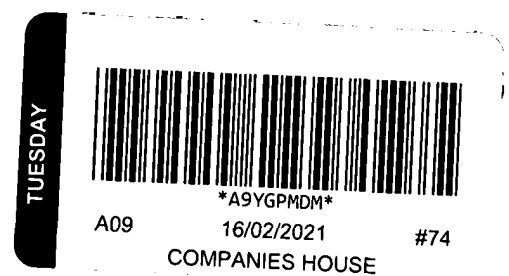


Herbert Smith Freehills LLP

Limited Liability Partnership Registration
No. OC310989

Herbert Smith Freehills LLP

ANNUAL REPORT AND FINANCIAL STATEMENTS
30 APRIL 2020



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Herbert Smith Freehills LLP

MEMBERS' REPORT

Year ended 30 April 2020

The designated members present their report on behalf of the members together with the audited financial statements of Herbert Smith Freehills LLP for the year ended 30 April 2020.

Principal activity

Herbert Smith Freehills LLP (the "LLP" or "Firm") is a limited liability partnership registered in England and Wales and has offices in Belgium, China, Italy, Japan, Malaysia, Singapore, United Arab Emirates and the United Kingdom. The LLP also controls entities operating in Hong Kong, Italy, Russia, South Africa, Spain, Thailand, France, Germany, United Kingdom and United States of America.

The principal activity is the provision of legal services.

Designated members

The following individuals were designated members during the year and up to the date of signing these financial statements:

- Nigel Farr
- James Palmer (Chair and Senior Partner)
- Donald Rowlands
- Alan Watts
- Susan Black
- Gavin Davies

A full list of the members of the LLP can be found at Companies House.

Business review

Herbert Smith Freehills is a leading international law firm. We aim to provide our clients with differentiated legal expertise and advisory services to help them succeed. We aim to achieve this through client focus, putting our clients' interests at the heart of our decision-making, and giving trusted advice with both global and local perspectives. The vision for the Firm is to be a leading world class professional services provider, excelling not only among law firms but wider professional services organisations.

Our success depends on continuing to recruit and retain exceptional people, which in turn requires us to provide fulfilling work and positive experiences to our people. We do this by seeking to empower and actively engage with them.

The continuation of the Firm's strategy resulted in another year of momentum, against the backdrop of a challenging and volatile global economy brought about by the rapid onset of the Covid-19 pandemic. The human cost and the global disruption caused by the virus have been significant. The longer term impact on economic activity, trade and business remains unclear. We are seeing some signs of improvement, but we believe that global recovery will take time. Further, the impacts across many sectors have been deep and structural. Our own profession, along with many others, has adapted to a completely different way of working. It remains to be seen how our clients' businesses and ours will evolve as a result of these changes. Our plan is to adapt to the circumstances and to come through stronger than before in terms of how we serve our clients, how we engage with and motivate our people, and of our underlying business objectives and performance.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020**

Business review (continued)

The impact of Covid-19 has meant that client expectations are evolving continuously. The pace and rate of technological change is rapid, with digital transformation supporting remote working across virtually all global sectors. At the start of the pandemic, we took a number of measures to safeguard the wellbeing of our people, clients and communities, and to protect our business. This included moving almost all of our partners and staff to remote-working arrangements. The Firm and our people have adapted very well to these new ways of working, benefitting from widespread adoption of agile working pre-pandemic in a number of our markets.

The financial year ending 30 April 2020 has been a transitional year for the Firm notwithstanding the disruption brought by Covid-19. In 2019, Mark Rigotti announced his intention not to seek re-election as Chief Executive Officer of the global business, Herbert Smith Freehills Global LLP, on the completion of his second term on 30 April 2020. Following a structured process, the Global Council of Herbert Smith Freehills Global LLP appointed Justin D'Agostino, then Global Head of the Disputes Practice and Regional Managing Partner for Asia and the United States of America, to the Chief Executive Officer role, and his appointment was confirmed by a vote of partners in December 2019. Justin took office on 1st May 2020, having already assumed responsibility for leading the Firm's response to Covid-19. Our crisis response has been broad, focussing on our people and our clients, including our financial resilience and longer term liquidity.

Against the backdrop of global disruption and uncertainty, the Firm still delivered another year of good revenue growth, with offices performing well across the network, especially in our continental Europe and Asia regions. Costs including remuneration expenses were higher, leading to lower overall profitability compared to prior year. Delivering a materially higher level of profitability is a key priority for the Firm. The sustained growth we have seen in revenue, our strong cashflow and good overall net debt performance, all show the strength of the underlying performance and provide an excellent basis for us to achieve further growth and the planned desired sustainable profitability increase.

Our investment programme in the year included the launch of our Joint Operation with Kewei, which gives clients seamless access to Chinese law capabilities in mainland China. In Italy we recruited a Corporate team of two partners and several associates specialising in the energy sector into our Milan office. In South Africa we made two partner appointments in our Johannesburg office, and they were joined by a number of associates.

Other highlights of the year included the launch of the Digital Law Group, which is expanding rapidly and positioning us at the forefront of the digital transformation market. We now have over 50 specialist lawyers involved with the Group, working with our Alternative Legal Services and Legal Operations teams, and have been providing legal, strategic and practical advice to our clients' biggest and most important digital transformation projects.

Within our global network, we promoted 26 lawyers to the partnership, our largest partner promotion round since 2012, underlining our determination to grow the business, this was in addition to eight lateral hire partners. The gender balance of the newly promoted partners was 50:50.

Our commitment to ethnic diversity continues globally. The Global Council of Herbert Smith Freehills Global LLP committed to further prioritisation of cultural and ethnic diversity and inclusivity, which Justin D'Agostino and the new leadership team have swiftly sought to drive forward across the network, looking to introduce improved outcomes, further transparency and to set ourselves targets to support those.

Our continued focus on innovation, including digital transformation as noted in the strategy section of this business review, is providing our lawyers with new technology to better support our clients. We continue to invest across multiple areas, which has positioned the Firm strongly to capitalise on market opportunities as they arise and as we adapt to the pandemic.

Following the onset of Covid-19, financial disciplines that had improved over the last two years were further strengthened. Tighter controls over expenses and discretionary expenditure were implemented, along with deferrals of the payment of profits to partners. We have a multi-year

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Business review (continued)

Revolving Credit Facility that provides us with significant working capital and we increased partner capital in the last financial year. This places the Firm in a strong position, closing the prior financial year with a robust balance sheet and strong liquidity to manage through these uncertain times.

Our business pipeline is encouraging, and our response as a Firm so far to the global pandemic position us well to support our clients as they navigate through their most significant opportunities and challenges in our markets.

Strategy

The implementation of the Firm's Beyond 2020 Vision and Strategy continued during the year. Beyond 2020 was launched in 2016, and coincided with a period of significant change in the legal sector, with intensifying competition, changing client expectations and the impact of new technology, but also the new opportunities these give rise to.

The Firm has been implementing Beyond 2020 through five major workstreams: clients, sectors & products; people, performance & leadership; service delivery; platform; and innovation & technology. These workstreams have clear strategic benefits in terms of improved client service, efficiency and performance.

With his appointment as new Chief Executive Officer of Herbert Smith Freehills Global LLP, Justin announced new strategic ambitions to partners. These include: leading more clearly in our target markets and practices; every partner being part of a team with clear focus and a more resilient client base and more multi-market client relationships; and a culture that rewards excellence, innovation, discretionary effort, and fosters generosity and collaboration, and in which our people are energised and engaged. These ambitions gave rise to four strategic priorities:

- clients & markets: transforming and strengthening our client base and our position in our major markets
- people & culture: establishing a firm-wide culture that increases our people's ambition and better aligns us across the business
- productivity & performance: driving a step change in productivity and profitability
- digital transformation: entrenching the digital transformation of our business and service delivery

The year has been another of sustained focus on client relationships, client service and efficient service delivery.

Clients and Markets

The services we deliver, inevitably depend on our clients and our being able to differentiate in meeting these needs through insights, expertise and understanding of and interest in them. We continue to invest in deepening our client relationships across a broad range of sectors, including further extending our client listening and engagement programmes.

Our aim is to be recognised as the leading firm in our target markets and practices, working in teams with a clear focus to build a resilient client base, growing our multi-market relationships.

This is led by our global Clients and Markets Advisory Board, launched as part of our new strategic priorities.

People and Culture

Our people are critical to our continued success. We want to instil a culture of engagement, ambition and high performance by putting people and the experience we create for our clients at the heart of our business.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Business review (continued)

Our profession is full of firms that espouse a high engagement commitment to their people, but this is not always delivered. We intend to look at this afresh and to establish clear expectations and support for further change to both how our people work and how they feel about their work, and to seek a step change in our differentiation through our culture, focussed on high performance and ambition, helping our clients and engaging our people.

Our aim is to be recognised in the markets we operate as one of the world's best law firms, and for our people, culture and ambition to be the envy of others. This is guided by our People and Culture Advisory Board, also launched as part of the Firms' new strategy.

Productivity & Performance

We know that delivering exceptional service to our clients requires our people to be motivated and engaged. As well as focusing on further improving communication and engagement with our clients, in our markets, and with our people, we remain committed to the highest standards of service, bringing useful insights and to developing and improving all aspects of our services. Aiming to create strong teams and utilising the skills and insights of all our people for our clients remains a key goal.

To drive our productivity and performance, we will continue to develop our future workforce strategy, to recognise the realities of the changing approach to how lawyers wish to work and can most efficiently work. Increased flexibility and further enhanced team working will continue to be key to this, especially in the backdrop of remote working with Covid-19.

The Firm is determined to deliver improved profitability, we have a renewed focus on performance across all teams along with increasing expectations of what we consider to be acceptable levels of productivity.

Digital Transformation

We continue to see the value in a culture of innovation, including through making smarter use of technology, enabling us to offer clients creative solutions that add value to their businesses. Last year we launched our 'Innovation 10' programme, which enables each of our people to spend up to 10 days a year working on innovation projects. This work has continued and has supported the seamless transition to remote working for the Firm. The appetite for technological change is relentless, and with that in mind we are working through our digital transformation strategy, developing new tools to support client service delivery through our Alternative Legal Services practice and to accommodate the changing working habits of our people.

Performance summary

Regional

From a regional perspective, in Asia, we continued to perform well with a revenue rise, working on market-leading mandates. There were good revenue increases across our offices in China, Singapore, Tokyo and our office in Kuala Lumpur continues to perform well.

Within the United Kingdom & United States of America region, our London office continues to maintain its market share and worked on a number of significant mandates across different practice areas. Our New York office has continued to gain momentum with another year of revenue growth on the back of continuing investment in new talent.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Business review (continued)

The Continental Europe, Middle East and Africa region also performed strongly with a double digit revenue rise. The offices in both Johannesburg and Milan contributed to the strong revenue growth in those regions on the back of new lateral partners joining those offices. Our offices in both Paris and Moscow performed strongly during the year with good revenue increases.

Practice Group

The Firm is organised by global practice group, delivering services to clients via cross practice sector teams and dedicated client focussed teams. The practice groups are Competition, Regulation and Trade; Corporate; Dispute Resolution; Employment, Pensions and Incentives; Finance, Real Estate and Projects; and Alternative Legal Services.

All practice groups experienced growth in the year aside from the Corporate practice group where transactional work and deal flow was impacted by Covid-19.

