Hargreaves Lansdown Asset Management Limited

Report and Financial Statements

30 June 2018

Registered Number - 01896481

Hargreaves Lansdown Asset Management Limited

COMPANY INFORMATION

DIRECTORS
R J Byett
H R Cooper
M Dampier
D D Davies
L Gardhouse
C F Hill
I J Hunter
P M Johnson
C J Worle

COMPANY SECRETARY
P Watts

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

BANKERS
Lloyds Bank PLC
'58 Queens Road
Clifton
Bristol

REGISTERED OFFICE
One College Square South
Anchor Road
Bristol
BS1 5HL

Hargreaves Lansdown Asset Management Limited

STRATEGIC REPORT

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

REVIEW OF THE BUSINESS

Principal activities and business review

Hargreaves Lansdown Asset Management Limited (the "Company") is a wholly owned subsidiary of Hargreaves Lansdown plc, and its principal activities during the year were the provision of the Hargreaves Lansdown ("HL") platform service, which includes services relating to the holding and administration of investments, investment fund management on behalf of clients, investment brokerage, stockbroking and currency exchange services. There have not been any significant changes to the principal activities during the year and no major changes to the Company's principal activities are planned.

The Company has had a successful year's trading, the most relevant index, the FTSE All Share, traded on average 5% higher during the financial year to 30 June 2018 compared to the previous financial year. Organic growth from the gathering of new clients and assets remains strong, which combined with the effect of market increases, meant that overall the value of assets under administration ("AUA") grew from £79.1 billion to £91.6 billion, a 15.7% increase. Our continued high service levels were rewarded through our high asset retention rate of 93.4% (2017: 93.2%) and client retention rate of 94.3% (2017: 94.7%).

The solid growth in AUA, combined with an improvement in net interest income and increased equity dealing volumes, helped deliver a 7.9% increase in profit before taxation from £213.0 million to £229.9 million.

As always, our ability to gather assets and attract clients will depend on market fluctuations and the health of the economy. However, we remain confident in the quality of our offering and believe that we can continue to grow the business and improve our presence in the marketplace.

One of the biggest overheads is staff costs where any changes in staff numbers will only reflect the needs of the business, albeit with a future outlook to ensure the Company delivers its strategic objectives including the delivery of an incredible client service and maintaining an operating platform that is secure, efficient and has sufficient capacity to cope with increased clients and transaction volumes in the years ahead. The Company strives to continually improve and launch new services. Such initiatives, along with the increased volumes of business, necessitate additional staff particularly in IT and digital marketing, pensions and certain admin roles such that the average number of full-time equivalent staff employed during the year was 1,101 up from 740 in the prior year. The total staff costs have subsequently increased by 49% to £61.1m (2017: £40.9m).

The Company spends significant amounts on marketing and distribution. Use of mobile and digital media is a key strategic focus and increasingly resource has been deployed to exploit digital marketing opportunities such as paid search traffic, cost per click relationships and the next generation of our smart phone and tablet apps. This helps to drive client and asset recruitment and subsequent retention. At the year end the Company's assets under administration was made up of £88.1 billion for its platform only clients (2017: £75.7 billion) and £3.5 billion for its Portfolio Management Service ("PMS") clients (2017: £3.4 billion).

The Company has maintained its position as one of the leading direct to investor investment services in the country as acknowledged by the likes of The Platforum. In terms of the direct to consumer platform market share, the Company is the largest with a market share of 39.1% (2017: 37.8%) as at 31 March 2018 (source: Platforum UK D2C Guide July 2018), three and a half times the next largest.

Looking forwards the company intends to maintain its leading position in its chosen markets and will continue to make investments in its core IT platform (as described in note 12 to the financial statements) and client services to ensure it can win new clients and business whilst retaining existing clients.

The statement of financial position on page 10 shows the Company's net asset position at the end of the financial year being £113,776,000 (2017: £77,815,000). The Company is debt free with significant cash balances.

Principal risks and uncertainties

Competitive pressure in the UK is a continuing risk for most companies. The Company manages this risk by aiming to provide excellent service and competitively priced services, as endorsed by the Hargreaves Lansdown plc Group vision "to be a household name and the best place for savers and investors in the UK".

Hargreaves Lansdown Asset Management Limited

STRATEGIC REPORT

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. The principal risks and uncertainties of Hargreaves Lansdown plc, which include those of the Company, are discussed in the Group's Report and Financial Statements 2018.

The Company has no borrowings and as such is not exposed to interest rate or refinancing risk on debt. With all of the Company's operations located within the UK, and therefore with no net assets and minimal transactions denominated in foreign currencies, the Company is not exposed to significant foreign exchange translation or transaction risk.

As a large proportion of income is linked to the value of client assets held within our nominee services, the business is exposed to price risk on those investments and interest rate risk on cash balances. Further details of the Company's financial risk management are set out in note 25 to these Financial Statements.

Key performance indicators (KPI's)

The main KPI's monitored by the Company are profit before taxation, AUA and net new business which are summarised in the table below.

	2018	**2017**	**% change**
Profit before tax (£m)	229.9	213.0	+7.9%
AUA (£bn)	91.5	79.1	+15.7%
Net new business (£bn)	7.6	6.8	+11.8%

In light of the economic backdrop and volatile markets the operational KPI's were deemed a good performance and helped contribute to the increase in profit before tax.

The development, performance and position of the Hargreaves Lansdown plc Group as a whole, which includes the Company, are discussed in the Group's Report and Financial Statements, which does not form part of this report.

