage account (ISA, SIPP or Fund and Share Account) with a value greater than £100 at the year-end.
6. Net new business inflows represents subscriptions, cash receipts, cash and stock transfers in less cash withdrawals, cash and stock transfers out.
7. Operating profit (profit before investment gains) divided by revenue.
8. 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 2012 the value of total assets under administration grew by 7% from £24.6 billion to £26.3 billion. The 7% (2011: 41%) growth in asset values was attributable to strong new business volumes, which more than offset a significant market decrease.

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 fell by 7% during the year ended 30 June 2012, from 3096.72 to 2891.45. On average the FTSE All-Share index has been 3% lower than during the 2011 financial year. The negative effect of the market and the impact this had on investor confidence was still not enough, however, to outweigh the new business volumes, such that overall there was growth in total AUA.

The importance of AUA is that they produce a recurring revenue stream made up of renewal commission, management fees and interest. The **percentage of recurring revenue** attributable to these 'quality earnings' increased from 78% in 2011 to 81% in 2012. The value of recurring revenues increased by 19% from £161.2 million to £192.6 million.

Not all of our AUA generate 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 increased from 84% in 2011 to 85% in 2012.

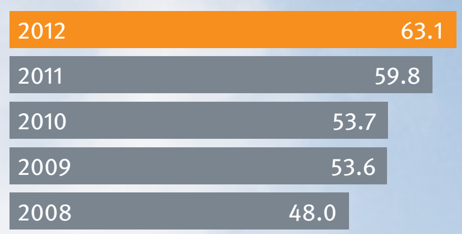
The indicators mentioned above provide a useful measure of how successful the Group has been in gathering assets under administration. However, it does not give any indication of whether this success is predominantly due to effective cross selling to existing clients and their increasing wealth or whether the Group is successfully adding to its client bank. This is essential in order to replace natural client losses and expand the business. The **number of active Vantage clients** acts as an indicator of how successful the Group has been in this respect. In 2012, the number has increased by 12% (2011: 15%) and as at 30 June 2012 stood at 425,000.

The **operating profit margin** is another key financial indicator, increasing from 59.8% to 63.1%. The chart depicts how the operating margin has grown significantly year-on-year since 2008.

The Group's revenue has grown more quickly than costs. The efficiency of the Vantage platform is central to the scalability of the business model.

We consider the **diluted earnings per share** figure to be the most appropriate measure of financial performance. This increased by 23% in the year from 19.6 pence to 24.1 pence.

Operating profit margin (%)



Introduction
Strategic Review
Performance Review
Governance
Financial Statements
‹ BACK TO CONTENTS
‹ ›

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. These values are embedded in the "Culture" document provided to all staff and communicated to staff on a regular basis by the Chief Executive.

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.

‹ BACK TO CONTENTS

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

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 and a number of initiatives, such as recycling and energy efficient technology, are encouraged.

The Board considers that the environmental risk from direct actions taken by the Group is minimal, and that the main social responsibility focus should be on the Group's clients and staff, and improving the financial independence of the UK public. Information on the Group's employment policies and client service is detailed in the Directors' Report: other information section. We appreciate the need to continually reduce the impact of our business on the environment and we aim to improve on the positive steps we have already taken and ensure that social, environmental and ethical considerations are taken into account in our future decision-making.

Improving financial capability: The Board agreed in 2009 to provide support of £30,000 p.a. for five years to a project that, like our own business, seeks to encourage savings and financial awareness. The supported project provides these services in deprived areas within Bristol.

Putting clients first: There is a culture in the business that has existed for many years to which all employees adhere to. At the heart of the culture is to always put the client first. This culture is nurtured and conveyed to all new employees and existing employees on a regular basis. As part of this culture we actively monitor all areas of the business via monthly and quarterly reporting to ensure that we are "Treating Clients Fairly".

One way to ensure that we are getting things right with clients is to listen to them and the changes they would like to see to our services. We encourage and actively seek feedback from clients. We also conduct client satisfaction surveys and the most recent one in June 2012 revealed that 95% rated our service as good, very good or excellent.

Reducing energy consumption: Our modern office has 'chilled beam' air conditioning, which is up to 60% more energy efficient. The building uses technology to manage lighting minimising wastage. We will continue to introduce energy-efficient schemes and look at ways of optimising the energy performance of our business and in reducing our 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 2012 we had consumed only 3,097 MWh (2011: 3,058 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.

Business travel is another area which impacts both our costs and the environment. 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.

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 and we have invested heavily in providing a user-friendly, comprehensive website and automated links to banks and fund providers.

We again supported two teams of staff from Hargreaves Lansdown who competed in the Invesco Perpetual Highland Adventure Race in September of this year.

We provide the facility for clients to opt out of receiving paper valuations and contract notes. Instead these documents are now available in electronic format through our secure website. Our investment in this area will continue and we aim to further reduce the amount of paper we use whilst providing better service. The benefits will grow as more people and businesses choose to transact business and receive information online.

At our year-end 41% of our Vantage clients were registered as paperless whereby they receive all contract notes and statements online (30 June 2011: 39%).

87% of equity deals were placed online in the year to 30 June 2012 compared to 83% in the previous year.

We are also aiming to automate other processes such as ISA and SIPP transfers. These currently involve movement of paperwork between various parties around the United Kingdom. The aim would be to ultimately get such transfers all processed online and we are actively pushing for a workable solution that will enable an automated online transfer process.

Commuting: We 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.

Employment and diversity: Hargreaves Lansdown proudly fosters a working environment that wholly supports the principals of equality to all and is committed to ensuring that everyone is treated with dignity and respect. All staff are given an induction which amongst other things will cover the culture and ethos of the firm and how we place the interest of clients at the heart of everything we do. Professional development is actively

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

encouraged and many staff embark on professional qualifications to further their knowledge and careers within the Company. During the year-ended 30 June 2012 180 staff sat a professional exam and 54 completed a professional qualification.

Integrity: The Company prides itself on its integrity in dealing with clients and staff openly and honestly. There is an embedded culture whereby the interests of clients are always put first, known as "Treating Clients Fairly" (TCF) and this is communicated to all employees in the business during their induction and throughout their careers. In practice TCF for Hargreaves Lansdown includes elements such as ensuring all product design and information is clear and that clients fully understand the features, benefits, risks and costs of the financial products they buy; that information and client support is available to clients after the point of sale; that appropriate complaints handling procedures are in place and that financial promotion and marketing practices are unbiased and appropriate for their audience.

With the momentous occasion of hosting the 2012 Olympics in London, a couple of years ago the Group decided to support a grass-roots sports club.

All staff are also 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.

The Company actively seeks to lobby via public consultation documents where they believe that investors in the UK will benefit examples include: the ability to transfer Child Trust Funds to Junior ISAs.

Communities: The Group essentially seeks to contribute to the communities in which we live and work. In addition to providing employment opportunities, we continue to support the local community initiative to promote financial capability as described above. 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 2012 was £39.8 million (£2011: £33.8 million). In addition other taxes such as VAT, stamp duty and business rates paid.

With the momentous occasion of hosting the 2012 Olympics in London, a couple of years ago the Group decided to support 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 Mitchemp 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.

Every year we receive many requests for support from a wide range of charitable and social groups. Though often very worthy causes, unfortunately we are not able to make a donation to them all. Other than the above, we have made it company policy to support only 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. Total donations to charity for the year ended 30 June 2012 were £62,000 (2011: £51,000). We do not make political donations.

Board of Directors

1. Chris Barling, BSc
Non-Executive Director, 56.
Appointed Non-Executive Director in August 2010.
Member of the Audit Committee, Nomination Committee and Remuneration Committee.

Chris became a non-executive director of the Company in August 2010. 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. Chairman of Private Software Limited, and wholly owned subsidiaries, including SellerDeck Limited, and director of Powered Now Limited.

2. Jonathan Bloomer, FCA
Senior Independent Non-Executive Director, 58.
Appointed Non-Executive Director in September 2006.
Chairman of the Audit Committee, Nomination Committee and Remuneration Committee.

Jonathan is currently a partner in Cerberus European Capital Advisers LLP, Chief Executive of Lucida plc and Chairman of Scottish RE Group Limited. Previously, Jonathan was Chief Executive of Prudential plc. He also spent twenty years in practice with Arthur Andersen LLP. Jonathan was Chairman of the Practitioner Panel of the FSA. His previous positions also include board membership of the Association of British Insurers, Geneva Association (International Association for the Study of Insurance Economics) and Railtrack plc. Jonathan is also a Trustee and the Treasurer of the NSPCC.

3. Ian Gorham, ACA
Chief Executive Officer, 40.
Appointed CEO in September 2010.

Ian joined Hargreaves Lansdown in 2009 as Chief Operating Officer. Ian qualified as a Chartered Accountant in 1996. Previously he helped build Deloitte's 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. No external Director appointments.

4. Peter Hargreaves, FCA
Executive Director, 65.
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. Non-Executive director of ITM Power Plc.

5. Michael Evans, FIA
Chairman, 51.
Appointed Chairman in December 2009.

Michael became a non-executive director of the Company in September 2006. Michael is a qualified actuary with 30 years' industry experience. He is a non-executive director of CBRE Global Investors Group (UK) Limited and a member of the advisory board of Spectrum Corporate Finance LLP.

He spent two years as director of life insurance at Pinsent Masons LLP. Michael was formerly Chief Operating Officer at Skandia UK Limited. He is also Chairman of the Board of Trustees of Wessex Heartbeat.

6. Stephen Lansdown, FCA, FSI
Non-Independent Non-Executive Director, 60.
Appointed to his current role in August 2010 (formerly Chairman).

Stephen co-founded Hargreaves Lansdown in 1981, and was Chairman of the Group until November 2009. Previously, he qualified as a Chartered Accountant in 1975 and specialised in taxation with Touche Ross & Co. Stephen is a Fellow of the Securities & Investment Institute. His other directorships are Pula Limited, Pula Properties Limited, Sustainable Technology Guernsey Limited, Willoughby (481) Limited and St James Parade (122) Limited.