Notwithstanding tough market conditions in the latter part of the year, notable Corporate mandates included:

- advising Lufthansa on the sale of the European Business of LSG Group to Swiss airline caterer gategroup
- advising Altran Technologies on the €4.8 billion takeover offer launched by Capgemini, the most significant cash takeover in France over the last 10 years
- advising Uber on its US\$3.1 billion acquisition of Careem, the biggest ever technology acquisition in the Middle East
- advising Grab on its joint venture and digital bank consortium with Singtel
- advising ARRIS International on its US\$7.4 billion acquisition by CommScope Holding Company

Our global Disputes Resolution practice once again delivered strong results, with an impressive global performance as we continued to handle the most high profile cases. Some of our mandates included:

- acting for the Financial Conduct Authority on a series of test cases to resolve the current uncertainty as to whether certain business interruption insurance policies respond to Covid-19 related losses
- acting for the UK Post Office in a class action by more than 550 claimants, under a Group Litigation Order
- acting for Generali on a decision pending before the Paris Court of Appeal in relation to structured products and life insurance, a case considered the most prominent in the regulatory field in Europe
- successfully acting for Addax Petroleum UK Limited and Sinopec International Exploration and Production Corporation in the liability phase of arbitration proceedings over North Sea oil investments

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Business review (continued)

The Finance, Real Estate and Projects practices also had a very good year, with notable mandates including:

- advising Synthomer plc on the financing of its acquisition of NYSE listed Omnova Solutions Inc. The acquisition financing included £1.3 billion in debt facilities, comprising £666.0 million in equity and bridge to bond facilities and £618.0 million in syndicated debt facilities
- advising Amur GPP project in Russia, successfully completing the €19.0 billion financing, one of the largest project financings in 2019
- acting for a syndicate of lenders comprising Barclays, Hellenic, Nomura and funds advised by Waterfall Asset Management on their financing of Apollo's acquisition of a non-performing loan portfolio from Bank of Cyprus. The transaction involved the purchase of a loan portfolio with a contractual balance of over €5.0 billion and a net book value of approximately €1.5 billion by funds managed by Apollo Global Management LLC
- advising Citigroup on the £1.0 billion acquisition of its UK headquarters and Logicor on the launch of a £900.0 million corporate bond
- our planning team completed the huge, paper intensive, exercise to prepare the Development Consent Order application for the Sizewell C nuclear power station
- advising on the four main contracts for Phase 1 of the UK HS2 Project, with a value of £12.0 billion

The continued expansion of the Alternative Legal Services practice is also a key focus and a success over last year. The team is involved in supporting many of the matters listed above.

Market recognition and awards

We have a strong culture of commitment to our clients, which has seen the Herbert Smith Freehills brand grow stronger. The Firm was ranked number 13th in the world in the Acritas Global Elite Law Firm Brand Index 2020, and sixth Firm in the World in the Law360 Global 20 List 2019.

Other notable recognition and awards won by the wider Firm include:

- Law Firm of the Year 2019, *Regulation Asia Awards for Excellence*
- Best M&A Deal, Best Project Finance Deal, Most Innovative Deal, Best New Zealand Deal, *Finance Asia Australia and New Zealand Achievement Awards*
- IP litigation Team of the Year, *Legal Week*
- Best for Commercial Dispute Resolution, *The Times Best Law Firms*
- Cross-border M&A Legal adviser of the year, M&A Legal Adviser of the Year, *Merger Market Australia M&A Awards*
- Firm of the Year, International Firm of the Year, Matter of the Year, white collar crime firm of the year, *Benchmark Litigation Asia Pacific Dispute Resolution Awards*
- commended and highly commended for new business and services delivery models, rule of law and access to justice, new projects and services, creating a new standard in *FT Europe Innovative Lawyers*
- Teams of the Year: Transaction (M&A), Energy & Resources; Commercial, *2019 Australian Law Awards*
- International Disputes Law Firm of the Year, *Asialaw*
- Insurance Team of the Year, Legal Business

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Business review (continued)

Financial performance

The global impact of Covid-19 started to materialise in the final quarter of this financial year ending 30 April 2020. The impact on the Firm's financial performance has therefore been limited, with the largest effects being on transactional work flow which reduced as a result of deals being deferred. This was partially offset by an increase in advisory work being sought by clients to navigate the challenges of the pandemic.

Overall our underlying financial performance has been robust considering both the pandemic and the change to Executive leadership. Achieving good revenue growth has been pleasing, especially in some of our continental European and Asian offices which forms key aspects of our growth strategy. Our continued strengthening of cash and debt management has put the Firm in a robust financial position.

The inflationary pressures on remuneration for our lawyers, combined with the continued growth of our network offices, investment in technology and business resilience, have led to an increase in the overall staff costs. Whilst our pipeline of client activity remains robust, stricter control of headcount was enforced at the onset of the pandemic. As with many of our peers, a decision was made to freeze salary levels in the short-term. This remains in place at the date of this report and will be monitored closely to ensure that the right balance is struck between prudence, performance and fairness to our teams.

With the adoption of IFRS 16 Leases, the presentation of the Consolidated Income Statement has changed considerably. Once the impact of the standard is removed, underlying costs have, as expected increased slightly, with the expansion in our international office network and investment in technology and innovation, including business resilience. This policy change has also increased our non-current assets, with our leases now recognised as right-of-use assets on the balance sheet, with a corresponding recognition of lease liabilities separately on the balance sheet.

With the international nature of our business, the majority of revenues are generated in currencies other than Sterling. Exchange rates movements have been comparable to prior year. Measures taken by the Firm to manage fluctuating exchange rate effects have led to a small transactional gain being reported through the Consolidated Income Statement. The Firm's exposure to exchange rate volatility is managed to a large extent by a natural hedge where, for most offices, revenues and costs are largely in the same currency. The Firm also uses borrowings denominated in currencies other than Sterling, and other mechanisms to manage the overall financial impact of currency movements against Sterling.

Cash inflows from operating activities were considerably higher than the prior year due to further tightening of lock-up management. There continues to be a considerable focus on improving cash flows, which has had a positive impact on the overall working capital requirements. The closing net debt was £82.4 million (2019: £84.2 million).

During the latter part of the year, we exercised our one year extension right on our £300.0 million multi-currency Revolving Credit Facility, provided by a syndicate of eight banks, which had been renewed for five years in April 2019. The extension was successful and had overwhelming support from our lenders.

As a precautionary measure to manage liquidity at the onset of Covid-19, an additional drawdown of £75.0 million was made for six months from the Firm's funding facilities and placed on deposit with its lenders. These funds remain on deposit at the date of this report and provide access to funding if needed at short notice. This reduces the headroom in the facility but provides instantly accessible cash should the need arise.

The Firm assesses its structure on a continual basis, noting that the Firm has historically operated with lower levels of partner capital than other law firms. The most recent capital increase occurred in the

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Business review (continued)

financial year ending 30 April 2019. Overall the strength of our pipeline, in addition to a strong balance sheet and a £300.0 million Revolving Credit Facility positions the Firm well to manage through the period ahead.

Covid-19

Our global response to Covid-19 was informed by the three key principles: caring for and connecting with our people; a focus on connecting with, and delivering for, our clients; and strong financial discipline and cost control. Our global response to Covid-19 was informed by the three key principles: caring for and connecting with our people; a focus on connecting with, and delivering for, our clients; and strong financial discipline and cost control.

Crisis Response Framework

The Firm's crisis response resulted in virtually the entire global network of offices moving to remote working by March 2020. Our crisis response was robust, with our global business services functions working together to support this huge change with minimal disruption to our ability to serve clients. Our investment in technology meant that remote working was supported across our secure network.

People response

As soon as the crisis began in Asia we took action in all our offices to support our people's needs in an uncertain time with particular emphasis on physical and mental wellbeing, building on the resources already in place as part of our Health and Wellbeing strategy. Frequent engagement, communication and dissemination of information was instigated through multiple channels. The success of this was borne out by high levels of engagement and positive feedback from staff.

Client response

Our response to clients was equally robust, and was coordinated by global and regional steering groups of partners and business services teams. These groups ensured that the Firm capitalised on the range of insights, experience and expertise within the Firm in a way that was highly focussed and aligned with client needs. Regular calls supported the sharing of market and client intelligence across the Firm. We also rapidly shifted client engagement online, with webinars and calls in place of face-to-face events.

Financial discipline

Financial discipline was a critical component of our response to Covid-19. We instigated a cautious and vigilant approach, acting swiftly to review costs levels and reduce spend where practical. As a result savings were identified across all aspects of our business.

Community response

Our people have been at the forefront of supporting the communities in which they live and work at this time. In particular, we have encouraged them to support and fundraise for Médecins Sans Frontières, our global charity partner and pro bono client, with whom we launched a formal global partnership this year, in its projects worldwide.

Brexit

The Firm made preparations for The United Kingdom's exit from the European Union. The United Kingdom left the European Union but continues to be subject to transitional arrangements which apply to 31 December 2020, as if it remained in the European Union. Our preparations included being ready for a Brexit with little or no continuity of existing cross border United Kingdom / European Union trade rights. Just as Brexit creates challenges for our clients, the same issues are created for us as a cross border business. However, we are clear that we can address the regulatory and other impacts in respect of Brexit and that our scale and growth in Belgium, France, Germany, Italy and Spain taken together continue to position us strongly to meet post Brexit business needs. We are targeting further growth within continental Europe over the years ahead.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020**

Business review (continued)

Going Concern

The Covid-19 pandemic has generated considerable uncertainty in the markets and economies around the world. Our business has so far been resilient in face of this uncertainty and we have adopted a number of measures to overcome these challenges.

The Global Council has adopted the going concern basis in preparing these financial statements following detailed reviews of budgets and stress testing for market downturns. After considering various scenarios, the Global Council has a reasonable expectation that the Firm has adequate resources to continue in operational existence for the foreseeable future.

Managing our stakeholders

The long term success of our Firm is critically dependent on the way we work with a large number of important stakeholders. In its engagement with the various stakeholders, the Global Council of Herbert Smith Freehills Global LLP is supported by a number of sub-committees and the Global Executive, which reports into the Chief Executive Office, and together they are responsible for the day-to-day operations of the Firm.

The Global Executive then works with the Operations Committee, the Practice Group Leadership Teams and the Regional Executive Committees (collectively "Executives Teams") to oversee and manage the governance of the Firm and engage with key stakeholders.

Our people

We understand that at its heart the success of our business hinges on our people being motivated by their work, and providing exceptional service and help to our clients. Our Firm is a diverse group of people aiming to be proud of their work and their work environment. Scale and complexity are bringing challenges to the legal profession and as traditional working habits continue to change with Covid-19 implications, we will adapt as needed. We are determined to do so, building on the strong reputation that we have for our positive culture, without taking this for granted.

Giving those whom we employ positive experiences, skills development, interest and responsibility along with an inclusive and supportive environment remain core strategic priorities for us.

Helping our people understand firm governance

Details of the Firm's governance structure are provided as part of induction for all new employees. There is information on the Firm's global intranet pages, accessible by all employees, regarding the role and composition of the various governance bodies within the Firm, including organisation charts where appropriate.

The Firm has global, regional and functional communications, including those from the Senior Partner and Chief Executive Officer updating on key issues. With the pandemic and restrictions on movement, the communications have been conducted virtually to support those working remotely.

People engagement

The Firms' management teams engage with our people regularly, whether work related or in general. With Covid-19 impacting movement, all the engagement is now virtual and therefore the opportunity is there for individuals to engage more regularly than in the past.