The Strategic Report is approved and signed on behalf of the Board.

I J Hunter
Director
14 September 2018

Hargreaves Lansdown Asset Management Limited

DIRECTORS' REPORT

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

A review of the business and its future development is set out in the Strategic Report along with a review of the principal risks and uncertainties.

RESULTS AND DIVIDENDS

The profit for the financial year, amounted to £186,205,000 (2017: £171,102,000). During the year the Company paid interim dividends of £155,000,000 (2017: £150,710,000). The directors do not recommend payment of a further final dividend (2017: £nil).

Financial instruments

The Company's financial risk management is based upon sound economic objectives and good corporate practice. The Company has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings. Further details of the Company's financial risk management and financial instruments are set out in note 25 to the financial statements.

Going concern

The Company maintains ongoing forecasts that indicate continued profitability in the 2018 and 2019 financial years. Stress test scenarios are undertaken and the outcomes show the Company has adequate capital resources for the foreseeable future even in adverse economic conditions. The Company's business is highly cash generative with a low working capital requirement; indeed, the forecast cash flows show the Company will remain highly liquid in the forthcoming financial year.

The directors therefore believe the Company is well placed to manage its business risks successfully despite any of the risks or uncertainties mentioned above. After making enquiries, the directors' expectation is that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Report and Financial Statements.

DIRECTORS

The current directors are listed on page 1. The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

M Dampier

I J Hunter

D D Davies

L Gardhouse

R J Byett

C J Worle

C F Hill

P M Johnson

H R Cooper

Directors' indemnities

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was introduced in August 2014 and is currently in force. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance cover for up to £60 million in respect of itself and its Directors to guard against liability which may be incurred acting as Directors and officers. This cover remains in force at the date of this report.

Hargreaves Lansdown Asset Management Limited

DIRECTORS' REPORT

EMPLOYEES

We have consistently sought to recruit, train and retain the best employees in our market and this has contributed to our success. Information concerning employees and their remuneration is given in note 6. Consultative procedures enable management and other employees to discuss matters of mutual interest, including health and safety. Through these procedures and departmental channels, employees are kept informed about company affairs. In particular during the year the Group's Chief Executive Officer ("CEO") has made a number of personal presentations to all employees and this is something that will continue going forwards. In addition a staff survey has been carried out the results of which have been fed back to all staff in the CEO presentations along with the action plans to address key employee concerns.

During the year a new Save As You Earn scheme was launched to all eligible employees (all permanent employees at the invitation open date are eligible to join). Such schemes are a key way of retaining and incentivising employees and ensuring their interests are aligned with those of the Company.

It is the Company's policy to encourage the employment, training and career development of disabled persons. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary. A full assessment of any disabled employee's needs is undertaken and reasonable adjustments are made to the work environment or practices in order to assist them. In order to safeguard its employees, the Company pursues a policy which seeks to achieve, as far as practicably possible, secure working environments and training standards at all operating locations.

EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

As stated in note 22 to the financial statements there are no material events to disclose.

STATEMENT OF DISCLOSURE OF INFORMATION TO THE INDEPENDENT AUDITORS

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

- so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information (as defined in the Companies Act 2006) and to establish that the Company's auditors are aware of that information.

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

PricewaterhouseCoopers LLP expressed their willingness to be re-appointed as auditors and a resolution to appoint them was passed at the most recent Annual General Meeting of the Group.

The directors' report is approved and signed on behalf of the Board.

I J Hunter
Director
14 September 2018

Hargreaves Lansdown Asset Management Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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 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.

Independent auditors' report to the members of Hargreaves Lansdown Asset Management Limited

Report on the audit of the financial statements

Opinion

In our opinion, Hargreaves Lansdown Asset Management Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 June 2018; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 September 2018

Hargreaves Lansdown Asset Management Limited

INCOME STATEMENT

For the year ended 30 June 2018

	Note	2018 £'000	2017 £'000
Revenue	4	347,338	296,418
Administrative expenses	5	(119,524)	(88,915)
Fair value gains on derivatives		2,261	1,002
Operating profit		230,075	208,505
Income from other fixed asset investments	7	-	3,457
Interest receivable and other similar income	8	609	1,048
Profit before tax		230,684	213,010
Tax on profit	9	(43,806)	(41,908)
Profit for the financial year		186,878	171,102

All results derive from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	2018 £'000	2017 £'000
Profit for the financial year	186,878	171,102
Total comprehensive income for the year	186,878	171,102

The notes on pages 12 to 30 are an integral part of these financial statements

Hargreaves Lansdown Asset Management Limited

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	At 30 June 2018 £'000	At 30 June 2017 £'000
Fixed assets			
Intangible assets	11	10,414	8,087
Tangible assets	12	11,179	11,457
		21,593	19,544
Current assets			
Debtors	14	441,099	527,971
Investments	15	1,355	3,935
Cash at bank and in hand		92,102	54,445
Deferred tax asset		3,622	1,939
Derivative financial instruments		213	259
		538,391	588,549
Current liabilities			
Trade Creditors	17	(444,821)	(529,524)
Derivative financial instruments		(86)	(197)
Net current assets		93,484	58,828
Total assets less current liabilities		115,077	78,372
Creditors: amounts falling due after more than one year			
Provisions for liabilities	18	(627)	(557)
Net assets		114,450	77,815
Equity			
Called up share capital	19	1	1
Retained Earnings		114,449	77,814
Total shareholders' funds		114,450	77,815