7. Stephen Robertson
Non-Executive Director, 57.
Appointed Non-Executive Director in October 2011.
Member of the Audit Committee & Nomination Committee.

Stephen has been Director General of British Retail Consortium (BRC) since 2008. The BRC represents the interests of UK retail to Governments and media. Stephen's career has spanned 14 years on the boards of major UK retailers building on earlier management 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.

He went on to become Director of Communications at Kingfisher plc and took the helm of the Ellen MacArthur sponsorship, followed by three years at Woolworth plc. He is a former Chairman, and now fellow, of the Marketing Society and a fellow of the Royal Society of Arts. He is also a non-executive director of Timpson Group plc.

8. Dharmash Mistry, BA (Oxon), Meng
Non-Executive Director, 42.
Appointed Non-Executive Director in October 2011.
Member of the Audit Committee, Nomination Committee and Remuneration Committee.

Dharmash is a 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

9. Tracey Taylor, FCCA MSI
Group Finance Director, 40.
Appointed Group Finance Director in November 2008.

Tracey joined Hargreaves Lansdown in 1999. Her 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 in 1994 before working for LloydsTSB. No external Director appointments.

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

‹ BACK TO CONTENTS
‹ ›

Corporate Governance

"Our strategy is supported by embedded high standards of corporate governance and our strong management team."

Michael Evans - Chairman

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 feedback 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 2012, Hargreaves Lansdown plc confirms it has applied the principles of the UK Corporate Governance Code ("the Code") with the following exceptions:

The timeline below indicates the composition of the Board throughout the period:

1.07.11	3.10.11	30.6.12
Non-compliant	**Compliant**	
1 Independent non-executive chairman	1 independent non-executive chairman	
2 independent non-executive directors	4 independent non-executive directors	
1 non-independent non-executive director	1 non-independent non-executive director	
3 executive directors	3 executive directors	

1. Composition of the Board

The Code states that at least half of the Board, excluding the Chairman, should comprise independent non-executive directors. We did not comply until 3 October 2011. As reported last year, we concluded our search for two independent non-executive directors following the publication of our annual report for the year ended 30 June 2011, and appointed Dharmash Mistry and Stephen Robertson to the Board on 3 October 2011. From this date, the Board comprised of nine directors; the non-executive Chairman, three executives, one non-independent non-executive and four independent non-executive directors.

2. Composition of the Audit and Remuneration Committees

The Code states that there should be at least 3 independent non-executive directors on the Audit and Remuneration Committees. For the period from 30 June 2011 to 3 October 2011 we did not comply with the Code. The appointment on 3 October 2011 of Dharmash Mistry and Stephen Robertson to the Audit Committee, and of Dharmash Mistry to the Remuneration Committee brought us back into compliance.

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.

Statement about applying the principles of the Code

We have applied both the main principles and supporting principles set out in the Code, by complying with the Code as reported above. Further explanation of how the principles and supporting principles 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.

THE BOARD

Board size, composition and changes during the year

As at 30 June 2012 there were nine Directors on the Board: the Chairman, four other independent non-executive directors, one non-independent non-executive director 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 changes were made:

- Dharmash Mistry was appointed as an independent non-executive director on 3 October 2011
- Stephen Robertson was appointed as an independent non-executive director on 3 October 2011.

Details on our Board members, including other directorships, are on page 35.

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 both Dharmash Mistry and Stephen Robertson were independent on appointment in October 2011, and that both they and 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.

Stephen Lansdown cannot be considered to be independent due to being co-founder and former executive Chairman of the Group.

The terms of reference of the non-executive directors are available for inspection at the Company's registered office and during the Annual General Meeting.

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 9 in total, of which 3 are executive, 5 independent (including the Chairman) and 1 non-independent. Women directors constitute 11% of the board and 25% of the Executive Committee (33% 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

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 who 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 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.

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. Stephen Lansdown 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.

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 Financial Services Authority 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 in the year. 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 through either face to face discussions or telephone conversations. The conclusions of the review were discussed by the Board at its meeting in April. The outcome of the review was positive, with participants noting the better balance of skills following the appointment of the two new independent non-executives. The majority of the board meetings now occur over a two day cycle, including an informal dinner facilitating wider discussions. As a result, the board is getting greater access to the wider executive team and participating in discussions on a wider set of subjects. It was agreed in the following year to focus on achieving a better balance between the necessary regulatory, risk and compliance aspects and the more forward looking strategic agenda. It was also recognised that increased focus on succession planning is required and that various aspects of management information provided to the Board could be enhanced.

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 and the non-executive director team with input from the executive Directors.

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 are 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). 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 2012 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, by virtue of their having held various executive and non-executive roles in investment management and business management. 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 five times during this financial year. The attendance by each director is set out in the table on page 42. The Chairman, Head of Internal Audit, Group Compliance Director, Group Finance Director and Chief Executive 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 auditors 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 2012 the Audit Committee has undertaken the following key responsibilities:

- reviewed the financial statements in the 2011 reports and accounts and the interim report issued in February 2012. 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 auditors;
- 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 2012 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 they can deliver an agreed programme of work;
- undertaken an evaluation of the performance of the 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 'Living Will'; 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. 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 2012 were £35k (2011: £nil).

The tenure of the current external auditor, Deloitte, is 6 years. The tenure of the current audit partner is 3 years. Having conducted a review of the independence and the effectiveness of the external auditor the Audit Committee has recommended to the Board that they are re-appointed.

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.

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 meet 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 42. Dharmash Mistry was appointed to the Committee on joining the Board on 3 October 2011. The Committee is chaired by Jonathan Bloomer and its other members at 30 June 2012 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 FSA 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 is chaired by Jonathan Bloomer and its other members at 30 June 2012 were Michael Evans, 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 42.

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;
- proposing the appointment of two new independent non-executive directors;
- formulation of appropriate succession plans; and
- making recommendations to the Board with regard to the appointment of directors.

On 3 October 2011, the Committee recommended to the Board the appointment of two non-executive directors; Dharmash Mistry and Stephen Robertson. The recruitment process consisted of a targeted advertisement to a subset of our clients. Having mailed some 6,500 and received approximately 100 applications, following the selection criteria laid down by the Committee, and after two rounds of interviews, the two candidates were identified and subsequently appointed.

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 Group Finance Director, Tracey Taylor, and the following:

- Nigel Bence – Chief Operating Officer
- Theresa Barry – Group Marketing Director
- Alex Davies – Director of Pensions
- Nick Marson – Vantage and Broking Operations Director
- Ian Hunter – Investment Marketing Director; and
- David Davies – IT Director (appointed November 2011).

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

Biographies of the above are available on our website: www.hl.co.uk/investor-relations.

The Executive Committee meets at least quarterly but more frequently when required, and met five times during the current financial year. The attendance by each director is set out in the table on page 42.

Risk Committee

The Risk Committee is chaired by the Chief Operating Officer and also comprises the Group Finance Director, 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.

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.

In addition to this, the CEO, Group Finance Director 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. During the year we have actively sought the views of major investors on our remuneration policy.

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 2011 final and 2012 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 2012.

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:

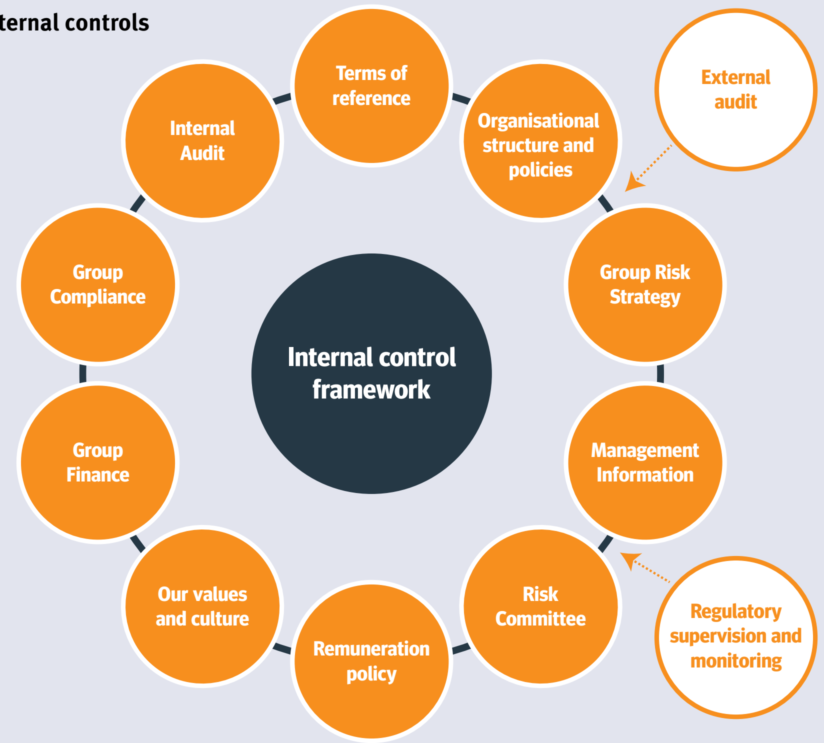
Terms of Reference
The Board operates within clearly defined terms of reference, and it reserves certain matters for its own consideration and decision. It has established appropriate committees to oversee control activities. These committees also have clearly defined terms of reference. The Board and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

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
Directors					
Ian Gorham	5/5	-	-	-	5/5
Peter Hargreaves	5/5	-	-	-	5/5
Tracey Taylor	5/5	-	-	-	5/5
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 [(1)]	3/3	3/3	3/3	1/1	-
Stephen Robertson [(1)]	3/3	3/3	-	1/1	-
Stephen Lansdown	4/5	-	-	-	-
Executive Committee					
Theresa Barry	-	-	-	-	4/5
Nigel Bence	-	-	-	-	4/5
Alex Davies	-	-	-	-	4/5
Nick Marson	-	-	-	-	5/5
Ian Hunter	-	-	-	-	4/5
David Davies [(1)]	-	-	-	-	2/2

* 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 appointment of the new non-executive directors to the Board.
[(1)] Attendance represents number of meetings held since date of appointment

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.