Management team members are based in offices throughout our network. The majority of partners who are part of the Global Council of Herbert Smith Freehills Global LLP or Executive Teams retain fee-earning practices in addition to governance responsibilities, and by virtue of being based in one of our offices, they engage with our people frequently and regularly deal directly with issues either in person or through virtual engagement, as appropriate.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Managing our stakeholders (continued)

Our people (continued)

In addition there are regular surveys on themes relating to the engagement of our people. The results are then followed up to continue our high levels of employee engagement. These findings are used alongside external benchmarking information to support decision making and implement changes for the benefit of our people.

In addition to this, there are networks to support a range of groups dealing with topical and internal community issues, and helping to connect our employees for the betterment of the Firm and its' culture.

Staff attrition levels are reported to the Executive Teams on a regular basis and exit interviews completed with departing employees, with learnings cascaded and applied as needed.

A whistleblowing hotline was introduced 18 months ago through an external provider and recommendations arising are investigated by the provider. A clear process is set out in the Firm's Reporting Concerns and Whistleblowing policy which is accessible through our global intranet.

Investing in our people

The Firm's objective is to invest in all its people, across our legal practice and business services teams.

We have structured training programmes for our lawyers to ensure that they meet regulatory requirements and clients expectations. Additional technical training and broader skills development are provided to support all our people throughout their careers with the Firm.

External training, coaching and mentoring is provided to develop specific skillsets for both lawyers and business services teams so that they work together to deliver exceptional services to our clients.

We announced our global commitment to health and wellbeing in October 2018 and in March 2019 launched our global intranet hub focussed on the five pillars of health and wellbeing: mental, physical, occupational, social and financial. We believe sustained focus across all these areas is necessary to ensure that we sustain a strong culture and that our people have access to health and wellbeing support.

Diversity and inclusion

We are committed to ensuring a diverse and inclusive culture. We believe it is important to embrace the difference that makes us unique and are determined to sustain and extend our reputation in this area, ensuring that we do not rest on past successes but focus on genuine inclusion, where everyone can thrive whatever their gender, sexual orientation, cultural background, ethnicity or religion, ability, social background and other aspects of who they are. We know that when our people bring their authentic selves to work, they are more likely to thrive – inclusive teams and diverse perspectives help us engage with empathy and insight with each other and with our clients. A diverse and inclusive culture is also highly correlated with higher levels of innovation and an enhanced ability to solve complex issues.

We continue to focus on:

- building closer relationships with clients through our shared commitment to diversity and inclusion
- supporting the mental health of our people
- our gender targets
- leadership behaviours essential for creating an inclusive culture
- building a diverse pipeline to partnership and retaining that diversity in the partnership
- the role of our diversity networks in strengthening client and people engagement and cross-network collaboration, and intersectionality across diversity strands
- integrating diversity and inclusion into 'business as usual' processes

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Managing our stakeholders (continued)

Our people (continued)

Over the course of the last 12 months, we worked across the global Firm to continue to embed our diversity and inclusion strategy "Leading for Inclusion".

We continue our focus on increasing the proportion of women in the partnership and in key leadership roles.

The actions that the Firm is taking to drive equality and achieve the new targets include:

- continuing to carefully analyse the talent pipeline for partnership, including the leadership pipeline
- improving support for partners returning from parental leave
- focusing on inclusive leadership behaviours, including challenging bias and ensuring fair and equitable work allocation
- increasing focus on ensuring that junior partners have the right support from their team as well as the broader network, including through access to high-quality sponsorship, role models and mentors
- increasing transparency about the appointment and reappointment of leadership roles
- focusing on the development of leadership skills for junior partners
- reviewing parental leave policies, with a view to challenging traditional stereotypes

In October 2019, we launched our first global mental health strategy "Thrive" which sets out our vision to be a place where we enable our people to work in a way that is sustainable, rewarding and consistent with their values, where they can easily access support for themselves and others and openly discuss mental health without fear of stigma. Our strategy aims to support everyone to maintain optimal mental health, in addition to responding to mental ill-health.

Additionally, we have also taken action to drive better ethnic minority representation in the Firm, including workshops focused on bias, cultural awareness and racial fluency, analysis of performance grades, attrition data and promotion data by ethnicity and ensuring better access to sponsorship and role models for those from ethnic minority backgrounds.

We have a market-leading reputation for diversity and inclusion, and engagement survey results show that this is an important matter of pride for our people. We are determined that this should remain so and will be stepping up our efforts.

Our clients

Our services inevitably depend on our clients and our being able to differentiate in meeting their needs through insights, expertise and understanding of and interest in them. We continue to invest in deepening our client relationships across a broad range of sectors, including further extending our client listening and engagement programmes.

We know that being excellent lawyers with commercial insight is not sufficient to differentiate us from our competitors. Clients expect their principal legal advisers to deliver the highest quality legal expertise, outstanding client service, business acumen and a range of supplementary services that add broader value to the relationship. Each client has different needs and so our approach is to understand what is of most importance to the client and then develop a programme of services around this.

We have established client feedback and engagement structures, but are committed to seeking to improve service and client engagement still further.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Managing our stakeholders (continued)

Communities and environment

Pro bono and citizenship

The Firm is enormously proud of its culture of connecting with and creating opportunities for the communities in which our people live and work. The Firm's initiatives range from pro bono legal advice and volunteering for community work to environmental sustainability and human rights.

The Pro Bono and Citizenship Council oversees the pro bono work on behalf of the Global Council and the Executive, updating stakeholders on activities regularly.

The communities in which the Firm is actively involved varies by jurisdiction based on the social issues that are relevant and important to the jurisdiction. The identification process also involves consideration of the different need within the community. In the United Kingdom, access to justice and social mobility have been identified as two areas of focus. In Australia the Firm is focussing its working on Indigenous communities. The Pro Bono and Citizenship Council is well aware of the importance to the communities where the Firm has a sizeable presence and therefore takes an active interest in the selection of the causes that the Firm wishes to support.

Globally, within the wider Firm, we contributed 75,000 hours of pro bono advice across five areas of pro bono legal practice: access to justice casework, NGO advisory services, human rights protections, international development and social impact investment.

Some of the global Firm's projects and achievements during the year include:

- supporting a coalition of pro bono clearing houses, including Justice Connect (Australia), Law Works and Law Centres UK, PILA (Ireland) and PILnet (US, Asia, Europe). These organisations are collaborating to build digital capacity by extending an online pro bono portal developed by Justice Connect. The platform is already being used in Australian and there is immediate demand for a pilot in the UK and the Republic of Ireland and then in Asia and continental Europe
- working to improve the condition of migrant domestic workers in Hong Kong and South East Asia, in particular through partnerships with Justice Without Borders providing casework, resource review, research and training; and Good Financial Limited, a Hong Kong company providing ethical loans to migrant workers
- partnering with the UN Refugee Agency (UNHCR) in relation to its ground-breaking initiative MADE51, which empowers refugees by connecting them with global markets in order to make a living from their artisanal skills in the countries in which they have been displaced. In 2019 we won the PILnet Global Pro Bono Award for Exemplary Partnership in the Public Interest for this work
- we have been supporting our global charity partner Médecins Sans Frontières as they respond to Covid-19 through raising valuable funds and assisting on pro bono legal matters
- supporting hundreds of students who are under-represented in the legal sector in Australia, Belfast, London, Madrid and India. We have partnered with a number of clients from across our sectors in this space
- our people have been volunteering to support elderly, homeless, disabled and other vulnerable individuals in Dubai, Johannesburg, London, Moscow and New York

Sustainability

We recognise that we all have a part to play in balancing our growth as a business with reducing our impact on the environment. As a global business, we have a responsibility to align our approach to sustainability across all of our offices.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Managing our stakeholders (continued)

Sustainability (continued)

The Global Council engages on environment and climate change issues through the Pro Bono and Citizenship Council, which is comprised of partners and other personnel with appropriate knowledge, skills, experience and background to take decisions informed by an awareness and understanding of environment-related risks and opportunities. To this end, the Pro Bono and Citizenship Council is supported by regional Sustainability Action Groups, which are chaired by partners who take a keen interest in these matters.

The Sustainability Action Groups meet quarterly and report to the Pro Bono and Citizenship Council. Through the work of the Sustainability Action Groups and the Firm's sustainability goals, environmental considerations have been integrated effectively into governance arrangements, including the activities of the Global Council and the Executives.

United Kingdom Energy and Carbon Report

This Energy and Carbon Report covers our carbon emissions and energy consumption for our United Kingdom based operations, with respect to the financial year ending 30 April 2020. Our calculations are based on the 2019 Defra carbon emission factors and include: building-related energy; natural gas (Scope 1) and electricity (Scope 2); company owned vehicle-related fuel (Scope 2); and employees' reimbursed business travel (Scope 3).

We published an updated energy policy in June 2019 which covers our United Kingdom based operations. The policy sets out clear objectives to reduce energy use across the estate and mechanisms to manage, report and communicate ongoing and continual reductions, ensuring we comply with all relevant regulations and legislation.

We operate an energy management system accredited to ISO 50001 for our United Kingdom based operations, which achieved recertification in 2019. This requires continual performance improvement and provides a systematic approach to identifying and developing energy efficiency.

During the reporting period we undertook three large energy saving projects covering the recommissioning of controls, LED lighting upgrade and gas boiler upgrade. These projects delivered savings of 168,168 kWh or 34.59 tCO₂. These will continue to deliver sustained savings into future reporting periods. In conjunction with these projects we moved to more energy efficient offices in Canary Wharf, London in November 2018.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020**

Managing our stakeholders (continued)

Sustainability (continued)

The table below illustrates our energy usage and the CO₂e emissions over the last two financial years, to demonstrate the savings made as part of our programme to improve energy use efficiency.

	2019/2020			2018/2019		
	<i>KWh</i>	<i>Miles</i>	<i>CO₂e (tonnes)</i>	<i>KWh</i>	<i>Miles</i>	<i>CO₂e (tonnes)</i>
Gas (Scope 1)	1,583,103		292	2,550,792		469
Electricity (Scope 2)	7,416,037		1,896*	8,212,704**		2,325*
Total energy	8,999,140		2,188	10,763,496		2,794
Transport (Scope 2)		367	0.09			
Transport (Scope 3)		1,705	0.37		6,594***	1.88
Total			2,188			2,796
Intensity ratio 1 (energy KWh/square foot)	23.81			25.89		
Intensity ratio 2 (CO ₂ e kg/square foot)	5.79			6.73		

The table above includes energy and carbon data for our office buildings in the United Kingdom, excluding any outsourced activities.

Some key points from the table above:

* Our electricity is sourced from renewable sources, using the *market-based* emission factors, our emissions would be close to zero. However in the table above we are reporting under Defra carbon emission factors which use a different basis to determine emissions.

** The electricity consumption for 2018/2019 has been revised in this report.

*** The mileage figures for 2018/2019 has been revised in this report.

Our suppliers

Our supply chain predominantly consists of goods and services purchased to enable our people to deliver legal services to our clients. The key categories we procure are property space, facilities management, human resources, hospitality and catering, other professional services, and information technology. Some of our suppliers may also be the Firm's clients.

Payment terms are agreed with individual suppliers taking into account their company size and the nature of goods or services provided. In the UK, we publish our payment practices on a six monthly basis on the UK Government portal and the data benchmarks well with our peers in the legal community.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020**

Members' profit sharing

The amount of profit allocated to members from the total available for division among members is at the discretion of the LLP Council. Members have an entitlement to a share of the amount so divided based on pre-determined profit points and such share is allocated after the year end.