The financial statements on pages 9 to 30 of Hargreaves Lansdown Asset Management Limited, registered number 01896481, were approved and authorised for issue by the board of directors on 14 September 2018 and signed on its behalf by:

I J Hunter
Director

The notes on pages 12 to 30 are an integral part of these financial statements

Hargreaves Lansdown Asset Management Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Called up share capital	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000
At 1 July 2016	1	53,672	**53,673**
Profit for the financial year and total comprehensive income for the year	-	171,102	**171,102**
Employee share option scheme:			
Share-based payments expense	-	3,157	**3,157**
Current tax effect of share-based payments	-	1,027	**1,027**
Deferred tax effect of share-based payments	-	(434)	**(434)**
Dividend paid (note 10)	-	(150,710)	**(150,710)**
At 30 June 2017	1	77,814	**77,815**
Profit for the financial year and total comprehensive income for the year	-	186,879	**186,879**
Employee share option scheme:			
Share-based payments expense (note 6)	-	2,690	**2,690**
Current tax effect of share-based payments (note 9)	-	852	**852**
Deferred tax effect of share-based payments (note 9)	-	1,214	**1,214**
Dividend paid (note 10)	-	(155,000)	**(155,000)**
At 30 June 2018	1	114,449	**114,450**

Retained earnings represents accumulated comprehensive income for the current and prior years plus share-based payments adjustments and related tax credits/ (charges).

The notes on pages 12 to 30 are an integral part of these financial statements.

1. GENERAL INFORMATION

Hargreaves Lansdown Asset Management Limited (the "Company") is a private company limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is One College Square South, Anchor Road, Bristol, BS1 5HL, United Kingdom. The Company is a wholly owned subsidiary of Hargreaves Lansdown plc. The nature of the Company's operations and its principal activities are set out in the Business Review.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework Disclosure exemptions from EU-adopted International Financial Reporting Standards ("IFRS") for qualifying entities ("FRS 101"). The financial statements have been prepared on the going concern basis, under the historical cost convention with the exception of certain investments which are held at fair value, and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is exempt under Section 400 (for EEA immediate parents) of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its immediate parent undertaking, Hargreaves Lansdown plc, a company incorporated in the United Kingdom, as at 30 June 2018. Copies of the Hargreaves Lansdown plc financial statements can be obtained from www.hl.co.uk.

Financial reporting standard 101 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

2. ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)
The financial statements have been prepared on the historical cost basis, except for the revaluation of available for sale financial assets and financial assets at fair value through profit and loss. The principal accounting policies adopted are set out below.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2.2 Revenue recognition
Revenue represents the amount of commission received from the purchase and sale of unit trusts and equities, financial brokerage, interest earned on client money, together with fees earned in respect of investment fund management on behalf of clients. It relates entirely to services provided in the UK and, where applicable, is stated net of value added tax.

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 recognised as follows:
Management and platform fees are recognised on an accruals basis as they fall due.
The Company earns fees on transactions entered into on behalf of clients. The fee earned is recorded in the accounts on the date of the transaction, being the date on which services are provided to clients and the Company becomes entitled to the income.
Adviser charges are made to clients for providing full portfolio management services and ad-hoc advice to clients on specific financial matters. Revenue is recognised at the point at which an agreement is made to provide advice.
Renewal commission is earned on third-party agreements entered into on the advice of the Company's adviser services and is recognised on an accruals basis as it becomes due and payable to the Company.
Stockbroking commission is earned on securities transactions entered into on behalf of clients. The income 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 Company becomes entitled to the income.

Interest income received on client money balances is the net interest margin earned by the Company and is accrued on a time basis, based on the client money balances under administration and by reference to the effective interest rate applicable

2.3 Administrative expenses
Staff costs represent amounts paid to employees in respect of services provided in the year including wages and salaries, share-based payment expenses, bonuses, payments to a defined contribution retirement benefit scheme and related social security costs. Other operating costs represent those arising as a result of our operations. All amounts are recognised on an accruals basis.

2.4 Intangible assets
Intangible assets comprise computer software, customer lists and the Company's key operating system which are stated at cost less amortisation and any recognised impairment loss. Amortisation is provided, where material, on all intangible 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 three to eight years
Computer software relates to purchases of licences and software, in line with the requirements of IAS 38. 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 the consolidated income statement.

Customer list – eight years
The customer list relates to acquired books of business and does not include internally generated client lists. The carrying value of the assets is reviewed for impairment at least every 12 months, or when events or changes in circumstances indicate that the carrying value may not be recoverable.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Intangible assets (continued)

Internally developed software – eight years

IT development costs are capitalised only to the extent that they have led to the creation of enduring assets, which deliver benefits at least as great as the amount capitalised and in accordance with the recognition criteria of IAS 38 intangible assets.

Development work has been undertaken in-house by IT staff and management to enhance the key operating system. The key operating system is fundamental to the operation of the platform, which holds client assets, enabling revenue to be earned. Where IT development costs relate to an asset that is now in use amortisation is over an estimated useful life of 8 years. Internal policies exist to identify intangible assets that can be capitalised and in the case of internally generated assets a process of time sheets for IT developers and management time is used to identify the costs to be capitalised.