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 caliber are employed, particularly in key roles. Roles and responsibilities are clearly communicated to each member of staff within their 'Apportionment forms'. These 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 our Group Compliance team whose focus is on managing client 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 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 imbedded 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 will not only incentivise but will also assist 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 Services 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 auditors.

Directors' report – other information

The Directors' report and business review
Pages 1 to 46 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 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 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 Operational review on pages 17 to 23.

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 Pensions Direct Limited, are authorised and regulated by the Financial Services Authority.

Group Results and Company Dividends
Operating profit for the year ended 30 June 2012 was £150.6 million (2011: £124.4 million). The Group profit after taxation for the year ended 30 June 2012 was £113.3 million (2010: £91.9 million).

Dividends are shown in note 10 to the financial statements. In addition to the first interim dividend of 5.1 pence per share, we have declared a second (final) ordinary dividend of 10.65 pence per share, taking the total 2012 ordinary dividend to 15.75 pence per share. This total dividend pay-out equates to 65% (2011: 65%) of post-tax profits. Our policy is not to accumulate excess cash going forward and we are pleased to declare a special final dividend of 6.84 pence per share. This equates to a further 28% (2011: 30%) of post-tax profits. Any special dividend in future years will depend upon future cash requirements and therefore may vary.

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.

Client Service
Hargreaves Lansdown aims to ensure that we treat our clients fairly in every aspect of our dealings with them and to provide a first class service at all times. The fair treatment of our clients is central to our corporate culture. We strive to provide clear information to all our clients and keep them appropriately informed at all times whilst they remain a client of Hargreaves Lansdown. We aim to ensure that our services and investment performance meet our clients' expectations. We continually strive to improve our services to ensure they are designed and targeted appropriately and that any advice we provide is suitable for our clients. We will never impose unreasonable barriers to prevent clients from switching their investments or from making a complaint.

If clients ever feel the need to complain, our complaints handling team carefully investigates our client's complaint and endeavour 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 2012 financial year compared to the last figures published by the Ombudsman show that Hargreaves Lansdown is achieving good results in treating our clients fairly.

Share Capital
The Company's shares are listed on the main market of the London Stock Exchange. The Company's authorised and issued share capital during the year and as at 30 June 2012 is shown in note 21. The ordinary shares rank pari passu in all respects. Save as agreed at the Annual General Meeting of the shareholders, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by Section 561 of the Companies Act.

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.

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 2012 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 interests of directors in the shares of the Company since the year-end.

	Number and % of Ordinary Shares at 30 June 2012	Number and % of Ordinary Shares at 30 June 2011
Non-executive directors		
J Bloomer	15,625 (<0.01%)	15,625 (<0.01%)
C Barling	-	-
M Evans	15,625 (<0.01%)	15,625 (<0.01%)
S Lansdown	95,500,000 (20.13%)	95,500,000 (20.13%)
D Mistry	5,308 (<0.01%)	-
S Robertson	11,219 (<0.01%)	-
Executive directors		
I Gorham	-	-
P Hargreaves	152,717,606 (32.20%)	152,717,606 (32.20%)
T Taylor	745,641 (0.16%)	721,441 (0.15%)
Total	249,011,024 (52.50%)	248,970,297 (52.49%)

Substantial Shareholdings
As at 14 September 2012, the Company has not been notified of any changes in shareholdings amounting to more than 3 per cent 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
Adam Norris

Date of notification
26 August 2010

Number and % of Ordinary shares
14,491,199 (3.06%)

Model Code
The Company has its own internal dealing rules which extend the FSA 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. Trade creditors of the Group at 30 June 2012 were equivalent to 25 (2011: 19) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Employment Policies
Health and welfare
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. A new policy was released in August 2010, following the move to our new offices, and is available to all staff via our intranet.

Employee consultation
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.

Equality and diversity
Hargreaves Lansdown recognises, respects and values difference and diversity. 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 their race, colour, nationality, ethnic origin, sex (including gender reassignment), parental, marital or civil partnership status, disability, religion or belief, sexual orientation, age, trade union membership.

The Group seeks to ensure all employees and applicants to its businesses are given equal opportunity in all aspects of employment to ensure that the Group's businesses attract, retain and promote the best available talent. All the businesses work to embed these principles in all aspects of their management practices and to ensure that this is evident to employees in their day-to-day work. We offer tangible support to our people, which includes making arrangements for disabled employees including those who may have become disabled during the course of their employment with us. A full assessment of the individual's needs is undertaken and reasonable adjustments are made to the work environment or practices in order to assist those with disabilities.

Annual General Meeting
At the Annual General Meeting on 23 November 2012, the following three items of special business will be tabled:

i) *Authority to purchase own shares:*
The Company was granted authority at the AGM in 2011 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 14 September 2012. 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 23 November 2012 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 14 September 2012.

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.

iii) *Adoption of a new executive share option scheme:* A resolution is being proposed as special business at the AGM on 23 November 2012 to enable directors to adopt a new executive share option scheme.

Further details of the proposals are included within the Directors Remuneration Report, and full details will be provided in the shareholders' Notice of AGM.

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

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 24 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 2012/13 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
14 September 2012

Directors' Remuneration Report

"We have reviewed how we pay our most senior people. Our approach fits the unique needs of Hargreaves Lansdown, whilst acknowledging the demands of good corporate governance and focusing on pay for performance."

Dear Shareholder

2012 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, increased dividends and excellent client service achieved in volatile market conditions were very pleasing. The Committee felt this warranted rewards comparable 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 Executive Directors will remain unchanged with effect from 1 July 2012. 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. However good companies consistently evolve and modernise, so we have reviewed how we pay our senior executives.

We have consulted with our shareholders and we believe that the proposals described here balance the unique needs of Hargreaves Lansdown and its Directors (both Executive and Subsidiary Directors), acknowledges the wide range of feedback that we have received, and focuses on pay for performance.

Key proposed changes

We will maintain our existing policy of lower than market base salaries and a strong focus on performance based pay.

The main proposed changes are:

- A cap on the aggregate annual Performance Bonus pool for Directors of 5% of Profit Before Tax. There previously was no cap.
- In future 30% of all annual Performance Bonuses will be waived into deferred share awards, deferred cash awards, or a mixture of the two. Deferred awards will be transferred to the individual after 3 years if they remain with the Hargreaves Lansdown Group. This change will be phased in over the next two years for current employees.
- We are introducing formal claw back provisions on future deferred awards and on future unvested share option grants.
- We are proposing to introduce 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. This means that Directors will only make a gain if the Hargreaves Lansdown share price goes up. In addition, there will be a number of performance criteria determining the proportion of the new share options that can be exercised by Directors.
- We are also taking the opportunity to simplify the shareholding requirements for Directors.

When and how will we make the proposed changes

We are proposing to implement the new remuneration policy during the year ended 30th June 2013. There will be two votes on executive remuneration at our forthcoming Annual General Meeting. The Directors' Remuneration Report will be put to an advisory vote. We require formal shareholder approval before we can implement the proposed new Share Option Plan. We look forward to receiving your support for both resolutions, which will give us a modern performance related pay structure.

Jonathan Bloomer
Chairman of the Remuneration Committee

14 September 2012

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 2012/13?

Fixed remuneration	Remuneration that will vary with performance	
Base Salary	• Short term - annual • Annual Performance Bonus - 90% (phased decrease to 70% over three years) of Performance Bonus cash - 10% (phased increase to 30% over three years) of Performance Bonus deferred awards (shares and/or cash) • Linked to Group financial and individual performance. • Cap on Directors' Performance Bonus pool of 5% of Profit Before Tax	• Longer term – three years • Share Option Plan – 3 years • Performance measured over 3 years – - Aggregate Net New Business - Aggregate Net New Clients, and - Average growth in EPS
Defined Contribution to Pension		
Benefits in kind – life assurance and PHI		

Minimum shareholding requirement for all Directors of 200% of Base Salary.

What were the Executive Directors paid for the year ended 30th June 2012?

	Salary	Benefits	Performance Bonuses[1]	2012 Total	2011 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Ian Gorham	420[2]	-	1,221	1,641	1,034
Tracey Taylor	199[3]	-	500	699	441
Peter Hargreaves	15	1	-	16	511
Total Remuneration	634	1	1,721	2,356	1,986

[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 employers pension contribution are set out on page 55.
[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 £420,188 in exchange for additional employer pension contributions and other benefits in kind. Details of employer pension contributions are set out on page 55.
[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 £198,662 in exchange for an additional employer's pension contributions and other benefits in kind. Details of employers pension contribution are set out on page 55.

Elements of the remuneration packages for Directors

Element	Objective	Policy to 30 June 2012	Policy to 30 June 2013
Base Salary	Reflect the scope and nature of the role.	Set below market median taking into account market data for comparable positions.	No change
Annual Performance Bonus	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 based on a percentage of profits. No formal clawback mechanism.	Total annual Performance Bonus pool capped at a maximum of 5% of Profit Before Tax each year. Formal clawback mechanism.
Deferral of annual Performance Bonuses	Grow a shareholding in Hargreaves Lansdown and build alignment with shareholders.	Compulsory deferral of annual Performance Bonuses when base salary and Performance Bonus exceed £300,000 into share options or JSOP shares until minimum shareholding requirement has been reached. Voluntary deferral thereafter.	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.
Share Option Plan	Reward senior executives for growing the long-term value of the business. Align the interests of senior executives with those of shareholders.	Awards made from time to time to recognise performance, increased responsibilities or for retention purposes. No performance criteria	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 option may be subject to clawback.
Shareholding requirement	Ensures interests of management and shareholders in the success of the Group are closely aligned.	500,000 shares or share options, or deferral of £250,000 of annual Performance Bonus.	200% of base salary. Directors with less than 6 years service will be required to hold a minimum of 100% of base salary.
Pension	Defined contribution of 4% of base salary per annum made to pension fund.	No change.	No change.
Benefits	To ensure that dependents 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.
Benefits	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

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

‹ BACK TO CONTENTS
‹ ›

Remuneration Report explained

The work of the Remuneration Committee

The Corporate Governance statement on pages 36 to 43 contains information regarding the responsibilities of the Committee and its membership.