Members usually draw a proportion of their expected profit share in monthly instalments, during the year in which the profit is made, with the balance of their profits, net of tax on account retention, paid quarterly after the financial statements have been agreed. All payments are made subject to the cash requirements of the business.

The tax payable on a member's profit allocation is substantially the personal liability of the member. However, an amount equivalent to tax is retained which is then paid to the relevant tax authority on behalf of the members as and when the liability falls due.

Members' responsibilities statement

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

Company law, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), requires the members to prepare financial statements for each financial year. Under that law the members 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, as applied to limited liability partnerships, the members 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 limited liability partnership and of the profit or loss of the limited liability partnership for that period. In preparing the financial statements, the members 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 limited liability partnership will continue in business.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to limited liability partnerships by the Regulations.

The members are also responsible for safeguarding the assets of the limited liability partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are exercised by the designated members on behalf of the members of the Group.

Herbert Smith Freehills LLP

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2020

Disclosure of information to auditors

Each of the persons who are members at the time when this Members' Report is approved has confirmed that:

- so far as that member is aware, there is no relevant audit information of which the LLP's auditors are unaware; and
- the members have taken all necessary steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Registered office

The registered office of the LLP is:

Exchange House
Primrose Street
London
EC2A 2EG

Signed on behalf of the members by



James Palmer
Chair and Senior Partner



Nigel Farr

Date: 23 July 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HERBERT SMITH FREEHILLS LLP

Report on the audit of the financial statements

Opinion

In our opinion, Herbert Smith Freehills LLP's financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 30 April 2020 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 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 April 2020; 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 limited liability partnership 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 where:

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited liability partnership'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 limited liability partnership's ability to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HERBERT SMITH FREEHILLS LLP (CONTINUED)

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 members 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 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.

Responsibilities for the financial statements and the audit

Responsibilities of the members for the financial statements

As explained more fully in the members' responsibilities statement set out on pages 15, the members 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 members 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 members are responsible for assessing the limited liability partnership'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 members either intend to liquidate the limited liability partnership 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 opinion, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving this opinion, 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.

Herbert Smith Freehills LLP

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HERBERT SMITH FREEHILLS
LLP (CONTINUED)**

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 as applicable to limited liability partnerships 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 limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Kate Wolstenholme (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 July 2020

**STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 APRIL 2020**

	Note	2020 £m	2019 £m
Revenue			
Fee income	3	457.1	447.0
Other fee income	3	3.5	6.0
		<u>460.6</u>	<u>453.0</u>
Other operating income	4	20.6	1.2
Staff and related costs		(50.5)	(48.6)
Premises costs		(23.8)	(7.7)
Other costs		(297.9)	(270.4)
Operating profit	6	<u>109.0</u>	<u>127.5</u>
Dividends received from subsidiary		10.6	11.2
Finance income	7	2.3	1.9
Finance costs	7	(10.7)	(5.4)
Profit on ordinary activities before taxation		<u>111.2</u>	<u>135.2</u>
Taxation	8	(2.2)	(1.8)
Profit for the financial year before members' profit shares		<u>109.0</u>	<u>133.4</u>
Other comprehensive expense:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of defined benefit liability	22	(0.3)	(0.1)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations	21	0.2	(0.1)
Total other comprehensive expense for the year		<u>(0.1)</u>	<u>(0.2)</u>
Total comprehensive income for the year		<u><u>108.9</u></u>	<u><u>133.2</u></u>

Items included in other comprehensive expense are disclosed net of tax.

HERBERT SMITH FREEHILLS LLP
REGISTERED NUMBER OC310989

STATEMENT OF FINANCIAL POSITION
AS AT 30 APRIL 2020

	Note	30 April 2020 £m	30 April 2019 £m
Fixed assets			
Tangible fixed assets	10	12.9	16.8
Right-of-use assets	11	153.4	-
Investments	12	1.0	0.5
		<u>167.3</u>	<u>17.3</u>
Current assets			
Client receivables	13	100.4	104.8
Contract assets	14	85.7	80.5
Other receivables	15	211.2	195.1
Amounts due from members	21	50.0	82.5
Cash and bank balances		146.4	26.3
		<u>593.7</u>	<u>489.2</u>
Creditors: Amounts falling due within one year			
Trade and other payables	18	(214.1)	(184.8)
Current tax liabilities		(0.4)	(1.5)
Lease liabilities	17	(18.5)	-
Other amounts due to members	21	(5.2)	(26.6)
Provisions	20	(0.7)	(0.4)
Members' capital classified as a liability	21	(0.5)	-
		<u>(239.4)</u>	<u>(213.3)</u>
Net current assets		<u>354.3</u>	<u>275.9</u>
Total assets less current liabilities		<u>521.6</u>	<u>293.2</u>
Creditors: Amounts falling due after more than one year			
Borrowings	16	(228.8)	(110.5)
Lease liabilities	17	(146.2)	-
Other payables	19	-	(13.6)
Provisions	20	(6.5)	(7.8)
Members' capital classified as a liability	21	(32.5)	(29.3)
		<u>(414.0)</u>	<u>(161.2)</u>
Total liabilities		<u>(653.4)</u>	<u>(374.5)</u>
Net assets attributable to members		<u>107.6</u>	<u>132.0</u>

**HERBERT SMITH FREEHILLS LLP
REGISTERED NUMBER OC310989**

**STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 APRIL 2020**

	Note	30 April 2020 £m	30 April 2019 £m
Equity			
Other reserves	21	108.7	133.3
Translation reserve	21	(1.1)	(1.3)
Total shareholders' funds		<u>107.6</u>	<u>132.0</u>
Total members' interests			
Amounts due from members	21	(50.0)	(82.5)
Members' capital classified as a liability	21	33.0	29.3
Other amounts due to members	21	5.2	26.6
Other reserves	21	108.7	133.3
Translation reserve	21	(1.1)	(1.3)
Total members' interests		<u>95.8</u>	<u>105.4</u>

The financial statements of the LLP, registered number OC310989 on pages 20 to 57 were authorised for issue by the designated members on behalf of the LLP on 23 July 2020 and signed on their behalf by:



.....
James Palmer



.....
Nigel Farr

**STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 APRIL 2020**

	Other reserves	Translation Reserve	Total equity
	£m	£m	£m
Balance at 1 May 2018	<u>110.3</u>	<u>(1.2)</u>	<u>109.1</u>
Profit for the financial year before members' profit shares	133.4	-	133.4
Total other comprehensive expense for the year	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.2)</u>
Total comprehensive income/(expense) for the year	<u>133.3</u>	<u>(0.1)</u>	<u>133.2</u>
Allocated profit net of members' tax	(60.7)	-	(60.7)
Amounts retained in respect of members' taxation	<u>(49.6)</u>	<u>-</u>	<u>(49.6)</u>
Total transactions with members recognised within equity	<u>(110.3)</u>	<u>-</u>	<u>(110.3)</u>
Balance at 30 April 2019	<u>133.3</u>	<u>(1.3)</u>	<u>132.0</u>
Profit for the financial year before members' profit shares	109.0	-	109.0
Total other comprehensive (expense) / income for the year	<u>(0.3)</u>	<u>0.2</u>	<u>(0.1)</u>
Total comprehensive income for the year	<u>108.7</u>	<u>0.2</u>	<u>108.9</u>
Allocated profit net of members' tax	(73.3)	-	(73.3)
Amounts retained in respect of members' taxation	<u>(60.0)</u>	<u>-</u>	<u>(60.0)</u>
Total transactions with members recognised within equity	<u>(133.3)</u>	<u>-</u>	<u>(133.3)</u>
Balance at 30 April 2020	<u>108.7</u>	<u>(1.1)</u>	<u>107.6</u>

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 APRIL 2020**

1. Accounting policies

General information

Herbert Smith Freehills LLP is a Limited Liability Partnership incorporated in the United Kingdom. The address of its registered office is Exchange House, Primrose Street, London EC2A 2EG. Its principal activities are the provision of legal services.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 100 'Application of Financial Reporting Requirements' and Financial Reporting Standard 101 'Reduced Disclosure Framework'. In preparing these financial statements, the members have also considered the provisions of the Statement of Recommended Practice (SORP) on Accounting by Limited Liability Partnerships (LLPs) for entities which choose to apply FRS 102. Whilst this is intended for entities reporting under FRS 102, the members have included relevant disclosures from the SORP to aid users of the financial statements.

The principal accounting policies are summarised below. They have all been applied consistently to all years unless otherwise stated.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the LLP's accounting policies (see note 2).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - i. Paragraph 79 (a)(iv) of IAS 1;
 - ii. Paragraph 73 (e) of IAS 16 'Property, plant and equipment';

The following paragraphs of IAS 1, 'Presentation of financial statements':

10(d): statement of cash flows,

10(f): a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements,

16: statement of compliance with all IFRSs,

38 A: requirement for minimum of two primary statements, including cash flow statements,

38 B-D: additional comparative information,

40 A-D: requirements for a third statement of financial position

111: cash flow statement information, and

134-136: capital management disclosures

- IAS 7, 'Statement of cash flows'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. Accounting Policies (continued)

Basis of preparation (continued)

- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)

The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a LLP.

Adoption of new and revised standards

(a) New and amended IFRS standards that are effective

In the current year, the LLP has applied IFRS 16 *Leases* (as issued by the International Accounting Standards Board ("IASB") in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new requirements with respect to lease accounting. It introduces significant changes to lease accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described further in this note. The impact of the adoption of IFRS 16 on the LLP's financial statements is described below.

The date of initial application of IFRS 16 for the LLP is 1 May 2019. The LLP has applied IFRS 16 using the modified retrospective approach which:

- Requires the LLP to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

(a) Impact of the new definition of a lease

The LLP has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC4 will continue to apply to those leases entered or modified before 1 May 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The LLP applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 May 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the application of IFRS 16, the LLP has carried out a detailed impact assessment. The assessment has shown that the new definition in IFRS 16 will not change materially the scope of contracts that meet the definition of a lease for the LLP.

(b) Impact on lessee accounting

IFRS 16 changes how the LLP accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. Accounting Policies (continued)

Adoption of new and revised Standards (continued)

Applying IFRS 16, for all leases, the LLP:

(a) Recognises right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of the future lease payments; with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii).

(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the Statement of Comprehensive Income.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets* which replaces the previous requirement to recognise a provision for onerous lease contracts.

Short-term leases (lease term of 12 months or less) as at the date of initial application have been transitioned to right-of-use assets along with other operating leases.

The LLP has applied the practical expedient of a single discount rate to a portfolio of leases with reasonably similar characteristics when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

(c) Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the Statement of Financial Position on 1 May 2019 is 2.7%.

The following table shows the operating lease commitment disclosed applying IAS 17 at 30 April 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities and right-of-use assets recognised in the Statement of Financial Position at the date of initial application.

Measurement of lease liabilities and right-of-use assets at 1 May 2019:

	£m
Operating lease commitments at 30 April 2019	212.8
Effect of discounting the above amounts	(30.4)
Non lease components included in operating lease commitments but excluded from lease liabilities	(0.3)
Lease liabilities recognised at 1 May 2019	182.1
Add: reclassification of deferred asset relating to dilapidations as right-of-use assets	4.6
Less: offset of deferred lease incentives	(13.6)
Rounding and other adjustments	(0.5)
Right-of-use assets recognised on 1 May 2019 upon transition to IFRS 16	172.6

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. **Accounting Policies (continued)**

Adoption of new and revised Standards (continued)

In the current year, the LLP has applied a number of amendments to IFRS and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The LLP has adopted the amendments of IAS 19 for the first time in the current financial year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability / (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability / (asset) have also been amended. The LLP will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability / (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability / (asset)).