Where such costs relate to an asset that is not yet fully available for use by the business, they have been separately classified as internally developed software and are reviewed for impairment at least annually. No issues have been noted in the current year. In accordance with the provisions of IAS 38 the costs are capitalised as an intangible asset and subsequently amortised over the estimated useful life of the systems of eight years, starting from the date at which the assets are put into use.

2.5 Tangible assets

Tangible assets (including computer and office equipment) are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged on all tangible assets based on the estimates of their useful economic lives and expected residual values, which are reviewed annually. Management determines the useful lives and residual values for assets when they are acquired, based on experience with similar assets and taking into account other relevant factors such as any expected changes in technology. The charge is 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:

Computer hardware – over three to ten years

Office equipment (including leasehold property tenants' fixtures and other fixtures) - over three to ten years

The carrying values of plant and equipment 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 the Income Statement.

At the end of each reporting period, the Company 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 indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the loss. Where the asset does not generate cash flows, 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.

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 and an impairment loss is recognised as an expense immediately.

2.6 Derivative financial instruments

The Company enters into short-term derivative financial instruments as a result of the currency service and overseas trading services offered to its clients. Derivatives are initially recognised at fair value at the date a derivative contract is entered into, and are subsequently re-measured to their fair value at the end of each reporting period, if applicable. The resulting gain or loss is recognised immediately in the income statement.

2.7 Pensions

The Company operates a defined contribution group personal pension plan for staff. Contributions are recognised as an expense in the income statement when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position.

2. ACCOUNTING POLICIES (CONTINUED)

2.8 Employee benefits

The Company recognises short term employee benefits such as salaries, social security contributions, paid annual leave and bonuses, if expected to be settled before 12 months after the end of the reporting period, when an employee has rendered service in exchange for these benefits. The amounts are recognised on an accrual basis in the income statement.

2.9 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds.

The current income tax charge is calculated on the basis of tax rates and laws that have been substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred taxation is recognised, where material, in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date.

The exception to this is that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse. The rates are based on tax rates and laws that have been substantively enacted by the statement of financial position date.

2.10 Leasing commitments

Rentals paid under operating leases are charged to income on a straight-line basis over the term of the 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.

2.11 Interest income

Interest income is accrued on a time basis by reference to the principal balance and the effective interest rate applicable.

2.12 Investments

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.

2.13 Trade debtors

Trade debtors are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method. Subsequently appropriate allowances for estimated irrecoverable amounts are made and recognised in the Income Statement when there is objective evidence that the asset is impaired.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash, are subject to insignificant changes in value and are considered to be holdings of less than three months or those over which the Company has an immediate right of recall. They are recognised as loans and receivables which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. The carrying amount of these assets is approximately equal to their fair value.

2.15 Term deposits

Term deposits comprise cash deposits held by UK licensed banks for a period of greater than three months, over which there is no recall during the term of the deposit. The amounts are measured at amortised cost using the effective interest method and classified as loans and receivables in line with IAS 39.

2. ACCOUNTING POLICIES (CONTINUED)

2.16 Trade Creditors

Creditors are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

2.17 Provisions for Liabilities

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company 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 statement of financial position date, and are discounted to present value where the effect is material.

2.18 Dividends

Dividend distributions to the Company's shareholder, Hargreaves Lansdown plc, 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 board.

2.19 Share-based payments

The Company 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 Company 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 estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. Annual revisions are made to the estimate of awards vesting, based on non-market-based vesting conditions. The impact of the revision is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

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.

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.

There are no assumptions made about the future, or any other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. REVENUE

	2018 £'000	2017 £'000
Revenue from services	305,287	259,838
Interest earned on client money	42,051	36,580
	347,338	296,418

5. ADMINISTRATIVE EXPENSES

Operating profit is stated after charging

	2018 £'000	2017 £'000
Auditors' remuneration – audit of the financial statements	121	107
Auditors' remuneration – audit related services	129	129
Amortisation	2,818	2,705
Depreciation	3,964	3,539
Operating lease rentals	1,979	1,575
Staff Costs	61,113	40,890
Other operating expenses	49,400	39,937
Commissions payable	-	33
	119,524	88,915

6. STAFF COSTS AND DIRECTORS' REMUNERATION

The average monthly number of employees (including directors) during the year was:

	2018 No.	2017 No.
Administrative functions	374	317
Operating and support functions	727	423
	1,101	740

Aggregate remuneration	2018 £'000	2017 £'000
Wages and salaries	49,086	32,263
Social security costs	5,251	3,905
Share based payments	2,690	3,157
Other pension costs	5,441	2,607
Total staff costs	62,468	41,932
Capitalised staff costs	(1,355)	(1,042)
	61,113	40,890

Directors' remuneration	2018 £'000	2017 £'000
Emoluments	4,748	4,117
Pension Contributions	136	81
	4,884	4,198

In addition to the amounts above, directors of the Company received an aggregate amount of £1,378,552 relating to the exercise of share options (2017: £861,479). Seven directors (2017: 8) were members of money purchase pension schemes during the year. Seven directors have exercised share options during the year (2017: 7). During the year awards under the long term incentive schemes were made to nine key management personnel (2017: 9).

The emoluments of the highest paid director were £1,287,457 (2017: £1,028,767), pension contributions were £8,412 (2017: £6,810) and gains on the exercise of share options were £163,846 (2017: £266,022). The director received 61,183 shares (2017: nil) under long-term incentive schemes in respect of qualifying services.