Activities of the Committee

During the year the Committee held five meetings and discussed the following:

Meeting	What was discussed
August 2011	Approve Remuneration Code staff list and associated disclosure. Approve the Directors' Remuneration Report for 2010/11. Approve the updated Terms of Reference of the Committee.
October 2011	Appoint new member of the Remuneration Committee.
November 2011	Review feedback received from institutional investors at AGM. Approve revised Remuneration Code Staff list. Receive an update on Directors' shareholdings. Review Pillar 3 disclosures.
February 2012	Receive an update on Directors' shareholdings. Initial discussion of changes to remuneration for Directors.
May 2012	Discussion of changes to remuneration for Directors. Review of base salaries. Initial discussion of anticipated annual Performance Bonus outcomes for 2011/12.

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, Stephen Lansdown and Ian Gorham about its proposals, although no Director was involved in discussions regarding his own remuneration.

Advisers

The Committee appointed and received advice from:

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

Deloitte LLP: information on regulatory developments and market conditions. Advice on the revisions to the remuneration policy, advice on the design of the new executive share option scheme and critique of the wording of the Directors Remuneration Report. Deloitte is the Group's external auditor. Any non-audit services they provide are subject to review in accordance with arrangements for provision of such services as described in the report of the Audit Committee

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.

Peter Hargreaves' salary was reduced during 2011/12 to reflect reduced working hours.

No increases were made to the base salaries of the Executive Directors as at 1 July 2012 and the base salaries of the Executive Directors for 2012/13 will remain as follows:

Base Salaries for 2012/13

	Base Salary per annum
Ian Gorham	£450,000
Tracey Taylor	£250,000
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 for 2011/12 and for 2012/13 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.

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

Annual Performance Bonuses for 2011/12

2012 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, increased dividends and excellent client service achieved in volatile market conditions were very pleasing and the Committee felt this warranted an annual performance bonus comparable 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 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.

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 awards to Directors, as a percentage of base salary was 217% for the year (2011: 223%).

Over the previous three years, Bonuses for Directors have ranged from nil to 450% of base salary, and from nil to a value of £1,250,000.

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 £15,750 for 2011/12 distorts the percentage.

Annual Performance Bonuses for 2012/13

We are proposing that a similar approach to that described above will be used to determine annual Performance Bonuses for 2012/2013.

Cap on annual performance bonus pool for directors from 2012/2013

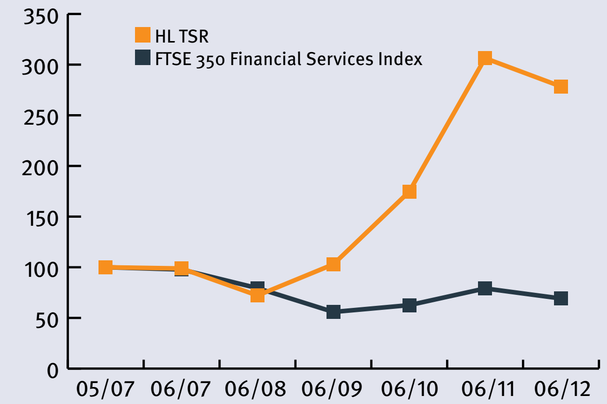
The Committee does not consider it appropriate to set a formal upper limit on individual discretionary awards. Firstly, the total performance bonus pool to be distributed is determined by the Committee with due regard to the results of the Company and the growth in EPS. Secondly, by individually considering each Director's performance against his or her personal objectives, we ensure 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 ultimate discretion is in the best interests of the Company. This avoids the possible unintended consequences of using an arbitrary formula.

However, we want to provide an additional level of assurance to our shareholders that there are controls on the levels of annual Performance Bonuses that may be paid. With this in mind, with effect from the year ended 30th June 2013 the total annual performance bonus pool will be capped at a maximum of 5% of Profit Before Tax for each financial year.

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

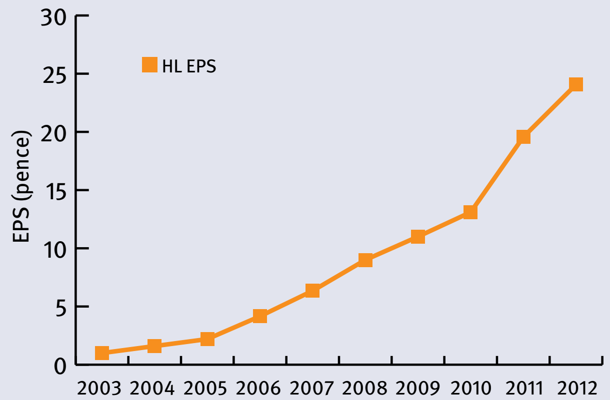


This graph shows the value of £100 invested in Hargreaves Lansdown plc shares on 15 May 2007 (admission to the Official List) compared to £100 invested in the FTSE 350 Financial Services Sector.

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



Introduction
Strategic Review
Performance Review
Governance
Financial Statements

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
2012	3.75%
2011	3.74%
2010	1.59%

Deferral of annual Performance Bonuses for 2011/2012
For 2011/2012 the first £300,000 of salary and annual Performance Bonus earned for a financial year was paid in cash. For the excess over £300,000, Directors could choose to either take the balance as an immediate cash bonus, or to waive bonus in favour of deferred share options or JSOP shares. Where the minimum shareholding requirement is not satisfied, rewards must be taken as deferred share options, JSOP shares or a deferred cash bonus. The Committee exercised its discretion not to apply this deferral to a new Director of a subsidiary company for this year only.

Deferral of annual Performance Bonuses for 2012/2013
We are simplifying 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 3 years provided the individual remains employed by the Hargreaves Lansdown Group.

We are proposing that this change will be phased in for existing employees. For the year ended 30th June 2013, 10% of any annual Performance Bonus will be waived in favour of deferred awards. For the year ended 30th June 2014, 20% of any annual Performance Bonus will be deferred. With effect from the year ended 30th June 2015 and subsequent years, 30% of any annual Performance Bonus will be deferred.

LONGER TERM INCENTIVES

Share option and award incentives for 2011/12 and earlier years
The Company operated an Executive Share Option Scheme and an Executive Joint Share Ownership Plan (JSOP) for the benefit of the Directors and senior management of the Company and subsidiary companies. The exercise price of the options granted under the share option schemes is equal to the market value of the Company's shares at the time the options are granted. Under the JSOP, Directors pay an agreed amount for their interest in the shares at the outset.

Share option grants
During 2011/12 a total of 655,528 unapproved share options were taken via bonus waiver, and a further 600,000 unapproved share options were granted. No grants were made to Executive Directors.

Provided that the new Share Option Scheme is approved at the AGM, no further grants of share options or JSOP shares will be made under the existing schemes to Directors, other than for the first £30,000 of market value which we may deliver under the Company's existing CSOP provided that the performance criteria shall apply to that award in the same way as the remainder of the award

Share Option Plan from 2012/13
In 2012/13 we are proposing to introduce a new Share Option Plan under which regular grants will be made each year, to replace ad-hoc grants. 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 3 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.

The maximum award that may be made for any one financial year is 4 times base salary. The Committee anticipates that the average award will be in the region of 2 – 2.5 times base salary.

For awards made in 2012/13 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 Growth in Earnings per share (EPS)

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 they have set and the extent to which they were met.

Clawback from 2012/2013
We are introducing formal claw back provisions on the deferred element of annual Performance Bonuses and unvested awards made under the new Share Option Plan from 2012/13. 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 for 2011/2012
Each Director was required to accumulate a minimum shareholding in the Company of 500,000 shares (including JSOP shares and options to acquire shares) or £250,000 in deferred cash bonus. Until that condition was satisfied, salary and annual performance bonus over £300,000 had to be taken as JSOP shares, share options or as a deferred cash bonus. All bar one of the Directors met this requirement for 2011/12.

Requirements may be varied for new Directors or at the discretion of the Committee.

Shareholding requirements from 2012/13
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.

We are simplifying the shareholding requirements for Directors from 2012/13.

Directors will be required to hold a minimum shareholding in Hargreaves Lansdown of 200% of base salary. Directors with less than 6 years service will be required to hold a minimum of 100% of base salary. Newly appointed Directors will be given up to 3 years to comply with this requirement.

Executive Directors' current shareholdings as a percentage of base salary

	2012
Ian Gorham	0%
Tracey Taylor	>1000%
Peter Hargreaves	>1000%

Based on share price as at 30th June 2012 of 529p

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 2012, the maximum contractual amount which may be payable to the Executive Directors under the payment in lieu of notice clauses is £701,000.

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

Name of director	Contract date	Notice period
I Gorham	2 Sept 2010	12 months
P Hargreaves	5 Apr 2007	12 months
T Taylor	1 Nov 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 granted prior to 31 August 2010.

Since that date, 2,690,156 share options have been granted to staff and Directors 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 2012 was 0.5089%.

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
Stephen Lansdown	26 August 2010	3 months	
Chris Barling	26 August 2010	3 months	
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 initial three year contract was renewed for a further three years from 18 September 2009

Non-executive director fees

Fees for 2011/12	
Michael Evans (Chairman)	£91,458
Jonathan Bloomer	£55,000
Stephen Lansdown	£30,000
Chris Barling	£41,458
Dharmash Mistry	£31,875
Stephen Robertson	£31,875

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 36 to 43.

An additional fee is payable to Jonathan Bloomer for chairmanship of the three committees.

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.

The fees for the Chairman have been reviewed and from 1 July 2012, the fees payable to Michael Evans will increase to £150,000 per annum.