IFRIC 23 Uncertainty over Income Tax Treatments

The LLP has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the LLP to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

(b) New and revised standards in issue but not yet effective

At the date of authorisation of these financial statements, the LLP has not applied the following new and revised IFRS Standards that have been issued but are not yet effective. The LLP does not expect that the adoption of these standards will have a material impact on the financial statements of the LLP in future periods, excepted as listed below:

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Definition of material*
- Amendments to References to the *Conceptual Framework* in IFRS
- Amendment to IFRS 3 *Definition of a business*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. Accounting Policies (continued)

Going concern

The designated members have adopted the going concern basis in the preparation of these financial statements. The designated members, in reaching this decision, has given consideration to the LLP's forecasts and cash flow projections, prepared against the backdrop of Covid19 and borrowing facilities for a period of at least 12 months from the date of signing of the financial statements, noting in particular that as at the balance sheet date, the ultimate parent company has a Revolving Credit Facility covering the next five years with sufficient headroom in relation to liquidity and compliance with applicable covenants. These projections included the modelling of different downside scenarios which the designated members determined as severe but plausible. The designated members are satisfied that there is sufficient flexibility with the timing of payments to partners and the headroom within its banking facilities to allow for actions to be taken to mitigate the effects of business risks arising from a potential downturn.

Revenue

The LLP recognises revenue from the provision of legal services to clients. Any revenue recognised excludes sales taxes and external disbursements.

Revenue is measured based on the consideration to which the LLP expects to be entitled in a contract with a client and excludes amounts collected on behalf of third parties. The LLP recognises revenue when it transfers control of a product or service to a customer.

The work done by the LLP for its clients is specialist in nature and the clients benefit from the LLP's services as the engagements or transactions progress. The LLP's work does not create assets with alternative use because the work is reliant on facts and circumstances that are specific to its clients and there are therefore practical limitations on the LLP's ability to redirect the work done for a particular client readily for the benefit of other clients. For the majority of the Firm's contracts revenue is recognised over time as it has an enforceable right of payment. However, there are some contracts where the LLP's entitlement to consideration is contingent on the outcome or future events. In these cases, revenue is recognised at a point in time.

The vast majority of the LLP's services represent single performance obligations. For performance obligations that are satisfied over time revenue is initially recorded as a contract asset until the point that an invoice is raised at which point the contract asset is reclassified to client receivables.

To the extent that a performance obligation has been delivered to clients but not invoiced as at the end of the financial year, the value of contract assets reflects the fair value of the performance obligations delivered up to the balance sheet date. This assessment is an estimate which is based on the nature of the service supplied and the terms of the contract and is calculated with reference to time spent as a proportion of the total time required to complete the client engagement. The valuation of contract assets also takes into account any expected credit losses. The LLP has applied the practical expedient of IFRS 15 *Revenues from Contracts with Customers* paragraph 121 to not disclose information about remaining performance obligations as the performance obligations are part of contracts or matters with an original expected duration of one year or less.

Where the transaction price includes any variable consideration, revenue covered by the variable consideration is only recognised (over and above any agreed minimum fee) when the contingent event occurs or when the LLP believes it is highly probable that there will not be a revenue reversal in the future.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. Accounting Policies (continued)

Revenue (continued)

The LLP does not consider there to be a financing component in its contracts with clients as the period between the recognition of revenue and the payment by the client is always less than one year except where in dispute.

Other fee income which is part of revenue represents internal disbursements recharged to clients.

Foreign currencies

Transactions denominated in currencies other than the functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities not denominated in the functional currency at the balance sheet date are translated at the rates ruling at that date, the corresponding foreign exchange differences arising being recognised within the Statement of Comprehensive Income.

The results of operations that have a functional currency other than Sterling are translated at the average rate of exchange prevailing for the reporting period and the balance sheets are translated into Sterling at the rates of exchange ruling at the balance sheet date. The foreign exchange difference arising on the translation of the opening net assets and results of such operations are reported in the Statement of Comprehensive Income and recognised in the Translation Reserve.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged so as to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful economic life, as follows:

Leasehold improvements, furniture, fixtures and fittings	-	over the period of the lease up to a maximum of ten years
Office equipment and computers	-	over two to five years

Depreciation for the year is recognised within the Statement of Comprehensive Income under premises costs. The gain or loss arising on the disposal of an asset, determined as the difference between the sale proceeds and the carrying amount of the asset is recognised within the Statement of Comprehensive Income.

At each balance sheet date, the LLP reviews the carrying amounts of its tangible 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 any impairment loss. 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 the impairment loss recognised as an expense immediately.

Investments

Investments represent the LLP's equity holdings in its subsidiaries that are reported at cost less any provision for impairment.

Leases

The LLP has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. **Accounting Policies (continued)**

Leases (continued)

Policies applicable as from 1 May 2019

The LLP assesses whether a contract is or contains a lease, at inception of the contract. The LLP recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (where the cost of the asset is less than £1,000). For these leases, the LLP recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Statement of Financial Position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The LLP remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payments, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020**

1. Accounting Policies (continued)

Leases (continued)

Whenever the LLP incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the LLP expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the Statement of Financial Position. The LLP applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment of tangible and intangible assets' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease component as a single arrangement. The LLP has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the LLP allocates the consideration to each component as defined in the lease contract.

Policies applicable prior to 1 May 2019

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits accruing to the LLP as incentives to enter into an operating lease are spread on a straight-line basis over the lease term.

Taxation

The taxation payable on the profits of a limited liability partnership is usually the personal liability of the members for the year. The basis of any tax retention in the underlying entities is determined by the members' agreement for Herbert Smith Freehills LLP. Amounts that have been retained are included within members' interests as "other amounts due to members".

In certain jurisdictions, where tax is payable by the LLP, this is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date in that jurisdiction.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. **Accounting Policies (continued)**

Members' capital and profit sharing

Members' capital is repayable upon retirement and, accordingly, is classified as a liability.

The amount of profit allocated to members from the total available for division among members is at the discretion of the LLP Council. Members have an entitlement to a share of the amount so divided based on predetermined profit points and such share is allocated after the year end.

Members usually draw a proportion of their expected profit share in monthly instalments, during the year in which the profit is made, with the balance of their profits, net of tax retentions, paid quarterly after the financial statements have been agreed. All payments are made subject to the cash requirements of the business.

The tax payable on a member's profit allocation is substantially the personal liability of the member. However, an amount equivalent to tax is retained which is then paid to the relevant tax authority on behalf of the members as and when the liability falls due.

Pension costs and other post-retirement benefits

For the defined benefit scheme, in accordance with IAS19 *Employee Benefits*, the administration costs, interest on liabilities and interest on assets are recognised in the Statement of Comprehensive Income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity through other comprehensive income in the period in which they arise.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the LLP in separate trustee administered funds. The excess of the present value of the defined benefit obligation at the end of the reporting period over the fair value of the plan assets would be recognised in the balance sheet. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of high-quality United Kingdom corporate bonds and have terms to maturity approximating to the terms of the related pension obligation.

For defined contribution schemes the amount charged to the Statement of Comprehensive Income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The LLP contributes to employee pension schemes as required under applicable laws. The funds are managed by independent fund managers and trustees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. Accounting Policies (continued)

Provisions

Provisions are recognised when the LLP has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle that obligation and the amount can be reliably estimated. Provisions are measured at management's 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 for dilapidations to restore right-of-use assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at the LLP's best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

In common with comparable professional service firms, the LLP is involved in a number of disputes in the ordinary course of business which may give rise to claims by clients or investigations commenced by regulatory bodies which may lead to regulatory proceedings. The LLP defends such claims where appropriate and where costs are likely to be incurred in defending and concluding such matters and can be measured reliably they are provided for in the financial statements. Amounts provided for are based on management's assessment of the specific circumstances in each case and after offsetting any insurance cover, where deemed recoverable. The LLP carries professional indemnity insurance and no separate disclosure is made of the detail of such claims or proceedings, or the costs covered by insurance, as to do so could seriously prejudice the position of the LLP.

Financial instruments

Financial assets and liabilities are recognised in the Statement of Financial Position when the LLP becomes a party to the contractual provisions of the instrument.

The LLP's financial assets are classified as subsequently measured at amortised cost (under IAS 39 as loans and receivables measured at amortised cost). Management determines the classification of its financial assets at initial recognition. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The LLP's financial assets comprise billed client receivables, contract assets, amounts due from members, other receivables and cash and cash equivalents.

The LLP recognises lifetime expected credit losses for client receivables and contract assets. The expected credit losses on these assets are estimated based on the LLP's historical loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast directions of recoverability at the reporting date.

Other receivables and amounts due from members are considered to have low credit risk and the loss allowance is therefore limited to 12 month expected losses. The measurement of the expected credit loss is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

A provision for impairment is recognised when there is objective evidence that the LLP will not be able to collect the amounts due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

1. **Accounting Policies (continued)**

Financial instruments (continued)

The LLP writes off a financial asset when there is information indicating that there is no realistic prospect of recovery. Financial assets thus written off may still be subject to enforcement activities under the LLP's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs, and are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Arrangement fees in relation to long term banking facilities are amortised to the Statement of Comprehensive Income over the life of the facilities.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Comprehensive Income as other income or finance costs.

Borrowings are classified as current liabilities unless the LLP has an unconditional right to roll-over or defer settlement of the liability for at least twelve months after the reporting period.

Cash and cash equivalents include cash in hand and demand deposits, net of any bank overdrafts that are part of short term cash requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

2. Critical accounting estimates and judgements

The preparation of the financial statements under FRS 101 requires management to use certain critical accounting estimates and make assumptions that affect the reported amounts of revenue, expenses, assets and liabilities. The estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and constitute management's best judgement at the date of the financial statements. Management will continue to review the assumptions used against actual experience and market data and adjustments will be made in future periods where appropriate.

The areas where significant judgements and estimates have been made in preparing the financial statements relate to the following:

Contract assets

The value of contract assets at the reporting date is based on an assessment of the state of delivery of performance obligations to clients and an estimate of the fair value thereof at the year end. The valuation also takes into account expected losses. A change in the valuation of contract assets of 3% would result in a change in operating profit of the LLP of £2.6m.

Billed client receivables

Billed client receivables are initially recognised at fair value and held at cost less an allowance for expected credit losses. Expected credit losses are determined based on the ageing of the debt and assessment of recoverability. A change in the valuation of billed client receivables by 3% would result in a change in operating profit of the LLP of £3.5m.

Defined benefit pension scheme

Management have taken a decision not to recognise the pension scheme valuation surplus as in the LLP's view, it does not have an unrestricted right over the amount.