The staff costs above are after stripping out costs that have been capitalised under intangible assets as internally generated assets. In total £1,157,917 of wages and salaries (2017: £884,453), social security costs of £137,079 (2017: £122,055) and pension costs of £60,449 (2017: £35,378) were capitalised.

7. INCOME FROM OTHER FIXED ASSET INVESTMENTS

	2018	2017
	£'000	£'000
Gain on disposal of available-for-sale investment	-	3,723
Loss on disposal of tangible fixed assets	-	(266)
	-	3,457

8. INTEREST AND SIMILAR INCOME

	2018	2017
	£'000	£'000
Dividend income	-	192
Bank interest	609	856
	609	1,048

9. TAX ON PROFIT

	2018	2017
	£'000	£'000
The total tax charge for the year comprises:		
Current tax: on profits for the year	44,329	42,448
Current tax: adjustments in respect of prior years	(55)	(192)
	44,274	42,256
Deferred tax: origination and reversal of timing differences	(530)	(494)
Deferred tax: adjustments in respect of prior years	62	146
	43,806	41,908

Corporation tax is calculated at 19 % of the estimated assessable profit for the year to 30 June 2018 (2017: 19.75%).

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

	2018	2017
	£'000	£'000
Deferred tax relating to share-based payments	(1,214)	434
Current tax relating to share-based payments	(852)	(1,027)
	(2,066)	(593)

9. TAX ON PROFIT (CONTINUED)

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2018	2017
	£'000	£'000
Profit before tax from continuing operations	230,684	213,010
Tax at the standard UK corporation tax rate of 19 % (2017: 19.75%)	43,830	42,070
Effects of:		
Non-deductible expenses	55	111
Non-taxable income	(135)	(936)
Adjustments in respect of prior years	7	(47)
Foreign tax suffered	-	626
Impact of change in tax rates	49	84
Total tax charge for year	43,806	41,908

Factors affecting total tax charge
It is expected that the ongoing effective tax rate will remain at a rate approximating to the standard UK corporation tax rate in the medium term, except for the impact of deferred tax arising from the timing of exercising of share options which is not under our control. The standard UK corporation tax rate was reduced to 19% (from 20%) on 1 April 2017, and accordingly, the Company's profits for this accounting year are taxed at an effective rate of 19%. Deferred tax has been recognised at 19% or 17%, being the rates expected to be in force at the time of the reversal of the temporary difference. A deferred tax asset in respect of future share option deductions has been recognised based on the share price of Hargreaves Lansdown plc as at 30 June 2018.

Factors that may affect future tax charges
Any increase or decrease to the share price of Hargreaves Lansdown plc will impact the amount of tax deduction available in future years on the value of shares acquired by staff under share incentive schemes. The Finance Bill 2016 was substantively enacted on 6 September 2016 reducing the corporation tax rate to 17% from 1 April 2020.

The Company participates in the Hargreaves Lansdown plc Group share option schemes and has granted options to several employees. The Company anticipates a reduction to corporation tax when the options are taken up by the employees; the timing and amount of the deduction is dependent on the number of options taken up and the market value of the shares at the time.

Deferred tax

	Fixed asset tax relief	Share-based	General provisions	Total
	£'000	£'000	£'000	£'000
Deferred tax is recognised at 19% or 17% (2017: 19%) as follows:				
At 1 July 2017	335	1,487	117	1,939
Credited/(charged) during the year	261	1,531	(109)	1,683
At 30 June 2018	596	3,018	8	3,622
Deferred tax expected to be recovered or settled:				
Within 1 year after reporting period	159	1,176	8	1,343
> 1 year after reporting period	437	1,842	-	2,279
	596	3,018	8	3,622

Hargreaves Lansdown Asset Management Limited

NOTES TO THE FINANCIAL STATEMENTS

10. DIVIDENDS

	2018	2017
	£'000	£'000
The following dividends were paid during the year:-		
1st interim dividend £45,000 per share (2017: £50,000)	45,000	50,000
2nd interim dividend £110,000 per share (2017: £100,710)	110,000	100,710
	155,000	150,710

There have been no further dividends declared (2017: nil).

11. INTANGIBLE ASSETS

	Customer list	Internally developed software	Computer software	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 July 2016	399	3,688	6,723	10,810
Additions	-	2,015	3,024	5,039
At 30 June 2017	399	5,703	9,747	15,849
Additions	587	897	3,661	5,145
At 30 June 2018	986	6,600	13,408	20,994
Accumulated amortisation:				
At 1 July 2016	-	501	4,556	5,057
Provided during the year	62	488	2,155	2,705
At 30 June 2017	62	989	6,711	7,762
Provided during the year	60	627	2,131	2,818
At 30 June 2018	122	1,616	8,842	10,580
Net Book Value:				
At 30 June 2018	864	4,984	4,566	10,414
At 30 June 2017	337	4,714	3,036	8,087
At 30 June 2016	399	3,187	2,167	5,753

The amortisation charge above is included in administrative expenses in the income statement.
The customer list is a separately acquired intangible asset and does not include any internally generated client lists.

Internally developed software is IT development staff working on an upgrade of the core IT platform for the business. The internally generated software is an on-going project and whilst the system is still being developed to allow it to handle current transactions, tranches of archived information have been transferred across to the new system and therefore amortisation has started despite development work being ongoing.