AUDITED INFORMATION

The following information is provided in respect of directors who served during the year ended 30 June 2012:

Aggregate Executive Directors' remuneration

The total amounts for Executive Director's remuneration were as follows:

	2012 £'000	2011 £'000
Emoluments	2,638	2,197
Pension contributions	112	47
Gains on exercise of share options [1]	107	-
	2,857	2,244

[1]Gain resulted from Tracey Taylor exercising 22,500 SAYE shares as per the table on the following page.

Executive Directors' pension contributions

Two directors were members of a money purchase scheme during 2012 (2011: 2).
Contributions paid by the Company were:

	2012 £	2011 £
Ian Gorham	74,380	18,384
Tracey Taylor	38,119	28,538
	112,499	46,922

Directors' emoluments

Name of director	Fees/ Basic salary £	Benefits in kind £	Performance Bonuses £	2012 Total £	2011 Total £
Current Executive directors					
Ian Gorham[1]	420,188	-	1,220,707	1,640,895	1,034,167
Tracey Taylor	198,662	204	500,000	698,867	440,849
Peter Hargreaves	15,750	824	0	16,574	510,739
	634,600	1,028	1,720,707	2,356,335	1,985,755
Non- Executive directors					
Michael Evans	91,458	-	-	91,458	90,000
Jonathan Bloomer	55,000	-	-	55,000	55,000
Chris Barling	41,458	-	-	41,458	25,460
Stephen Lansdown	30,000	-	-	30,000	25,460
Dharmash Mistry [2]	31,875	-	-	31,875	-
Stephen Robertson [2]	31,875	-	-	31,875	-
	281,667	-	-	281,667	195,920
Former Non-Executive directors					
Jonathan Davis	-	-	-	-	15,000
	-	-	-	-	15,000
Aggregate emoluments	**916,267**	**1,028**	**1,720,707**	**2,638,002**	**2,196,675**

1 Emoluments for Ian Gorham for 2011 are shown for the 10 months following appointment to the Board and include annual performance bonus accrued for the period. Emoluments for Chris Barling and Stephen Lansdown for 2011 are shown for the 10 months following appointment to the Board as non-executive directors.
2 Emoluments for Dharmash Mistry and Stephen Robertson are shown for the 9 months following appointment to the Board as non-executive directors

All of the Directors of the Group as at 8 November 2006, with the exception of Peter Hargreaves and Stephen Lansdown, were each awarded 12,650 Ordinary Shares on 8 November 2006 under the terms of the HMRC approved Share Incentive Plan (SIP). At the award date the HMRC approved market value was £0.24 per share. These shares matured on 8 November 2011 and were transferred to each director. The figures shown below are exclusive of such awards. Options granted under the share option and share incentive schemes 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 £5.295 and the range during the year to 30 June 2012 was £4.025 to £6.295.

The interests of the Executive Directors who served during the year in options to acquire shares in Hargreaves Lansdown plc are as follows:

Name of director	Type of scheme	At 1 July 2011	Exercised	Granted	Lapsed	At 30 June 2012	Exercise Price	Expiration Date	Date from which exercisable
I Gorham	Exec Scheme	10,569	-	-	-	10,569	£2.84	Oct 2019	Oct 2012
	Exec Scheme	239,431	-	-	-	239,431	£2.84	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	-	Dec 2019	Dec 2012
	SAYE	-	-	4,109	-	4,109	£3.65	Mar 2022	Mar 2017
T Taylor	Exec Scheme	15,355	-	-	-	15,355	£1.95	Mar 2019	Mar 2014
	SAYE	22,550	22,550[1]	-	-	-	£0.55	Nov 2012	May 2012
	SAYE	2,373	-	-	-	2,373	£1.75	Mar 2014	Oct 2013
	JSOP	1,000,000	-	-	-	1,000,000	-	Dec 2019	Dec 2012
	SAYE	-	-	3,090	-	3,090	£3.65	Mar 2022	Mar 2017

[1]During the year, Tracey Taylor exercised 22,550 SAYE shares when the market price was 529.25 pence per share.

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.

Directors' responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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
14 September 2012

Tracey Taylor
Group Finance Director
14 September 2012

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 2012 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Cash Flows 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. 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 2012 and of the group's profit for the year then ended;
- the group 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 group 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, United Kingdom
14 September 2012

Consolidated Income Statement

	Note	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Revenue	4	**238,741**	207,904
Total operating income		**238,741**	207,904
Administrative expenses		**(83,355)**	(79,813)
FSCS costs *		**(4,774)**	(3,646)
Operating profit		**150,612**	124,445
Investment revenue	8	**2,229**	1,496
Other (losses)/gains		**(2)**	72
Profit before tax		**152,839**	126,013
Tax	9	**(39,520)**	(34,066)
Profit for the financial year	6	**113,319**	91,947
Attributable to:			
Equity holders of the Company		**112,960**	91,820
Non-controlling interest		**359**	127
		113,319	91,947
Earnings per share			
Basic earnings per share (pence)	11	**24.2**	19.8
Diluted earnings per share (pence)	11	**24.1**	19.6

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

* FSCS costs are those relating to the running of and the levies issued under the Financial Services Compensation Scheme. In previous years these costs were included within administrative expenses.

Consolidated and Company Statements of Comprehensive Income

	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000	Company Year ended 30 June 2012 £'000	Company Year ended 30 June 2011 £'000
Profit for the financial year	**113,319**	91,947	**109,378**	87,897
Other comprehensive income for the period:-				
Increase in fair value of available-for-sale investments	**30**	39	**30**	39
Total comprehensive income for the financial year	**113,349**	91,986	**109,408**	87,936
Attributable to:-				
Equity holders of the Company	**112,990**	91,859	**109,408**	87,936
Non-controlling interest	**359**	127	**-**	-
	113,349	91,986	**109,408**	87,936

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

‹ BACK TO CONTENTS

Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company									
	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	**Total £'000**	Non-controlling interest £'000	**Total equity £'000**
At 1 July 2010	1,897	8	91	12	(14,505)	10,166	68,445	**66,114**	(61)	**66,053**
Profit for the period	-	-	-	-	-	-	91,820	**91,820**	127	**91,947**
Other comprehensive income:-										
Net fair value gains on available-for-sale assets	-	-	39	-	-	-	-	**39**	-	**39**
Employee Benefit Trust:-										
Shares sold in the year	-	-	-	-	131	-	-	**131**	-	**131**
Shares acquired in the year	-	-	-	-	(2,155)	-	-	**(2,155)**	-	**(2,155)**
EBT share sale net of tax	-	-	-	-	-	128	-	**128**	-	**128**
Employee share option scheme:-										
Share-based payments expense	-	-	-	-	-	-	1,618	**1,618**	-	**1,618**
Deferred tax effect of share-based payments	-	-	-	-	-	-	4,510	**4,510**	-	**4,510**
Dividend paid	-	-	-	-	-	-	(31,404)	**(31,404)**	-	**(31,404)**
At 30 June 2011	1,897	8	130	12	(16,529)	10,294	134,989	**130,801**	66	**130,867**
Profit for the period	-	-	-	-	-	-	112,960	**112,960**	359	**113,319**
Other comprehensive income:-										
Net fair value gains on available-for-sale assets	-	-	30	-	-	-	-	**30**	-	**30**
Employee Benefit Trust:-										
Shares sold in the year	-	-	-	-	2,500	-	-	**2,500**	-	**2,500**
EBT share sale net of tax	-	-	-	-	-	(280)	-	**(280)**	-	**(280)**
Employee share option scheme:-										
Share-based payments expense	-	-	-	-	-	-	2,136	**2,136**	-	**2,136**
Current tax effect of share-based payments	-	-	-	-	-	-	4,636	**4,636**	-	**4,636**
Deferred tax effect of share-based payments	-	-	-	-	-	-	(5,617)	**(5,617)**	-	**(5,617)**
Dividend paid	-	-	-	-	-	-	(90,172)	**(90,172)**	-	**(90,172)**
At 30 June 2012	1,897	8	160	12	(14,029)	10,014	158,932	**156,994**	425	**157,419**

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**
At 30 June 2010	1,897	8	108	12	12,769	**14,794**
Profit for the period	-	-	-	-	87,897	**87,897**
Other comprehensive income:-						
Net fair value gains on available-for-sale assets	-	-	39	-	-	**39**
Dividend paid	-	-	-	-	(31,404)	**(31,404)**
At 30 June 2011	1,897	8	147	12	69,262	**71,326**
Profit for the period	-	-	-	-	109,378	**109,378**
Other comprehensive income:-						
Net fair value gains on available-for-sale assets	-	-	30	-	-	**30**
Dividend paid	-	-	-	-	(90,172)	**(90,172)**
At 30 June 2012	1,897	8	177	12	88,468	**90,562**

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.

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

Consolidated and Company Balance Sheets

	Note	Group At 30 June 2012 £'000	Group At 30 June 2011 £'000	Company At 30 June 2012 £'000	Company At 30 June 2011 £'000
ASSETS					
Non-current assets					
Goodwill	12	**1,333**	1,333	**-**	-
Other intangible assets	13	**168**	296	**-**	-
Property, plant and equipment	14	**5,792**	6,980	**-**	-
Investments	16	**-**	-	**2,152**	2,152
Deferred tax assets	18	**2,939**	8,117	**31**	38
		10,232	16,726	**2,183**	2,190
Current assets					
Trade and other receivables	17	**142,606**	176,178	**104**	269
Cash and cash equivalents	17	**157,719**	121,951	**105,196**	67,410
Investments	16	**2,228**	2,240	**1,657**	1,626
Current tax assets		**17**	12	**-**	-
		302,570	300,381	**106,957**	69,305
Total assets		**312,802**	317,107	**109,140**	71,495
LIABILITIES					
Current liabilities					
Trade and other payables	19	**136,952**	167,439	**18,452**	53
Current tax liabilities		**18,154**	18,742	**126**	116
		155,106	186,181	**18,578**	169
Net current assets		**147,464**	114,200	**88,379**	69,136
Non-current liabilities					
Provisions	20	**277**	59	**-**	-
		277	59	**-**	-
Total liabilities		**155,383**	186,240	**18,578**	169
Net assets		**157,419**	130,867	**90,562**	71,326
EQUITY					
Share capital	21	**1,897**	1,897	**1,897**	1,897
Share premium account		**8**	8	**8**	8
Investment revaluation reserve		**160**	130	**177**	147
Capital redemption reserve		**12**	12	**12**	12
Shares held by Employee Benefit Trust reserve		**(14,029)**	(16,529)	**-**	-
EBT reserve		**10,014**	10,294	**-**	-
Retained earnings		**158,932**	134,989	**88,468**	69,262
Total equity, attributable to equity shareholders of the parent		**156,994**	130,801	**90,562**	71,326
Non-controlling interest		**425**	66	**-**	-
Total equity		**157,419**	130,867	**90,562**	71,326

The financial statements of Hargreaves Lansdown plc, registered number 02122142, were approved by the Board of directors and authorised for issue on 14 September 2012.