3. Revenue

The LLP recognises revenue from contracts with clients for the supply of legal services. Internal disbursements recharged to clients are recognised as part of revenues under other fee income. A disaggregation of fee income by region is as follows:

	2020	2019
	£m	£m
United Kingdom / United States of America	372.7	379.1
Continental Europe, Middle East and Africa	22.4	13.8
Asia	62.0	54.1
Fee income	457.1	447.0
	2020	2019
	£m	£m
Recharges for internal disbursements	3.5	6.0
Other fee income	3.5	6.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

4. Other operating income

	2020	2019
	£m	£m
Recharges of premises costs to group undertaking	19.0	-
Sundry income	1.6	1.2
Other operating income	<u>20.6</u>	<u>1.2</u>

5. Employee information

	2020	2019
	£m	£m
Salaries*	43.9	42.4
Social security costs	1.0	0.8
Pension costs -defined contribution plans	1.2	1.0
	<u>46.1</u>	<u>44.2</u>

	No.	No.
Average number of persons employed:		
Fee-earning staff	231	316
Other staff	220	196
	<u>451</u>	<u>512</u>

*Salaries include amounts paid to member equivalents.

6. Operating profit

	2020	2019
	£m	£m
The operating profit for the year is stated after charging:		
Depreciation of property, plant & equipment	3.5	2.8
Depreciation of right-of-use assets	19.7	-
Net foreign exchange losses	1.2	0.7
Operating lease charges – leasehold properties	-	5.2
Net impairment losses on financial and contract assets	10.4	5.2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

6. Operating profit (continued)

	2020	2019
	£m	£m
The analysis of auditors' remuneration is as follows:		
Fees payable to the LLP's auditors for the audit of the LLP's annual financial statements	0.2	0.2
Fees payable to the LLP's auditors and its associates for other services:		
- The audit of the LLP's subsidiaries and associated undertakings pursuant to legislation	0.3	0.2
Total audit fees	0.5	0.4
- Other services pursuant to legislation	0.1	-
- Taxation compliance services	-	0.1
- Taxation advisory services	0.1	-
Total non-audit fees	0.2	0.1

7. Finance income and costs

	2020	2019
	£m	£m
Finance income		
Bank interest receivable	0.8	0.4
Interest on pension scheme assets	1.5	1.5
	2.3	1.9
Finance costs		
Bank loan interest	(4.7)	(4.2)
Interest expense on lease liabilities	(4.8)	-
Interest on pension scheme liabilities	(1.2)	(1.2)
	(10.7)	(5.4)
Net finance costs	(8.4)	(3.5)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

8. Taxation

	2020	2019
	£m	£m
Current tax on profits for the year	<u>2.2</u>	1.8
Total current taxation on profit on ordinary activities	<u>2.2</u>	<u>1.8</u>

In most locations, including the United Kingdom, income tax payable on the profits of the LLP is the personal liability of the members and hence is not shown in these financial statements. In certain other jurisdictions, tax is payable by the LLP or by its subsidiary undertakings.

The proportion of tax payable that is a personal liability is not shown in these financial statements whereas the proportion that is a liability of the LLP is shown.

	2020	2019
	£m	£m
Profit on ordinary activities before taxation	111.2	135.2
Less: Amounts subject to personal tax	<u>(106.4)</u>	<u>(131.8)</u>
	<u>4.8</u>	<u>3.4</u>
Tax at corporate rates	0.9	1.2
Tax effects of:		
Different tax rates and bases in other jurisdictions	0.9	-
Unrelieved losses	0.4	0.6
Total charge	<u>2.2</u>	<u>1.8</u>

The effective applicable rate for profits of Herbert Smith Freehills LLP subject to tax represents the combined rate in jurisdictions where Herbert Smith Freehills LLP and the subsidiary undertakings of the Herbert Smith Freehills LLP, as entities, have a liability for tax.

The effective applicable tax rate for profits of Herbert Smith Freehills LLP subject to tax of 45.8% (2019: 52.9%) is higher than the statutory rate of corporation tax in the United Kingdom for 2019 of 19.0% (2019: 19.0%). The total tax charge above reflects a combination of higher overseas tax rates and the existence of losses for which there exists insufficient evidence of future recoverability.

An unrecognised deferred tax asset of £0.6m (2019: £1.9m) exists in respect of losses carried forward. The asset would be recovered in the event of sufficient future taxable profits.

Changes to the United Kingdom corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These included reductions to the main rate of Corporation Tax to 19.0% from 1 April 2017 and 18.0% from 1 April 2020. In March 2020, the tax rate was substantively enacted to 19% as from 1 April 2020. Deferred taxes at the year end have been measured using these expected tax rates and reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

9. Members' share of profits

The profit for the financial year after charging all expenses is divided amongst the members after the issuance of these audited financial statements. The member receiving the highest remuneration inclusive of other benefits and payments received £1.6m (2019: £2.0m).

	2020	2019
	No.	No.
Average number of members	<u>182</u>	<u>174</u>

10. Property, plant and equipment

	Leasehold improvements, furniture, fixtures and fittings £m	Office equipment and computers £m	Total £m
Cost			
At 1 May 2018	95.5	3.8	99.3
Additions	4.7	0.3	5.0
Disposals	(0.8)	(0.2)	(1.0)
Exchange differences	0.4	0.1	0.5
At 30 April 2019	<u>99.8</u>	<u>4.0</u>	<u>103.8</u>
Additions	2.3	0.4	2.7
Disposals	-	(0.1)	(0.1)
Reclassification	(3.9)	(0.2)	(4.1)
Exchange differences	(0.7)	(1.5)	(2.2)
At 30 April 2020	<u>97.5</u>	<u>2.6</u>	<u>100.1</u>
Accumulated depreciation			
At 1 May 2018	83.2	3.0	86.2
Charge for the year	2.4	0.4	2.8
Disposals	(0.8)	(0.2)	(1.0)
Exchange differences	(1.4)	0.4	(1.0)
At 30 April 2019	<u>83.4</u>	<u>3.6</u>	<u>87.0</u>
Charge for the year	3.0	0.5	3.5
Disposals	-	(0.1)	(0.1)
Reclassification	(0.6)	(0.4)	(1.0)
Exchange differences	(0.7)	(1.5)	(2.2)
At 30 April 2020	<u>85.1</u>	<u>2.1</u>	<u>87.2</u>
Carrying amount			
At 30 April 2020	<u>12.4</u>	<u>0.5</u>	<u>12.9</u>
At 30 April 2019	<u>16.4</u>	<u>0.4</u>	<u>16.8</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

11. Right-of-use assets

	Buildings	Office equipment and motor vehicles	Total
	£m	£m	£m
Cost			
At 1 May 2019	-	-	-
Initial recognition under IFRS 16	170.7	1.9	172.6
Additions	11.2	0.1	11.3
Remeasurement	(11.0)	-	(11.0)
Exchange differences	0.1	-	0.1
At 30 April 2020	171.0	2.0	173.0
Accumulated depreciation			
At 1 May 2019	-	-	-
Charge for the year	19.1	0.6	19.7
Remeasurement	(0.1)	-	(0.1)
At 30 April 2020	19.0	0.6	19.6
Carrying amount			
At 30 April 2020	152.0	1.4	153.4
At 30 April 2019	-	-	-

The LLP leases several assets across its international network including office and residential premises, and office equipment. The average lease term is 10 years for the LLP. Approximately 5% of the LLP's leases for office premises and office equipment expired in the current financial year. The expired contracts were replaced by new leases for identical underlying assets.

Amounts recognised in the Statement of Comprehensive Income in respect of the right-of-use assets is as follows:

	2020
	£m
Depreciation expense on right-of-use assets	19.7
Interest expense on lease liabilities	4.8
	24.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

12. Investments

	2020 £m	2019 £m
Cost		
As at 1 May	0.5	0.5
Investment during the year	0.5	-
As at 30 April	1.0	0.5

During the current year, the LLP invested additional amounts in the entity in Thailand. The LLP's subsidiary undertakings and their principal activities are set out below:

Name	Country of incorporation/ registration	Principal activity	Proportion of ordinary shares or ownership
Herbert Smith Freehills Moscow Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills CIS LLP (1)	England and Wales	Legal services	100%
Herbert Smith Tokyo Management Services Limited (2)	Hong Kong	Service company	100%
Herbert Smith Management Services KK (3)	Japan	Service company	100%
Peregrine Services Limited (2)	Hong Kong	Service company	100%
Herbert Smith Freehills (Thailand) Limited* (4)	Thailand	Legal services	49%
Exchange House Services Limited (1)	England and Wales	Service company	100%
EHS Business Services Asia Limited (1)#	England and Wales	Service company	100%
Herbert Smith Limited (1)	England and Wales	Service company	100%
Herbert Smith Freehills Spain LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills One Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Two Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Paris LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Middle East LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Three Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills New York LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Four Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Germany LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Six Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Seven Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Five Pty Limited (5)	Australia	Investment company	100%
Herbert Smith Freehills South Africa LLP (1)	England and Wales	Legal Services	100%
Office Organization & Services Limited (1)#	England and Wales	Special purpose vehicle	100%
Peregrine Secretarial Services Limited (1)#	England and Wales	Special purpose vehicle	100%
Peregrine Nominees Limited (1)#	England and Wales	Special purpose vehicle	100%
Precis Nominees Limited (1)#	England and Wales	Special purpose vehicle	100%
Precis Company Services Limited (1)#	England and Wales	Special purpose vehicle	100%

*Consolidated by the LLP on the basis that it has substantial management control over the business.

These entities are exempt from a statutory audit by virtue of S479 or S394 of the Companies Act.

- Address is Exchange House, Primrose Street, London EC2A 2EG.
- Address is 23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong.
- Address is 41st Floor, Midtown Tower, 9-7-1, Akasaka, Minato-Ku, Tokyo 107-6241.
- Address is Abdulrahim Place, 14th Floor, Room No 1403, 990 Rama IV Road, Silom Sub-District, Bangrak District, Bangkok 10500.
- Address is Level 43, 101 Collins Street, Melbourne VIC 3000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

12. Investments (continued)

The LLP has 100% control over the following undertakings, but does not have direct ownership:

Name	Country of incorporation / registration	Principal activity
Herbert Smith Freehills Hong Kong Partnership (A)	Hong Kong	Legal services
Herbert Smith Freehills Studio Legale (C)	Italy	Legal services
Peregrine Trustee Company (D)	England and Wales	Service company
Herbert Smith Freehills South Africa Attorneys Inc. (B)	South Africa	Legal services

A. Address is 23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong

B. Address is 2 Sandton Drive, Sandton, Johannesburg 2196

C. Address is Via Santa Maria Valle 3, 20123 Milano, Italy

D. Address is Exchange House, Primrose Street, London EC2A 2EG

On 31 December 2019, Herbert Smith Freehills Germany LLP transferred its business, assets and liabilities to Herbert Smith Freehills LLP. The fair value of assets and liabilities transferred equated book value.

13. Client receivables

	2020	2019
	£m	£m
Billed client receivables	100.4	104.8
Billed client receivables due within one year		
	2020	2019
	£m	£m
Amount receivable for the supply of services	117.2	114.8
Loss allowance	(16.8)	(10.0)
Billed client receivables	100.4	104.8

Billed client receivables include amounts which are past due at the reporting date. The average age of these receivables balances is 69 days (2019: 66 days).

The LLP measures the loss allowance for doubtful receivables at an amount equal to lifetime expected credit losses. The expected credit losses are estimated based on the LLP's historical loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast directions of recoverability at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

13. Client receivables (continued)

The following table sets out the expected credit loss rate percentages for billed client receivables based on the LLP's provision matrix. As the LLP's historical credit loss experience does not show significantly different loss patterns for different client segments, the provision for loss allowance is not further distinguished between the LLP's different client bases.