12. TANGIBLE ASSETS

	Computer hardware £'000	Office equipment £'000	Total £'000
Cost:			
At 1 July 2016	22,151	6,200	28,351
Additions	2,384	2,689	5,073
Disposals	-	(805)	(805)
At 30 June 2017	24,535	8,084	32,619
Additions	3,011	678	3,689
Disposals	-	(27)	(27)
At 30 June 2018	27,546	8,735	36,281
Accumulated depreciation:			
At 1 July 2016	13,624	3,999	17,623
Provided during the year	3,339	740	4,079
Disposals	-	(540)	(540)
At 30 June 2017	16,963	4,199	21,162
Provided during the year	3,032	932	3,964
Disposals	-	(24)	(24)
At 30 June 2018	19,995	5,107	25,102
Net Book Value:			
At 30 June 2018	7,551	3,628	11,179
At 30 June 2017	7,572	3,885	11,457
At 30 June 2016	8,527	2,201	10,728

13. INVESTMENT IN SUBSIDIARIES

	2018 £	2017 £
Investments in subsidiary companies	2	2

The investments in the ordinary share capital of the subsidiary undertakings are:

Name of company	Nature of business	Country of incorporation	Shares held	Voting rights	Registered address
Hargreaves Lansdown (Nominees) Limited	Non-trading	UK	100%	100%	One College Square South, Anchor Road, Bristol BS1 5HL.
HL Tech Sp. Z O. O.	Service Company	Poland	100%	100%	Warsaw Spire, Plac Europejski 1, 00 – 844 Warszawa

The directors believe that the carrying value of the investments is supported by their underlying net assets.

14. TRADE DEBTORS

	2018 £'000	2017 £'000
Trade debtors	360,163	409,828
Amounts owed by group undertakings	17,139	12,115
Term deposits	15,000	65,000
Other debtors	3,962	1,456
Prepayments	5,885	6,008
Accrued income	38,154	33,564
Corporation tax asset	796	-
	441,099	527,971

In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties totalling £345.3 million (2017: 393.5 million) are included in trade receivables. These balances are presented net where there is a legal right of offset and the ability and intention to settle net. The gross amount of trade receivables is £431.0 million (2017: £498.3 million) and the gross amount offset in the statement of financial position with trade payables is £90.2 million (2017: £126.4 million). Other than counterparty balances, trade receivables primarily consist of fees and amounts owed by clients. There are no balances where there is a legal right of offset but not a right of offset in accordance with accounting standards, and no collateral has been posted for the balances that have been offset. Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15. INVESTMENTS

	2018 £'000	2017 £'000
Opening balance	3,935	580
Acquired from Hargreaves Lansdown Stockbrokers Limited	-	264
Listed investments acquired during the year	-	3,355
Disposals	(2,580)	(264)
	1,355	3,935

Listed investments are classified as held at fair value through profit and loss.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 30 June 2018 £'000		Year ended 30 June 2017 £'000	
	Assets	Liabilities	Assets	Liabilities
At end of year	213	86	259	197

Derivative contracts are short-term counterparty positions between the Company, its clients and third parties in the market. As a result there are derivative liabilities and derivative assets presented in the statement of financial position in respect of open positions at year end. All derivative positions are recognised as current assets or liabilities.

£2.3 million (2017: £2.2 million) of gains have been made, on a net basis, as a result of the fair value movements on derivatives in the period.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£'000	£'000
Trade creditors	345,593	390,405
Amounts owed to group undertakings	58,474	95,726
Other taxes and social security costs	8,319	7,522
Other creditors	4,566	3,940
Corporation tax	15,865	17,975
Accruals	11,514	13,444
Deferred income	490	512
	444,821	529,524

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

In accordance with market practice, certain balances with clients, Stock Exchange member firms and other counterparties totalling £324.6 million (2017: £389.8 million) are included in trade payables, similarly with the treatment of trade receivables. As stated in note 14, where we have a legal right of offset and the ability and intention to settle net, trade payable balances have been presented net. Other payables principally comprise amounts owed to staff as a bonus and rebates due to the regulated funds operated by the Group.
Accruals and deferred income principally comprise amounts outstanding for trade purchases and revenue received but not yet earned on corporate pension schemes, where an ongoing service is still being provided.

VAT group registration:

As a result of group registration for VAT purposes, the Company is liable for VAT liabilities arising in other companies within the VAT group which at 30 June 2018 amounted to £1,067,940 (2017: £1,152,000). The Company is reimbursed from other group entities for the amount paid through inter-company balances.

18. PROVISIONS FOR LIABILITIES

	Property Costs	Total
	£'000	£'000
At 1 July 2016	487	487
Charged during the year	70	70
At 30 June 2017	557	557
Charged during the year	70	70
At 30 June 2018	627	627

The provision on property-related costs represents the Company'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.

19. CALLED UP SHARE CAPITAL

	Authorised, allotted, called up and fully paid			
	2018	2017	2018	2017
	No.	No.	£	£
Authorised, issued and fully paid ordinary shares of £1 each	1,000	1,000	1,000	1,000

20. COMMITMENTS

At 30 June 2018 and 2017 the Company had outstanding commitments for future minimum lease payments under the remaining term of non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	2,479	1,860
In the second to fifth years inclusive	9,935	7,645
After five years	6,783	7,795
Total minimum lease payments	19,197	17,300

21. SHARE BASED PAYMENTS

Equity-settled share option scheme

The Company seeks to facilitate significant equity ownership by staff and senior management, principally through schemes which encourage and assist the purchase of the parent company's shares. The Group operates three share option plans: the 2009 Employee Savings-Related Share Option Scheme ("SAYE"), the Hargreaves Lansdown plc Share Incentive Plan ("SIP") and the Hargreaves Lansdown Company Share Option (2000 & 2010) Scheme (the "Executive Option Scheme").

