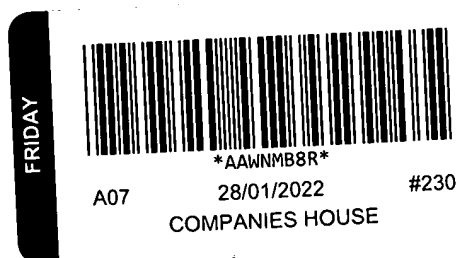


Herbert Smith Freehills LLP

Limited Liability Partnership Registration
No. OC310989

Herbert Smith Freehills LLP

ANNUAL REPORT AND FINANCIAL STATEMENTS
30 APRIL 2021



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Herbert Smith Freehills LLP

MEMBERS' REPORT
Year ended 30 April 2021

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 2021.

Principal activities

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 (collectively referred to as "Group").

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 (Term ended 30 April 2021)
- James Palmer (Term ended 30 April 2021)
- Donald Rowlands
- Alan Watts
- Susan Black
- Gavin Davies
- Hubert Segain (Appointed 1 May 2020)

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

Business review

Herbert Smith Freehills is a world-leading international law firm known for our insight and diverse perspectives. Our aim is to provide our clients with differentiated legal expertise, in order to help them succeed. We aim to achieve this through client focus, putting our clients' interests at the heart of our decision-making, and providing trusted advice with both global and local perspectives.

Our success is built through the recruitment and retention of exceptional people, which in turn requires us to provide positive experiences and fulfilling work to our people. This is achieved through our continuous endeavour to empower and engage with our people.

The outbreak of Covid-19 brought about significant challenges and disruption to the global economy. The human impact of the virus has been significant in terms of physical and mental health as well as broader wellbeing. In order to cope with these challenging circumstances, our response to Covid-19 has been broad, focussing on the safety and wellbeing of our people and our clients, including our financial resilience and longer term liquidity. Most of our people have been working remotely since March 2020. We are currently seeing a return to office-based working in a number of jurisdictions, albeit at varying paces, and longer term will be adopting flexible working arrangements to cater to our employees' needs. Our Agile60 programme, encompassing all our people, sets an expectation that most of our people will work in the office for 60% of their working time on average, with this being tailored to suit each individual, team and situation whilst keeping client service excellence at the forefront of everything we do.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Business review (continued)

The continuing impact of Covid-19 has meant that client expectations are evolving. However, over the last financial year the demand for legal services from our clients has been resilient. As a consequence we have benefited from resilient activity levels in most of the markets that we operate in. However, the longer-term impact on economic activity, trade and business remains unclear and it is to be expected that a global recovery will take more time.

Accelerated by Covid-19, technological change continues at a fast pace. Digital transformation continues to be a central facet of our strategy, supporting remote working for our employees, digital solutions for our clients and delivering efficiencies across our office network.

The global pandemic's impact across many sectors has been deep and structural. Our own profession, along with many others, has adapted to a completely different way of working. Our plan is to continue to adapt to the circumstances and to come through stronger than before in terms of how we serve our clients and how we engage with and motivate our people.

Strategy

In May 2020 with the appointment of Justin D'Agostino as Chief Executive Officer for Herbert Smith Freehills, we announced new strategic ambitions to our partners which 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 pillars:

1. **Clients & Markets:** transforming and strengthening our client base and our position in our major markets
2. **People & Culture:** establishing a firm-wide culture that increases our people's ambition and better aligns us across the business
3. **Productivity & Performance:** driving a step change in productivity and profitability
4. **Digital Transformation:** entrenching the digital transformation of our business and 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. 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.

Our aim is to be recognised in the markets we operate as one of the world's leading 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, launched in June 2020 and dedicated to develop and lead our People and Culture strategy. Members of the board are from across the global firm and give this area the dedicated focus it needs, advising the Executive and working with our people in the regions, practices and sectors to identify and drive change.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Business review (continued)

In November 2020 the People and Culture Advisory Board established regional people forums to contribute views to the regional executives on how best to implement global and regional priorities. In doing this, the groups will also help create the best experience for people across the global firm.

Herbert Smith Freehills global firm promoted 23 lawyers to the partnership, continuing to grow the business, this was in addition to seven lateral hire partners. The global firm continues to make progress towards reaching its aspirational target of women comprising 35% of partners by 2023. As of 1 May 2021, the global firm had 28% women partners and 25% partner leadership roles are held by women partners.

In September 2020 we launched 10 Actions for Change - a global set of commitments aimed at improving the representation, and experience, of Black, First Nations, Asian and minority ethnic colleagues throughout our global firm. Since then we have seen great work across the global firm's network in support of our commitments to improve ethnic diversity in our global firm. From listening sessions with colleagues to new initiatives with clients, the activities reflect the overwhelming enthusiasm that teams and individuals have shown for improving the representation, and experience, of Black, First Nations, Asian and minority ethnic colleagues in our organisation and beyond.

All the activities support our overall mission to become an organisation that builds a supportive, respectful environment where everyone can thrive. The global firm's key leadership bodies, including the Global Executive, the Global Council, the Global Operations Committee and all regional executives consider our aims and objectives in this area and progress being made to achieve these.