	2020	2019
	%	%
0 – 30 days	3.1%	1.0%
31 - 60 days	15.3%	0.5%
61 - 90 days	8.8%	2.9%
91 - 120 days	28.5%	5.7%
121 + days	<u>55.4%</u>	<u>52.8%</u>

The ageing of billed client receivables before deducting the loss allowance for doubtful receivables is as follows:

	2020	2019
	£m	£m
0 – 30 days	68.3	59.1
31 - 60 days	18.3	20.2
61 - 90 days	6.8	13.9
91 - 120 days	7.0	5.3
121 + days	16.8	16.3
	<u>117.2</u>	<u>114.8</u>

Movement in the loss allowance for client receivables

	2020	2019
	£m	£m
At start of the year	10.0	11.0
Increase in loss allowance	8.0	2.7
Amounts written off during the year	(0.2)	(0.3)
Amounts recovered during the year	(1.0)	(3.6)
Foreign exchange translation movement	-	0.2
At end of the year	<u>16.8</u>	<u>10.0</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

13. Client receivables (continued)

Ageing of the loss allowance for doubtful receivables

	2020 £m	2019 £m
0 - 30 days	2.1	0.6
31 - 60 days	2.8	0.1
61 - 90 days	0.6	0.4
91 - 120 days	2.0	0.3
121 + days	9.3	8.6
	<u>16.8</u>	<u>10.0</u>

The LLP considers that the carrying amount of client receivables approximates fair value.

14. Contract assets

	2020 £m	2019 £m
Unbilled client receivables - current	<u>85.7</u>	<u>80.5</u>

Contract assets represent the estimated value of performance obligations delivered up to the balance sheet date that have yet to be billed to clients. The valuation of contract assets also takes into account any expected credit losses. Amounts recognised as contract assets will be reclassified to client receivables at the point at which they are invoiced to clients.

15. Other receivables

Due within one year:

	2020 £m	2019 £m
Prepayments	5.1	5.4
Amounts due from group undertakings	184.2	173.4
Other receivables	21.9	16.3
	<u>211.2</u>	<u>195.1</u>

Amounts due from group undertakings are unsecured, interest free and repayable on demand. Amounts due from group undertakings and other receivables are considered to have low credit risk and the loss allowance is therefore limited to 12 months expected credit losses. The LLP determined that the expected credit loss on amounts due from group undertakings and other receivables is not material to the financial statements and so no loss allowance for expected credit losses has been recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

16. Borrowings

	2020	2019
	£m	£m
Bank loans due between two and five years	<u>228.8</u>	<u>110.5</u>

The members have subordinated their interests in respect of certain outstanding bank facilities. Borrowings represent a revolving credit facility with a consortium of eight participating banks. The facility is unsecured and bears interest at 1.2% above LIBOR or equivalent plus a commitment fee of 0.5% on any undrawn facilities. The fair value of borrowings at the balance sheet date is equivalent to their carrying value. The LLP has complied with the financial covenants of its borrowing facilities during the year.

17. Lease liabilities

	2020
	£m
Analysed as:	
Current	18.5
Non-current	146.2
	<u>164.7</u>

	2020
	£m
Maturity analysis:	
Due within one year	18.5
Due between one and two years	19.8
Due between two and three years	15.4
Due between three and four years	14.7
Due between four and five years	14.9
Due after five years	81.4
	<u>164.7</u>

The LLP does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's Finance function.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

18. Trade and other payables

	2020	2019
	£m	£m
Trade payables	18.4	16.3
Amounts due to group undertakings	133.8	119.6
Other taxes and social security	9.4	1.5
Other payables	28.3	25.0
Accruals	24.2	22.4
	<u>214.1</u>	<u>184.8</u>

Other payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The members consider that the carrying value of other payables and accruals approximates to their fair value.

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

19. Other payables

	2020	2019
	£m	£m
Lease incentives- deferred	<u>-</u>	<u>13.6</u>

Lease incentives recognised in previous years with respect to operating leases have been derecognised on 1 May 2019 following the initial application of IFRS 16 *Leases* and the amounts factored into the measurement of the right-of-use assets and lease liabilities.

20. Provisions

	Dilapidations	Employee	Other	Total provisions
	£m	benefits	£m	2019
		£m		£m
At 1 May 2018	7.5	0.4	0.5	8.4
Utilisation	(0.9)	(0.4)	-	(1.3)
Additional provision made in the year	0.8	0.4	-	1.2
Exchange differences	(0.1)	-	-	(0.1)
At 30 April 2019	<u>7.3</u>	<u>0.4</u>	<u>0.5</u>	<u>8.2</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

20. Provisions (continued)

	Dilapidations £m	Employee benefits £m	Other £m	Total provisions 2020 £m
At 1 May 2019	7.3	0.4	0.5	8.2
Utilisation	-	(0.4)	-	(0.4)
Additional provision made in the year	0.3	0.7	-	1.0
Reversal to the income statement	(1.6)	-	-	(1.6)
Reclassification	0.2	-	(0.2)	-
At 30 April 2020	6.2	0.7	0.3	7.2

	2020 £m	2019 £m
Current provisions	0.7	0.4
Non-current provisions	6.5	7.8
	7.2	8.2

Dilapidations

The provision for dilapidations is in respect of property leases which contain a requirement for the premises to be returned to its original state prior to the conclusion of the lease term. The present value of future obligations is recognised with a corresponding adjustment to Tangible Fixed Assets. The asset thus recognised is being depreciated over the lease term.

Employee benefits

The provision for employee benefits represents the liability for annual leave. Amounts falling due after one year are those which are not expected to be settled within 12 months after the reporting date and where the LLP has the legal right to defer settlement.

Other

Amounts represent provisions against known professional indemnity obligations. The amount provided represents the net obligations of the LLP towards the cost of defending and concluding claims where costs are likely to be incurred and can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

21. Members' interests

	Other reserves £m	Translation reserve £m	Members' capital £m	Other amounts due to members £m	Amounts due from members £m	Total £m
At 1 May 2018	110.3	(1.2)	18.0	36.6	(102.2)	61.5
Profit for the financial year before members' profit shares	133.4	-	-	-	-	133.4
Allocated profits net of members' tax	(60.7)	-	-	-	60.7	-
Amounts retained in respect of members' taxation	(49.6)	-	-	49.6	-	-
Amounts paid to or on behalf of members	-	-	-	(59.6)	(41.0)	(100.6)
Actuarial loss relating to pension scheme	(0.1)	-	-	-	-	(0.1)
Capital introduced	-	-	13.4	-	-	13.4
Capital repaid	-	-	(2.1)	-	-	(2.1)
Exchange difference on translation of foreign operations	-	(0.1)	-	-	-	(0.1)
At 1 May 2019	133.3	(1.3)	29.3	26.6	(82.5)	105.4
Profit for the financial year before members' profit shares	109.0	-	-	-	-	109.0
Allocated profits net of members' tax	(73.3)	-	-	-	73.3	-
Amounts retained in respect of members' taxation	(60.0)	-	-	60.0	-	-
Amounts paid to or on behalf of members	-	-	-	(81.4)	(40.8)	(122.2)
Actuarial loss relating to pension scheme	(0.3)	-	-	-	-	(0.3)
Capital introduced	-	-	4.1	-	-	4.1
Capital transferred from subsidiary	-	-	2.3	-	-	2.3
Capital repaid	-	-	(2.7)	-	-	(2.7)
Exchange difference on translation of foreign operations	-	0.2	-	-	-	0.2
At 30 April 2020	108.7	(1.1)	33.0	5.2	(50.0)	95.8

Amounts due from members are considered to have a low credit risk and the loss allowance, which is limited to 12 months expected credit losses, is not material. Accordingly, no loss allowance has been recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

22. Retirement benefit obligations

Defined contribution schemes

The LLP operates defined contribution pension schemes across the various jurisdictions in which it operates. The pension cost charge for the year in relation to the defined contribution schemes amounted to £1.2m (2019: £1.0m).

Defined benefit scheme

Herbert Smith Freehills LLP operates a defined benefit pension arrangement called the Herbert Smith Staff Pension Scheme ("Scheme"). The Scheme provides benefits based on salary and length of service on retirement, leaving service or death. The Scheme is now closed to new members and future accrual. The assets of the Scheme are held separately from those of Herbert Smith Freehills LLP in a separate trustee administered fund.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, Herbert Smith Freehills LLP must agree with the Trustee of the Scheme the contributions to be paid to meet the Statutory Funding Objective. The future contributions required to meet the statutory funding objective do not currently affect the balance sheet of the Scheme in these accounts.

The Scheme is managed by Cheviot Trustee Limited (the Trustee). The Trustee has responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to their professional advisers where appropriate.

The Scheme exposes the LLP to a number of risks:

- Investment risk: The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk: The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities, the value of the assets and liabilities may not move in the same way. However, the Scheme holds some investment in pooled Liability-Driven Investment (LDI) funds which seek to hedge some of the interest rate risk.
- Inflation risk: A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging. However, the Scheme holds investments in pooled LDI funds which seek to hedge some of the inflation risk.
- Mortality risk: In the event that members live longer than assumed a deficit will emerge in the Scheme.

There were no Scheme amendments, curtailments or settlements during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

22. Retirement benefit obligations (continued)

Actuarial assumptions

The principal assumptions used to calculate the Scheme's liabilities as part of the updated valuation are as follows:

	2020	2019
Discount rate	1.60% pa	2.40% pa
Retail Prices Index (RPI) inflation	2.75% pa	3.50% pa
Consumer Prices Index (CPI) Inflation	1.95% pa	2.60% pa
LPI 5% pension increases	2.70% pa	3.30% pa
LPI 2.5% pension increases	1.80% pa	2.20% pa
Salary increases	4.25% pa	5.00% pa
Post retirement mortality	90%/100% (M/F) S2PA tables with CMI 2016 projections (with smoothing parameter of 7.5) using a long-term improvement rate of 1.0% pa.	
Retirement	Full allowance for benefits to be taken at earliest age from which they can be drawn without reduction and without consent.	
Commutation	80% of members are assumed to take the maximum tax free cash possible available at retirement using current commutation factors in force at the date of the most recent actuarial valuation.	
Life expectancy at age 65 of male aged 45	24.0 years	23.9 years
Life expectancy at age 65 of male aged 65	22.9 years	22.8 years
Life expectancy at age 65 of female aged 45	25.2 years	25.1 years
Life expectancy at age 65 of female aged 65	23.9 years	23.9 years

Assets

The major categories of Scheme assets are as follows:

	2020	2019
	£m	£m
Equities and other growth assets	25.3	27.4
Corporate bonds	15.8	17.5
LDI and cash	23.7	20.1
Total	64.8	65.0

The assets do not include any investment in the LLP.

Amounts recognised within the balance sheet are as follows:

	2020	2019
	£m	£m
Fair value of assets	64.8	65.0
Present value of funded obligations	(53.0)	(53.0)
Surplus	11.8	12.0
Impact of asset ceiling	(11.8)	(12.0)
Net defined benefit asset/(liability)	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

22. Retirement benefit obligations (continued)

The LLP has not recognised the surplus as it does not have an unrestricted right over the amount.