Awards granted under the Employee SAYE scheme vest over three or 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 HMRC approved market value of the parent company's shares on the date of grant. Options are forfeited (in most circumstances) if the employee leaves the Group before the options vest.

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

	30 June 2018		30 June 2017	
	Share options No.	Weighted average exercise price £	Share options No.	Weighted average exercise price £
SIP				
Exercised during the year	-	-	9,625	0.235
SAYE				
Exercised during the year	56,153	6.6141	369,339	3.679
Executive Option Scheme				
Exercised during the year	616,042	8.044	343,610	4.852

21. 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 2018		Year ended 30 June 2017	
	Share Options No.	Weighted average exercise price (pence)	Share Options No.	Weighted average exercise price (pence)
Weighted average expected remaining life				
0-1 years	884,486	1089.4	1,082,253	808.8
1-2 years	867,553	893.4	827,876	1,119.2
2-3 years	708,779	1009.7	943,104	901.8
3-4 years	50,000	1377.6	479,976	1,206.1
4-5 years	89,253	0.0	50,000	1,377.6
	26,000,071	971.3	3,383,209	975.5

The Company recognised total expenses related to equity-settled share based payment transactions as shown in note 6.

Prior to 15 May 2007 the parent company's shares were not listed on a stock exchange and therefore no readily available market price existed for the shares. The share price used for the grant of share options prior to 15 May 2007 has been based on the latest market value agreed with HM Revenue & Customs using an earnings multiples approach based on comparable quoted companies, and share price volatility has been 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 is available for the parent company's shares.

22. SUBSEQUENT EVENTS

There are no material events to note since the year ended 30 June 2018.

23. RELATED PARTY TRANSACTIONS

The ultimate parent undertaking and controlling party is Hargreaves Lansdown plc, which is the parent undertaking of the smallest and largest group in which the Company is consolidated. Fellow group undertakings are the subsidiary companies of the ultimate parent as detailed in the Group financial statements.

Debtors	**Ultimate Parent**		**Fellow Group undertakings**	
Assets	**30 June 2018 £'000**	**30 June 2017 £'000**	**30 June 2018 £'000**	**30 June 2017 £'000**
At the beginning of the year	-	-	12,115	8,163
Net amount (repaid)/advanced	-	-	5,024	3,952
At the end of the year	-	-	17,139	12,115

23. RELATED PARTY TRANSACTIONS (CONTINUED)

Creditors	**Ultimate Parent**		**Fellow Group undertakings**	
	30 June 2018	**30 June 2017**	**30 June 2018**	**30 June 2017**
Liabilities	**£'000**	**£'000**	**£'000**	**£'000**
At the beginning of the year	(71,099)	(70,560)	(24,627)	(27,157)
Net amount repaid/(advanced)	32,048	(539)	5,205	2,530
At the end of the year	(39,051)	(71,099)	(19,422)	(24,627)

Debtors from the ultimate parent and fellow group undertakings comprise amounts owed by group undertakings as shown in note 14.

Creditors to the ultimate parent and fellow group undertakings comprise amounts payable to group undertakings as shown in note 17.

The amounts mainly reflect that some of the companies' cash deposits are held in the name of the ultimate parent as they have the legal contract with the credit institution.

Amounts owed accrue no interest and are repayable upon demand.

24. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking and controlling party is Hargreaves Lansdown plc, which is the parent undertaking of the smallest and largest group in which the Company is consolidated. Copies of the Group financial statements may be obtained from Companies House, Crown Way, Cardiff or are available on the Group website www.hl.co.uk.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimation

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values. 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. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the dates of the Statement of Financial Position, with the resulting value discounted back to present value.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

There were no transfers between Level 1 and Level 2 in the year. The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2018 and 30 June 2017.

	Level 1 Quoted prices for similar instruments £'000	Level 2 Directly observable market inputs other than Level 1 £'000	Level 3 Inputs not based on observable market £'000	Total £'000
At 30 June 2018				
Financial assets				
Equity investments held at fair value through profit or loss	1,355	-	-	1,355
Derivatives held at fair value through profit or loss	-	213	-	213
Financial liabilities				
Derivatives held at fair value through profit or loss	-	86	-	86
At 30 June 2017				
Financial assets				
Equity investments held at fair value through profit or loss	3,935	-	-	3,935
Derivatives held at fair value through profit or loss	-	259	-	259
Financial liabilities				
Derivatives held at fair value through profit or loss	-	197	-	197

Financial risk management

Financial assets principally comprise trade and other debtors, cash and cash equivalents, derivatives held at fair value through profit or loss and available for sale investments. Financial liabilities comprise certain provisions, derivatives held at fair value through profit or loss and trade and other creditors. 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. Financial risks are monitored at a Group level. The Company's financial risk management is based upon sound economic objectives and good corporate practice.

Foreign exchange translation and transaction risk

Foreign currency risk is the risk that the Company will sustain losses through adverse movements in currency exchange rates. With substantially all of the Company business located within the UK, and therefore with minimal net assets and transactions of the Company denominated in foreign currencies, the Company is not exposed to significant foreign exchange translation or transaction risk. The Company deals in foreign currencies on a matched basis on behalf of clients, limiting foreign exchange exposure. Given the limited nature of transactions and assets involving foreign currencies no sensitivity analysis has been conducted as the impact would be minimal.