Ian Gorham
Chief Executive

Tracey Taylor
Group Finance Director

Statement of Cash Flows

	Note	Group Year ended 30 June 2012 £'000	Group Year ended 30 June 2011 £'000	Company Year ended 30 June 2012 £'000	Company Year ended 30 June 2011 £'000
Net cash from operating activities, after tax	22	**122,549**	84,257	**18,570**	(970)
Investing activities					
Interest received		**2,158**	1,443	**388**	140
Dividends received from investments		**71**	53	**109,000**	87,500
Proceeds on disposal of available-for-sale investments		**42**	121	**-**	66
Proceeds on disposal of plant and equipment		**2**	78	**-**	-
Purchases of property, plant and equipment		**(998)**	(1,596)	**-**	-
Purchase of intangible fixed assets		**(104)**	(349)	**-**	-
Net cash from investing activities		**1,171**	(250)	**109,388**	87,706
Financing activities					
Purchases of own shares in EBT		**-**	(2,155)	**-**	-
Proceeds on sale of own shares in EBT		**2,220**	258	**-**	-
Dividends paid		**(90,172)**	(31,404)	**(90,172)**	(31,404)
Net cash used in financing activities		**(87,952)**	(33,301)	**(90,172)**	(31,404)
Net increase in cash and cash equivalents		**35,768**	50,706	**37,786**	55,332
Cash and cash equivalents at beginning of year		**121,951**	71,245	**67,410**	12,078
Cash and cash equivalents at end of year		**157,719**	121,951	**105,196**	67,410

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 £109,378,295 (2011: £87,897,000).
At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7 (amended)	Financial Instruments: Disclosures
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosures of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items in Other Comprehensive Income
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures

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.

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 2012. 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 46.

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.

2. Significant accounting policies (continued)

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 initial 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.

Notes to the Financial Statements

2. Significant accounting policies (continued)

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.

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.

Hargreaves Lansdown plc Report and Financial Statements 2012

2. Significant accounting policies (continued)

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
Office equipment	over 10 years
Computer equipment and software	over 3 to 4 years
Motor vehicles:	over 4 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 which is 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

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.

Website development design and content 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.

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.

Notes to the Financial Statements

2. Significant accounting policies (continued)

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 timeframe 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 60, 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.

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 2012 £'000	Year ended 30 June 2011 £'000
Revenue from services:-		
Recurring income	**192,609**	161,240
Transactional income	**42,479**	44,186
Other income	**3,653**	2,478
Total operating income	**238,741**	207,904
Investment revenues (note 8)	**2,229**	1,496
Total revenue	**240,970**	209,400

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.

In previous periods the Group's revenue was analysed into the categories of fees and commission income, interest and similar income and subscriptions and sundry charges. This analysis has been changed in the current year to analyse revenue as recurring, transactional or other. This change has been made as the directors believe the analysis set out above more appropriately reflects the nature of the revenue being earned and the key performance indicators monitored. The policies for the recognition of each significant revenue stream and the total revenue recognised for each accounting period have not changed as a result of this reclassification.

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.

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 2012 and 2011, 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.

Notes to the Financial Statements

5. Segment information (continued)

	Vantage £'000	Discretionary/ Managed £'000	Third Party/ Other Services £'000	Group £'000	Consolidation Adjustment £'000	Consolidated £'000
Year ended 30 June 2012						
Revenue from external customers	185,731	27,260	25,718	32	-	**238,741**
Inter-segment revenue	-	3,796	-	-	(3,796)	**-**
Total segment revenue	185,731	31,056	25,718	32	(3,796)	**238,741**
Depreciation and amortisation	1,719	264	432	-	-	**2,415**
Investment revenue	-	-	-	2,229	-	**2,229**
Other gains	-	-	-	(2)	-	**(2)**
Reportable segment profit before tax	118,236	18,367	14,611	1,625	-	**152,839**
Reportable segment assets	133,036	10,495	14,612	161,883	(7,225)	**312,802**
Reportable segment liabilities	(99,380)	(7,883)	(13,018)	(40,176)	5,074	**(155,383)**
Net segment assets	33,656	2,612	1,594	121,707	(2,152)	**157,419**
Year ended 30 June 2011						
Revenue from external customers	160,524	24,711	22,669	-	-	**207,904**
Inter-segment revenue	-	3,424	-	-	(3,424)	**-**
Total segment revenue	160,524	28,135	22,669	-	(3,424)	**207,904**
Depreciation and amortisation	1,737	205	376	-	-	**2,318**
Investment revenue	-	-	-	1,496	-	**1,496**
Other gains	-	-	-	72	-	**72**
Reportable segment profit before tax	96,688	16,905	11,269	1,151	-	**126,013**
Reportable segment assets	169,234	9,827	13,155	131,446	(6,555)	**317,107**
Reportable segment liabilities	(139,238)	(6,397)	(11,686)	(33,323)	4,404	**(186,240)**
Net segment assets	29,996	3,430	1,469	98,123	(2,151)	**130,867**

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.

6. Profit for the financial year

Profit for the year has been arrived at after charging:	**Year ended 30 June 2012 £'000**	Year ended 30 June 2011 £'000
Depreciation of owned plant and equipment	**2,186**	2,055
Amortisation of other intangible assets	**229**	263
Operating lease rentals payable – property	**2,638**	2,191
Staff costs (Note 7)	**43,471**	40,140
FSCS costs	**4,774**	3,646

The analysis of auditor remuneration is as follows:	**Year ended 30 June 2012 £'000**	Year ended 30 June 2011 £'000
Audit fees:		
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	**85**	85
Fees payable for the review of the Company's half-yearly financial report	**10**	10
Other audit related assurance services	**13**	6
Non-audit fees:		
Other non-audit services	**31**	-
Total fees:	**144**	106

7. Staff costs

The average monthly number of employees of the Group (including executive directors) was:	**Year ended 30 June 2012 No.**	Year ended 30 June 2011 No.
Operating and support functions	**474**	463
Administrative functions	**183**	180
	657	643
Of which the following number were employed by the parent company:		
Administrative functions	**3**	3
Their aggregate remuneration comprised:	**£'000**	£'000
Wages and salaries	**34,244**	32,098
Social security costs	**4,056**	3,793
Share-based payment expenses	**2,136**	1,618
Other pension costs	**3,035**	2,631
	43,471	40,140

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.

Notes to the Financial Statements

8. Investment revenue

	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Interest on bank deposits	**2,158**	1,443
Dividends from equity investment	**71**	53
	2,229	1,496

9. Tax

	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Current tax	**39,959**	34,732
Deferred tax (Note 18)	**(439)**	(666)
	39,520	34,066

Corporation tax is calculated at 25.50% of the estimated assessable profit for the year to 30 June 2012 (2011: 27.5%).
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 2012 £'000	Year ended 30 June 2011 £'000
Deferred tax relating to share-based payments	**5,617**	(4,510)
Current tax relating to share-based payments	**(4,636)**	-
	981	(4,510)

Factors affecting tax charge for the year
It is expected that the ongoing effective tax rate will trend to a rate approximating to the standard UK corporation tax rate in the medium term. The Finance Act 2012 received Royal Assent on 17 July 2012 and reduced the standard UK corporation tax rate to 24% (from 26%) on 1 April 2012. Deferred tax has been recognised at 24%, 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 2012.

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 standard rate of UK corporation tax is due to reduce to 23% from 1 April 2013 which will reduce the deferred tax assets shown in note 18 by an estimated £123,000; this will be recognised in the financial statements for the year ended 30 June 2013.

Introduction Strategic Review Performance Review Governance Financial Statements

9. Tax (continued)

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

	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Profit before tax from continuing operations	**152,839**	126,013
Theoretical tax charge	**38,976**	34,653
- at the UK corporation tax rate of	**25.5%**	27.5%
Items not allowable/(allowable) for tax	**397**	(92)
Effect of adjustments relating to prior year	**7**	(617)
Utilisation of small company rate and rate applicable to trusts	**-**	3
Impact of the change in tax rate	**140**	119
Tax expense for the year	**39,520**	34,066
Effective tax rate	**25.9%**	27.0%

10. Dividends

Amounts recognised as distributions to equity holders in the period:	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
2011 Final dividend of 8.41p (2010: 0.58p) per share	**38,947**	2,688
2011 Final special dividend of 5.96p (2010: 1.7p) per share	**27,601**	7,879
2012 First interim dividend of 5.1p (2011: 4.5p) per share	**23,624**	20,837

After the balance sheet date, the directors declared a second interim (final) ordinary dividend of 10.65 pence per share and a special dividend of 6.84 pence per share payable on 28 September 2012 to shareholders on the register on 14 September 2012. 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 2013 financial statements as follows:

	£'000
2012 Second interim (final) dividend of 10.65p per share	49,743
2012 Special dividend of 6.84p per share	31,948

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 2012 £'000	Year ended 30 June 2011 £'000
Number of shares held by the Hargreaves Lansdown Employee Benefit Trust	**7,263,396**	11,214,774
Representing % of called-up share capital	**1.53%**	2.36%

‹ BACK TO CONTENTS

Notes to the Financial Statements

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 2,806,402 at 30 June 2012 (2011: nil).