Reconciliation of net defined benefit liability

	2020	2019
	£m	£m
Net defined benefit liability at 1 May	-	-
Net interest income	(0.3)	(0.3)
Remeasurements	0.3	0.1
Administration costs	0.3	0.3
Employer contributions	(0.3)	(0.1)
Net defined benefit liability/(asset) at 30 April	<u>-</u>	<u>-</u>

Amounts recognised in the statement of comprehensive income in the year

	2020	2019
	£m	£m
Administration costs	0.3	0.3
Interest on liabilities	1.2	1.2
Interest on assets	(1.5)	(1.5)
Total amount recognised	<u>-</u>	<u>-</u>

Amounts recognised in the Statement of Comprehensive Income

	2020	2019
	£m	£m
Gain on assets in excess of interest	(0.5)	(1.1)
Loss from changes to financial assumptions	1.0	0.8
(Gain)/loss from change in effect of asset ceiling	(0.2)	0.4
Total remeasurements	<u>0.3</u>	<u>0.1</u>

Reconciliation of assets and defined benefit obligation

The change in the value of assets over the year was as follows:

	2020	2019
	£m	£m
Fair value of assets at start of the year	65.0	64.5
Interest on assets	1.5	1.5
Group contributions	0.3	0.1
Benefits paid	(2.2)	(1.9)
Administration costs	(0.3)	(0.3)
Return on plan assets less interest*	0.5	1.1
Fair value of assets at end of the year	<u>64.8</u>	<u>65.0</u>

*Actual return on assets was £2.0m (2019: £2.6m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

22. Retirement benefit obligations (continued)

The change in the defined benefit obligation was as below

	2020 £m	2019 £m
Defined benefit obligation at start of the year	53.0	52.9
Interest on liabilities	1.2	1.2
Benefits paid	(2.2)	(1.9)
Loss from changes to financial assumptions	1.0	0.8
Defined benefit obligation at end of the year	<u>53.0</u>	<u>53.0</u>

Projected Statement of Comprehensive Income for next year

	Year to 30 April 2021 £m
Administrative costs	0.3
Interest on liabilities	0.8
Interest on assets	(1.1)
Total charge to Statement of Comprehensive Income	<u>-</u>

Sensitivity of the value placed on the liabilities

Adjustments to assumptions	2020 Approximate (decrease)/increase in liabilities ¹ £m	2019 Approximate (decrease)/increase in liabilities ¹ £m
<i>Discount rate</i>		
<i>Plus 0.50%</i>	(3.5)	(3.4)
<i>Minus 0.50%</i>	4.0	3.8
<i>Inflation²</i>		
<i>Plus 0.50%</i>	3.4	4.2
<i>Minus 0.50%</i>	(3.7)	(3.8)
<i>Life expectancy⁴</i>		
<i>Plus 1 year</i>	2.8	2.8
<i>Minus 1 year</i>	(2.7)	(2.6)
<i>Salary increases³</i>		
<i>Plus 0.50%</i>	0.3	0.3
<i>Minus 0.50%</i>	(0.3)	(0.3)

¹Before allowance for any restriction of surplus.

²Allows for the salary increase assumption and the pension increase assumptions to vary in line with the inflation assumption.

³The salary increase assumption is varied in isolation.

⁴Approximated by adjusting underlying mortality rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

22. Retirement benefit obligations (continued)

Effect of the Scheme on future cash flows

The LLP is required to agree a Schedule of Contributions with the Trustee of the Scheme following a valuation which must be carried out at least once every three years. The most recent comprehensive actuarial valuation of the Scheme is being carried out as at 31 December 2019 and the next valuation of the Scheme will be as at 31 December 2022. In the event that the valuation reveals a larger deficit than expected, the LLP may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected, it is possible contributions may be reduced.

The LLP expects to pay contributions of £0.1m in the year to 30 April 2021.

The weighted average duration of the defined benefit obligation is around 16 years.

23. Operating lease commitments

Following the transition to IFRS 16 *Leases* as set out in note 1, operating lease commitments have been accounted as right-of-use assets and lease liabilities. Disclosures of the future aggregate minimum commitments under non-cancellable operating leases below are therefore being made in respect of the prior year only.

	2019	
	Leasehold properties £m	Office equipment £m
Expiry Date:		
- Within one year	20.4	0.6
- Between two and five years	77.0	1.4
- Over five years	113.4	-
	210.8	2.0

24. Capital Commitments

The following amounts have been contracted but not provided for in the financial statements.

	2020	2019
	£m	£m
Property, plant & equipment	-	0.5

25. Financial Instruments

Capital structure and risk management

The LLP is financed with external borrowings, members' capital and members' other balances. The LLP's external financing arrangements comprise a multi-currency Revolving Credit Facility with a syndicate of eight banks. The facility includes covenants that need to be complied with which include among other things, an obligation to maintain a certain minimum level of tangible net worth (net assets excluding members' capital). The capital structure of the LLP is reviewed regularly to ensure that it remains relevant to the needs of the organisation. The LLP's objective when managing its treasury risks is to safeguard its ability to operate as a going concern and maintain sufficient liquidity to meet obligations as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

25. Financial Instruments (continued)

Financial assets and liabilities

The following table sets out the carrying value of the principal financial assets and liabilities of the LLP, at amortised cost, at the balance sheet date. In each case, the carrying value approximates to the fair value.

	2020	2019
	£m	£m
Financial assets		
Billed client receivables	100.4	104.8
Contract assets	85.7	80.5
Cash and bank balances	146.4	26.3
Amounts due from members	50.0	82.5
Other receivables	206.1	189.7
	<u>588.6</u>	<u>483.8</u>
Financial liabilities		
Borrowings	228.8	110.5
Lease liabilities	164.7	-
Trade and other payables	214.1	184.8
Other amounts due to members	5.2	26.6
Members' capital	33.0	29.3
	<u>645.8</u>	<u>351.2</u>

The principal risks associated with the LLP's financial assets and liabilities are foreign currency risk, interest rate risk, liquidity risk and credit risk.

Foreign currency risk

Foreign exchange risk arises from transactions in a currency that is not the entity's functional currency. This risk is monitored using sensitivity analysis and cash flow forecasting. The reporting currency for the LLP is Sterling, whereas it conducts operations globally in a number of different currencies. In addition, the offices of the LLP also invoice clients in currencies other than their functional currencies.

Within each of the LLP's foreign operations, revenues and costs are predominantly in the same currency which provides a certain level of natural hedging to foreign currency risk at the entity level.

At the LLP level, the net asset exposure to currencies other than Sterling is regularly monitored and such exposure may be partially hedged by means of additional drawdowns under the multi-currency facility.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

25. Financial Instruments (continued)

Currency profile of financial assets and liabilities:

	2020	2019
	£m	£m
Financial assets		
Sterling	336.2	276.0
Australian Dollars	0.2	0.2
Euros	27.3	16.9
US Dollars	98.5	80.6
Hong Kong Dollars	54.7	66.8
Japanese Yen	12.2	14.8
Other	59.5	28.5
	<u>588.6</u>	<u>483.8</u>
	2020	2019
	£m	£m
Financial liabilities		
Sterling	390.1	127.6
Australian Dollars	-	4.9
Euros	45.6	37.2
US Dollars	103.1	64.4
Hong Kong Dollars	36.9	68.6
Japanese Yen	32.9	27.7
Other	37.2	20.8
	<u>645.8</u>	<u>351.2</u>

Foreign currency sensitivity analysis

The following table details the LLP's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies. A positive number below indicates an increase in profit and equity where Sterling weakens 10% against the relevant currency. For a 10% strengthening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit and equity and the balances would be negative.

	(Loss) / gain	(Loss) / gain
	2020	2019
	£m	£m
Euro currency impact	(2.0)	(2.2)
US Dollar currency impact	(0.5)	1.8
Hong Kong Dollar currency impact	2.0	(0.2)
Japanese Yen currency impact	(2.3)	(1.4)

Additionally, there would be an increase in equity of £1.7m (2019: decrease of £0.2m) for the LLP where Sterling weakens by 10% arising from the translation of foreign entities. For a 10% strengthening of Sterling against the relevant currency, there would be an equal and opposite impact on equity.

Interest rate risk

The LLP is exposed to interest rate risk from borrowings at floating interest rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

25. Financial Instruments (continued)

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming similar levels of liabilities prevailed at respective dates during the year.

If interest rates had been 10% higher/lower and all other variables were held constant, the LLP's profit for the year to 30 April 2020 and equity would decrease/increase by £0.8m (2019: £0.3m).

Credit risk

Cash deposits with banks and financial institutions give rise to counterparty risk. The LLP manages this counterparty risk by reviewing the credit ratings regularly and limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating and market capitalisation. The minimum long-term credit rating of all banks and financial institutions who held the LLP's short-term deposits during the year was BB-.

The LLP measures the loss allowance for doubtful billed client receivables at an amount equal to lifetime expected credit losses. The expected credit losses are estimated based on the LLP's historical loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast directions of recoverability at the reporting date. Expected credit loss rate percentages for billed client receivables based on the LLP's provision matrix are shown in note 13.

Although the LLP has a policy of performing credit checks on all new clients, its main protection against a significant charge to its Statement of Comprehensive Income for non-recoverability of a client receivable is its wide client base. The LLP's large client base of reputable corporations and entities is both geographically diverse and spread across different industry sectors. This ensures that no one client accounts for a significant element of the combined client receivables and unbilled revenue balance. Management regularly reviews the concentration of specific clients to assess whether the level of credit risk is acceptable.

Expected credit losses in respect of contract assets have been taken into account in valuing the said assets.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with management, who have built a liquidity risk management framework to govern the LLP's funding and liquidity requirements. The LLP manages liquidity risk by continuously monitoring forecast and actual cash flow, and by matching the maturity profiles of financial assets and liabilities. The LLP also maintains a buffer in its borrowing facilities to cover unforeseen cash demands on the business. At the balance sheet date, undrawn borrowing facilities were £71.2m (2019: £189.5m). At the same date the cash and bank balances was £146.4m (2019: £26.3m)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2020

25. Financial Instruments (continued)

Liquidity and interest risk tables

The following table shows the remaining contractual maturity for the LLP's financial liabilities at the balance sheet date. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the LLP can be required to pay. The table includes both interest and principal cash flows.

'Other' in the following tables represents members' capital classified as a liability which is repayable within an agreed period upon retirement of members and the maturity of which is dependent upon the timing of retirement. The portion of members' capital in respect of members who have announced their intention to retire within the next 12 months is reflected as a current liability, with the balance being reflected as 'other'.

	Weighted average effective interest rate	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years	Other	Total
	%	£m	£m	£m	£m	£m	£m	£m
2019								
Non-interest bearing:								
Trade and other payables		184.8	-	-	-	-	-	184.8
Fixed and variable rates:								
Other amounts due to members	2.8%	26.6	-	-	-	-	-	26.6
Borrowings		-	-	-	110.5	-	-	110.5
Members' capital		-	-	-	-	-	29.3	29.3
		211.4	-	-	110.5	-	29.3	351.2
2020								
Non-interest bearing:								
Trade and other payables		214.1	-	-	-	-	-	214.1
Fixed and variable rates:								
Other amounts due to members	2.5%	5.2	-	-	-	-	-	5.2
Borrowings		-	-	-	228.8	-	-	228.8
Lease liabilities		-	18.5	19.8	45.0	81.4	-	164.7
Members' capital		-	0.5	-	-	-	32.5	33.0
		219.3	19.0	19.8	273.8	81.4	32.5	645.8

26. Events occurring after the balance sheet date

There have not been any other matters or circumstances that have occurred since the end of the financial year that have significantly affected or may significantly affect the operations of the LLP, the results of those operations or the financial position of the LLP.