Price risk

Price risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Company as a result of an asset not meeting its expected value. The Company is exposed to price risk on the available-for-sale financial assets held at cost. At 30 June 2018 the fair value of investments recognised was £1,355,000 (2017: £3,935,000). A 20% move in prices, in isolation, would not have a material impact on the Company's Statement of Financial Position or results.

The Company acts as an 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.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

The Company is exposed to liquidity risk, namely the risk that it may be unable to meet its payment obligations as they fall due. The Company is highly cash generative and holds significant liquid assets.

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Company based on the remaining period to the contractual maturity date at 30 June 2017 and 30 June 2018. This is with the exception of derivative financial instruments which have been included at their fair value.

	0-3 months	3-6 months	6-12 months	Over 1 year	Total
At 30 June 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Trade creditors	341,156	-	-	-	341,156
Other creditors	12,643	-	-	217	12,860
Amount owed to group undertakings	58,474	-	-	-	58,474
Derivative financial instruments	86	-	-	-	86
	412,359	-	-	217	412,576
At 30 June 2017					
Trade creditors	390,405	-	-	-	390,405
Other creditors	11,107	-	-	397	11,504
Amount owed to group undertakings	95,726	-	-	-	95,726
	63	128	-	6	197
	497,301	128	-	403	497,832

Interest rate risk

Interest rate risk is the risk that the Company 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. This exposure is continually monitored to ensure that the Company is maximising its interest earning potential within accepted liquidity and credit constraints. The Company 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.

At 30 June 2018 the value of financial instruments exposed to interest rate risk was £107,102 (2017: £119,445) comprising cash, cash equivalents and term deposits greater than three months. A 50bps (0.5%) move in interest rates, in isolation, would not materially impact investment income.

Credit risk

The Company's credit risk is spread over a large number of counterparties and customers. Within the Company's Stockbroking operation, the Company 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 Company 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.

The amounts presented in the Statement of Financial Position 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.

The Company has no significant concentrations of credit risk. The Company has implemented procedures that require appropriate credit or alternative checks on potential customers before business is undertaken. Financial instrument counterparties are subject to pre-approval by the Board. 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. The Company 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.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

As at 30 June 2017 and 30 June 2018, no financial assets were individually determined to be impaired.

The following table discloses the Company's maximum exposure to credit risk on financial assets:

	At 30 June 2018 £'000	At 30 June 2017 £'000
Loans and receivables at amortised cost:		
Cash and cash equivalents	**92,102**	54,445
Term Deposits	**15,000**	65,000
Trade and other debtors	**364,125**	411,284
Amounts owed by group undertakings	**17,139**	12,115
Derivative assets at fair value through profit or loss:		
Derivative financial investments	**213**	259
Financial instruments at fair value through profit or loss:		
Financial investments	**1,355**	3,935
	489,934	547,038

The following table contains an analysis of financial assets as at 30 June 2018 and 30 June 2017. An asset is past due when the counterparty has failed to make a payment when contractually due.

	Neither impaired nor past due	0-3 months past due	3-6 months past due	6-12 months past due	Over 12 months past due	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 30 June 2018						
Trade and other debtors	358,504	3,584	753	745	539	**364,125**
Amounts owed by group undertakings	17,139	-	-	-	-	**17,139**
Derivative financial instruments	213	-	-	-	-	**213**
Term deposits	15,000	-	-	-	-	**15,000**
	390,856	3,584	753	745	539	**396,477**
At 30 June 2017						
Trade and other debtors	406,459	2,988	988	655	194	**411,284**
Amounts owed by group undertakings	12,115	-	-	-	-	**12,115**
Derivative financial instruments	259	-	-	-	-	**259**
Term deposits	65,000	-	-	-	-	**65,000**
	483,833	2,988	988	655	194	**488,658**

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (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 amounts due from financial institutions regulated by the Financial Conduct Authority (FCA).
- Related parties - In respect of amounts due from entities within the Hargreaves Lansdown plc Group
- Individuals - In respect of amounts due from individual clients in the course of settlement as a result of daily trading.

	Financial institutions	**Related parties**	**Individuals**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 30 June 2018				
Trade and other debtors	124,274	148	234,082	**358,504**
Term deposits	15,000	-	-	**15,000**
Amounts owed by group undertakings	-	17,139	-	**17,139**
Derivative financial instruments	213	-	-	**213**
	139,487	17,287	234,081	**390,856**
At 30 June 2017				
Trade and other debtors	113,233	160	293,066	**406,459**
Term deposits	65,000	-	-	**65,000**
Amounts owed by group undertakings	-	12,115	-	**12,115**
Derivative financial instruments	105	-	154	**259**
	178,338	12,275	293,220	**483,833**

Capital management

The Company is regulated by the FCA and is individually classed as an IFPRU Limited Licence firm. The Company has retained earnings and share capital which total £113.8 million as at 30 June 2018 (2017: £77.8m). It is part of the Hargreaves Lansdown Group and so is also required to comply with the Capital Requirements Directive IV ("CRD IV"). Under the CRD a set of disclosures (Pillar 3) has been made which enables the market to assess information on the Group's risks, capital and risk management procedures. This is available on the Group's website at http://www.hl.co.uk/investor-relations/pillar-3-disclosures

Surplus regulatory capital was maintained throughout the year at both a Company level and at a consolidated Group level.