	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Earnings (all from continuing operations):		
Earnings for the purposes of basic and diluted EPS - net profit attributable to equity holders of parent company	**112,960**	91,820
Earnings for the purposes of underlying basic EPS and underlying diluted EPS	**112,960**	91,820
Number of shares:		
Weighted average number of ordinary shares for the purposes of diluted EPS	**469,424,156**	469,074,636
Weighted average number of shares held by HL EBT which have not vested unconditionally with employees	**(2,304,199)**	(5,831,871)
Weighted average number of ordinary shares for the purposes of basic EPS	**467,119,957**	463,242,765
Earnings per share:	**Pence**	Pence
Basic EPS	**24.2**	19.8
Diluted EPS	**24.1**	19.6

12. Goodwill - Group

Earnings (all from continuing operations):	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Cost		
At beginning and end of year	**1,450**	1,450
Accumulated impairment losses		
At beginning and end of year	**117**	117
Carrying amount		
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). 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 2015 which show that the Group as a whole will remain highly profitable and cash generative. Within the forecast, the revenue streams which belong to HLPD continue to grow. HLPD is profit making (profit before tax for year ended 30 June 2012 was £56.2 million) and has a net assets position as at 30 June 2012, 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

	Computer software £'000
Cost	
At 1 July 2010	2,344
Additions	349
Other movements	(13)
At 30 June 2011	2,680
Additions	104
Other movements	(8)
At 30 June 2012	2,776
Accumulated amortisation	
At 1 July 2010	2,133
Charge	263
Other movements	(12)
At 30 June 2011	2,384
Charge	229
Other movements	(5)
At 30 June 2012	2,608
Carrying amount	
At 30 June 2012	168
At 30 June 2011	296

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

Notes to the Financial Statements

14. Property, plant and equipment

Group's property, plant and equipment	Fixtures, fittings, plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 July 2010	13,613	31	13,644
Additions	1,596	-	1,596
Disposals	(56)	(31)	(87)
Other movements	(935)	-	(935)
At 30 June 2011	14,218	-	14,218
Additions	998	-	998
Other movements	(199)	-	(199)
At 30 June 2012	15,017	-	15,017
Accumulated depreciation			
At 1 July 2010	6,175	24	6,199
Charge	2,053	2	2,055
Disposals	(55)	(26)	(81)
Other movements	(935)	-	(935)
At 30 June 2011	7,238	-	7,238
Charge	2,186	-	2,186
Other movements	(199)	-	(199)
At 30 June 2012	9,225	-	9,225
Carrying amount			
At 30 June 2012	5,792	-	5,792
At 30 June 2011	6,980	-	6,980

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

Company's property, plant and equipment	Fixtures, fittings, plant and equipment £'000
Cost	
At 1 July 2010	700
Other movements	(630)
At 30 June 2011	70
Other movements	-
At 30 June 2012	70
Accumulated depreciation	
At 1 July 2010	700
Other movements	(630)
At 30 June 2011	70
Other movements	-
At 30 June 2012	70
Carrying amount	
At 30 June 2012	-
At 30 June 2011	-

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

15. Subsidiaries

A list of the investments in subsidiaries, all of which are incorporated in the UK, 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 Pensions Direct Ltd (100% shares held)**
  Pension broking
- **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

16. Investments

Group's investments	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
At beginning of year	**2,240**	2,322
Sales	**(42)**	(121)
Net increase in the value of available-for-sale investments	**30**	39
At end of year	**2,228**	2,240
Comprising:		
Current asset investment - UK listed securities valued at quoted market price	**1,487**	1,499
Current asset investment - Unlisted securities valued at cost	**741**	741

£308,000 (2011: £350,000) of investments are classified as held at fair value through profit and loss and £1,920,000 (2011: £1,890,000) 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.

Notes to the Financial Statements

16. Investments (continued)

Company's investments	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
At beginning of year	**3,778**	3,739
Net increase in the value of available-for-sale investments	**30**	39
At end of year	**3,809**	3,778
Comprising:		
Current asset investment - UK listed securities valued at quoted market price	**1,179**	1,148
Current asset investment - Unlisted securities valued at cost	**478**	478
Non-current investments – Investments in subsidiaries valued at cost less impairment	**2,152**	2,152

£1,657,000 (2011: £1,626,000) of investments 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 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.

17. Other financial assets

Trade and other receivables	Group		Company	
	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Amounts receivable from subsidiaries and EBT	-	-	**32**	227
Trade receivables	**105,654**	147,738	**-**	-
Other receivables	**91**	218	**-**	-
Prepayments and accrued income	**36,861**	28,222	**72**	42
	142,606	176,178	**104**	269

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 in debtors. Trade receivables include £93.4 million (2011: £134.3 million) of counterparty balances.

Cash and cash equivalents	Group		Company	
	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Restricted cash – client settlement account balances	12,644	13,538	-	-
Restricted cash – balances held by EBT	2,695	469	-	-
Group cash and cash equivalent balances	142,380	107,944	105,196	67,410
	157,719	121,951	105,196	67,410

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 2012 segregated deposit amounts held by the Group on behalf of clients in accordance with the client money rules of the Financial Services Authority amounted to £2,922 million (2011: £2,248 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 24%, being the rate in force at the balance sheet date. The Finance Act 2012 reduces the standard UK corporation tax rate to 23% from 1 April 2013 which will reduce the deferred tax assets and liabilities shown below.

Trade and other receivables	Accelerated tax depreciation £'000	Future relief on capital losses £'000	Share-based payments £'000	Other deductible temporary differences £'000	Total £'000
Group					
At 1 July 2010	206	-	1,975	760	2,941
Credit to income	377	-	249	40	666
Credit to equity	-	-	4,510	-	4,510
At 30 June 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
Company					
At 1 July 2010	35	-	-	13	48
Credit to income	(9)	-	-	(1)	(10)
At 30 June 2011	26	-	-	12	38
Credit to income	(6)	-	-	(1)	(7)
At 30 June 2012	20	-	-	11	31

19. Other financial liabilities

Trade and other payables – current payables	Group		Company	
	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Amounts payable to subsidiaries	**-**	-	**18,355**	12
Trade payables	**107,206**	147,450	**-**	-
Social security and other taxes	**7,615**	3,359	**4**	2
Other payables	**7,806**	4,950	**25**	17
Accruals and deferred income	**14,325**	11,680	**68**	22
	136,952	167,439	**18,452**	53

In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties are included in creditors. Trade payables include £105.6 million (2011: £146.7 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.

Introduction
Strategic Review
Performance Review
Governance
Financial Statements

‹ BACK TO CONTENTS ‹ ›

Notes to the Financial Statements

20. Provisions - Group

	Commission on indemnity terms £'000	Property costs £'000	Total £'000
Included within non-current liabilities:			
At 1 July 2010	272	626	898
Utilised during the year	(272)	(567)	(839)
At 30 June 2011	-	59	59
Charged during the year	-	218	218
At 30 June 2012	-	277	277

The indemnity provision represented 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 2012 £'000	Year ended 30 June 2011 £'000
Authorised:		
525,000,000 ordinary shares of 0.4p each	**2,100**	2,100
Issued and fully paid:		
Ordinary shares of 0.4p each	**1,897**	1,897
	Shares	Shares
Issued and fully paid:		
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.

22. Notes to the consolidated cash flow

	Group		Company	
	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Profit for the year after tax	**113,319**	91,947	**109,378**	87,897
Adjustments for:				
Investment revenues	(2,158)	(1,496)	(109,388)	(87,640)
Other gains	(71)	(72)	-	(66)
Income tax expense	39,520	34,066	134	117
Depreciation of plant and equipment	2,186	2,055	-	-
Amortisation of intangible assets	229	263	-	-
Loss on disposal	2	-	-	-
Share-based payment expense	2,136	1,618	-	-
Increase/(decrease) in provisions	218	(839)	-	-
Operating cash flows before movements in working capital	**155,381**	127,542	**124**	308
Decrease/(increase) in receivables	33,572	(72,004)	164	(165)
(Decrease)/increase in payables	(30,487)	58,748	18,399	(930)
Operating cash flows	**158,466**	114,286	**18,687**	(787)
Income taxes paid	(35,917)	(30,029)	(117)	(183)
Net cash from/(used in) operating activities, after tax	**122,549**	84,257	**18,570**	(970)

23. Commitments

Operating lease commitments – The Group as lessee	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Minimum lease payments under operating lease recognised as an expense in the year	**2,638**	2,191

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**	2,873
In the second to fifth years inclusive	**11,454**	11,495
After five years	**25,767**	28,447
Total minimum lease payments	**40,117**	42,815

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 2012 amounted to £188,000 (2011: £27,000).

Capital commitments
At the balance sheet date, the Group had no significant capital commitments (2011: £nil).

Notes to the Financial Statements

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 2012		Year ended 30 June 2011	
	Share options No.	Weighted average exercise price Pence	Share options No.	Weighted average exercise price Pence
SIP				
Outstanding at beginning of the year	685,575	23.5	748,825	23.5
Exercised during the year	(502,940)	23.5	(63,250)	23.5
Forfeited during the year	-	-	-	-
Outstanding at the end of the year	182,635	23.5	685,575	23.5
Exercisable at the end of the year	182,635	23.5	685,575	23.5
SAYE				
Outstanding at beginning of the year	4,844,858	97.6	4,915,877	82.8
Granted during the year	665,352	365.0	203,697	477.1
Exercised during the year	(3,919,734)	55.1	(104,501)	60.3
Forfeited during the year	(145,484)	392.4	(170,215)	149.1
Outstanding at the end of the year	1,444,992	306.2	4,844,858	97.6
Exercisable at the end of the year	12,509	219.4	112,556	71.6
Executive Option Scheme				
Outstanding at beginning of the year	4,660,641	406.3	1,326,135	242.1
Granted during the year	1,309,999	449.0	3,430,648	466.7
Exercised during the year	(30,710)	195.4	(65,355)	297.9
Forfeited during the year	(39,877)	328.7	(30,787)	292.3
Outstanding at the end of the year	5,900,053	417.4	4,660,641	406.3
Exercisable at the end of the year	198,640	374.3	89,350	295.0
JSOP				
Outstanding at beginning of the year	2,750,000	-	2,750,000	-
Interests in shares purchased during the year	-	-	-	-
Outstanding at the end of the year	2,750,000	-	2,750,000	-
Exercisable at the end of the year	-	-	-	-

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

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 2012		Year ended 30 June 2011	
	Share options No.	Weighted average expected remaining life	Share options No.	Weighted average expected remaining life
Options exercise price range (pence)				
23.5	182,635	0 years	685,575	0 years
54.5	-	0 years	3,906,537	0.8 years
175.0	337,038	1.3 years	367,217	2.3 years
195.4	721,685	1.8 years	767,750	2.8 years
268.3	340,194	2.7 years	369,691	3.7 years
268.8	2,750,000	0.4 years	2,750,000	1.4 years
283.8	250,000	0.3 years	250,000	1.3 years
347.2	262,320	2.7 years	262,320	3.7 years
365.0	661,292	4.7 years		
388.8	1,127,442	3.2 years	1,142,874	4.2 years
409.8	500,000	1.2 years	500,000	2.2 years
441.3	200,000	2.7 years	-	-
447.6	400,000	2.2 years	-	-
451.9	700,909	4.2 years	-	
458.0	800,000	1.3 years	800,000	2.3 years
477.1	106,467	3.7 years	201,413	4.7 years
595.0	212,897	3.7 years	212,897	4.7 years
606.3	724,800	1.9 years	724,800	2.9 years
	10,277,679	1.9 years	12,941,074	1.9 years

The fair value at the date of grant of options awarded during the year ended 30 June 2012 and the year ended 30 June 2011 has been estimated by the Black-Scholes methodology and the principal assumptions required by the methodology were as follows:

	At 30 June 2012	At 30 June 2011
Weighted average share price	479.97p	516.27p
Expected dividend yields	4.99%	2.94%
SAYE		
Weighted average exercise price	365.00p	477.08p
Expected volatility	50%	36%
Risk-free rate	2.50%	2.50%
Expected life	5 years	5 years
Executive scheme		
Weighted average exercise price	449.41p	466.73p
Expected volatility	39%	40%
Risk-free rate	2.50%	2.50%
Expected life	4 years	4 years

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.

Notes to the Financial Statements

25. Events after balance sheet date

On 5 September 2012 the Directors proposed a second interim (final) ordinary dividend payment of 10.65 pence per ordinary share and a special dividend of 6.84 pence per ordinary share, payable on 28 September 2012 to all shareholders on the register at the close of business on 14 September 2012 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 2012 and 30 June 2011 the Company has been party to a lease with P K Hargreaves and S P Lansdown, who are both directors of the Company, for the rental of the old head office premises at Kendal House. Previously the rental was £302,400 per annum for the whole building but as from 6 April 2011 a new ten year lease was signed for a rental of part of the building, to be used for disaster recovery purposes at a rental of £105,000 per annum. No amount was outstanding at either year-end.

During the years ended 30 June 2012 and 30 June 2011 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 2012 £'000	Year ended 30 June 2011 £'000
Short-term employee benefits	**9,165**	7,861
Defined contribution pension costs	**420**	245
Share-based payments	**1,540**	1,097
Gains on exercise of share options	**947**	-
	12,072	9,203

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 2012 £'000	Year ended 30 June 2011 £'000
Wages and salaries	**3,022**	2,583
Pension contributions	**112**	47
Share-based payments	**912**	763
Gains on exercise of share options	**107**	-
	4,153	3,393
Emoluments of the highest paid director	**1,896**	1,278
Number of directors who were members of money purchase pension schemes	**2**	2

26. Related party transactions (continued)

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 2012 £'000	Year ended 30 June 2011 £'000
Dividends received from subsidiaries	**109,000**	87,500
Management charges to subsidiaries	**720**	720
Amount owed to related parties at 30 June	**32**	12
Amounts owed by related parties at 30 June	**18,355**	227

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
At 30 June 2012				
Financial assets at fair value through profit or loss	308	-	-	308
Available-for-sale financial assets	1,179	-	741	1,920
	1,487	-	741	2,228
At 30 June 2011				
Financial assets at fair value through profit or loss	350	-	-	350
Available-for-sale financial assets	1,149	-	741	1,890
	1,499	-	741	2,240

There were no transfers between Level 1 and Level 2 during the year.

Notes to the Financial Statements

27. Financial instruments (continued)

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 2012 the value of financial instruments on the Group balance sheet exposed to interest rate risk was £157,719,000 (2011: £121,951,000) 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 12 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.

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 2012, the fair value of investments recognised on the Group balance sheet was £2,228,000 (2010: £2,240,000). 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.

27. Financial instruments (continued)

(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
At 30 June 2012					
Trade and other payables:					
Trade payables	107,206	-	-	-	107,206
Social security and other taxes	7,352	15	-	248	7,615
Other payables	7,806	-	-	-	7,806
Accruals and deferred income	10,016	-	-	1,800	11,816
	132,380	15	-	2,048	134,443
Current tax	8,800	9,354	-	-	18,154
Long-term provisions	1	-	-	276	277
Total financial liability exposed to liquidity risk	141,181	9,369	-	2,324	152,874
At 30 June 2011					
Trade and other payables:					
Trade payables	147,089	271	90	-	147,450
Social security and other taxes	3,156	13	-	190	3,359
Other payables	4,914	-	36	-	4,950
Accruals and deferred income	1,945	34	-	-	1,979
	157,104	318	126	190	157,738
Current tax	9,519	9,223	-	-	18,742
Long-term provisions	-	-	-	59	59
Total financial liability exposed to liquidity risk	166,623	9,541	126	249	176,539

(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.

Notes to the Financial Statements

27. Financial instruments (continued)

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 2012 £'000	At 30 June 2011 £'000
Receivables at cost:		
Cash and cash equivalents	**157,719**	121,951
Trade and other receivables	**142,606**	176,178
Financial assets at fair value through profit or loss:		
Financial investments	**308**	350
Available-for-sale financial assets:		
Financial investments	**1,920**	1,890
	302,553	300,369

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.

	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
At 30 June 2012						
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
At 30 June 2011						
Trade and other receivables:						
Trade receivables	145,409	1,949	221	92	67	147,738
Other receivables	218	-	-	-	-	218
Prepayments and accrued income	28,222	-	-	-	-	28,222
	173,849	1,949	221	92	67	176,178
Held-for-trading assets	350	-	-	-	-	350
Available-for-sale assets	1,890	-	-	-	-	1,890
	176,089	1,949	221	92	67	178,418

27. Financial instruments (continued)

The table below 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, £6.2 million (2011: £14.5 million) is due from financial institutions regulated by the FSA in the course of settlement as a result of daily trading and £11.0 million (2011: £10.0 million) relates to revenue items due from financial institutions regulated by the FSA.

For prepayments and accrued income, the balance predominantly relates to accrued interest due from financial institutions regulated by the FSA 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
At 30 June 2012				
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
At 30 June 2011				
Trade receivables	24,811	37	120,561	145,409
Other receivables	218	-	-	218
Prepayments and accrued income	23,670	2,323	2,229	28,222
Held-for-trading assets	350	-	-	350
Available-for-sale assets	1,890	-	-	1,890
	50,939	2,360	122,790	176,089

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.

Notes to the Financial Statements

27. Financial instruments (continued)

Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 30 June 2012 was £157,419,000 (2011: £130,867,000) 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 Services Authority ("FSA"), 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 FSA; 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 £22 million at 30 June 2012 (2011: £46 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

EXECUTIVE DIRECTORS
Ian Gorham
Peter Hargreaves
Tracey Taylor

NON-EXECUTIVE DIRECTORS
Chris Barling
Jonathan Bloomer
Michael Evans
Dharmash Mistry
Stephen Lansdown
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

COMPANY NUMBER
02122142

Five Year Summary

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Revenue	**238,741**	**207,904**	**158,970**	**132,845**	**120,332**
Administrative expenses	(83,355)	(79,813)	(73,588)	(63,038)	(62,553)
Underlying operating profit	**155,386**	**128,091**	**89,811**	**69,807**	**57,779**
One-off administrative expenses *	-	-	(4,429)	-	-
FSCS costs **	(4,774)	(3,646)	-	-	-
Operating profit	**150,612**	**124,445**	**85,382**	**69,807**	**57,779**
Investment revenue	2,229	1,496	854	2,534	3,113
Other (losses) and gains	(2)	72	59	740	53
Profit before tax	**152,839**	**126,013**	**86,295**	**73,081**	**60,945**
Tax	(39,520)	(34,066)	(25,020)	(20,968)	(18,551)
Profit after tax	**113,319**	**91,947**	**61,275**	**52,113**	**42,394**
Equity minority interests	(359)	(127)	(9)	10	7
Profit for the financial year attributable to members of the parent company	**112,960**	**91,820**	**61,266**	**52,123**	**42,401**
Equity shareholders' funds	156,994	130,801	66,114	84,720	70,371
Weighted average number of shares for the purposes of diluted EPS (million)	469.42	469.07	468.42	469.32	470.98
	pence	**pence**	**pence**	**pence**	**pence**
Equity dividends per share paid during year	19.47	6.78	16.636	7.809	3.065
Basic earnings per share	24.2	19.8	13.2	11.2	9.1
Diluted earnings per share	24.1	19.6	13.1	11.1	9.0
Underlying basic earnings per share		20.3	14.0	11.3	9.1
Underlying diluted earnings per share		20.0	13.9	11.3	9.0

* Relates to the costs of an office move

** Relates to the operating costs of the running of and the levies relating to the Financial Services Compensation Scheme (FSCS). In 2011 these costs were shown split between one-off costs of £3,036k and administrative expenses of £610k.

Registered number 02122142

One College Square South, Anchor Road, Bristol, BS1 5HL
Tel: 0117 900 9000
www.hl.co.uk