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. Creating 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 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 and the future of agile working.

Digital Transformation

We continue to see the value in a culture of innovation, including through smarter use of technology, enabling us to offer clients creative solutions that add value to their businesses. The appetite for technological change is relentless, and with that in mind we are working through our digital transformation strategy and developing new tools to support service delivery. As part of our strategy and to deliver on our aspirations, we have created a new Digital Transformation Advisory Board.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Business review (continued)

Regional and practice group performance

Whilst Covid-19 has disrupted all aspects of the global economy, demand for legal services has been robust in the majority of our jurisdictions and practice areas.

Regional performance

We report our business performance across our three regions; Asia; Continental Europe, Middle East and Africa; and the United Kingdom / United States.

We have seen growth in a number of our offices in Asia with double digit revenue rises for the second year running, notably in our offices in Malaysia, South Korea and Thailand. Our offices in China, Hong Kong and Singapore continue to work on significant mandates.

The continental Europe, Middle East and Africa region experienced a deeper initial impact and slower recovery from Covid-19. Revenue growth has exceeded expectations for our newer offices in Italy and South Africa, while other offices experienced more challenging conditions earlier in the year.

Within the United Kingdom our London office has performed well, with the United States experiencing a slower recovery. We continue to maintain our share of the legal market in the United Kingdom, working on some of the most high profile cases across all practice areas.

Practice Group performance

The global firm is organised by global practice group, delivering services to clients via cross practice sector teams and dedicated client focussed teams.

Our global Disputes Resolution practice achieved revenues ahead of last year, with productivity improving across almost all locations as we continued to handle some of the most significant cases in the markets we operate in.

Tougher market conditions impacted Corporate transactional work during the early part of the financial year but activity levels and demand improved as the year progressed, with particularly good performances from our China and United Kingdom offices.

The Finance and Projects practices achieved strong results despite challenging conditions. Finance performed well in Singapore and United Kingdom, offsetting challenges in some Asia, Continental Europe and Middle East markets.

Revenues in the Real Estate practice were impacted by Covid-19 although activity levels were positive in the United Kingdom and Continental Europe, Middle East and Africa.

Our Competition, Regulation and Trade practice continues to work on significant mandates generating good revenue growth.

The Employment, Pensions & Incentives practice experienced good demand growth across most jurisdictions globally.

The continued use of our Alternative Legal Services offerings in many of our client engagements across all practice groups is generating good levels of revenue growth. Digital transformation and innovation continue to be key in sustaining the growth momentum in this space.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Business review (continued)

The most notable mandates for the Group included:

- The UK Financial Conduct Authority regarding its test case involving nine insurers which reviewed how they should respond to businesses affected by the Covid-19 pandemic
- National Grid plc on its acquisition of Western Power Distribution (WPD), the UK's largest electricity distribution business, from PPL Corporation for an equity value of £7.8bn
- Canada Pension Plan Investment Board on its restructuring and part-disposal of The Nova Estate in London in a 50:50 joint venture with Land Securities. The Project is one of the largest redevelopments in London and has a gross development value in excess of £900m
- Advising High Speed Two (HS2) on the UK's new north-south high speed railway project. This included working with HS2 to adapt and finalise the main works contracts with the joint venture consortia to enable notices to proceed to be issued under the four main civils contracts for Phase 1 at a total contract value of approximately £12bn
- The English Football League Limited on a £117m secured facility agreement with MetLife Investment Management to support football clubs in meeting PAYE liabilities during the pandemic
- China National Oil and Gas Exploration and Development Co Limited and China National Offshore Oil Corporation on a €3.11bn loan agreement between the Arctic LNG2 project and international banks
- Willis Towers Watson in connection with the \$30bn merger between Willis Towers Watson and Aon
- Pension Insurance Corporation on six transactions worth just under £4bn in the past 12 months including the innovative £2bn buy-out of the Old British Steel Pension Scheme which covered the pensions of over 30,000 members
- Alternative Legal Services Johannesburg team conducted a review of 650,000 documents as part of a request for information from a South African Commission of Inquiry relating to tax administration and governance within 4 day turnaround

Market recognition and awards

Our brand remains strong internationally, reflecting our strong culture of commitment to clients.

Notable recognition and awards for the Firm and Group include:

- European Legal Adviser of the Year 2021 by IJGlobal Awards
- Top ranked corporate legal adviser to FTSE-listed companies by Adviser Rankings Limited, May 2021
- Recognised in The Times annual Best Law Firms 2021 list
- Best LGBT+ Initiative by Legal Island NI Equality and Diversity Awards 2020
- M&A Deal of the Year by IFLR 1000 Middle East Awards 2020
- Power Deal of the Year by PFI Awards 2020 (Middle East and Africa)
- Asia-Pacific Law Firm of the Year by Chambers Asia-Pacific Awards 2021
- China (International Firms) Dispute Resolution Law Firm of the Year by Chambers Asia-Pacific Awards 2021
- Singapore Arbitration Law Firm of the Year by Chambers Asia-Pacific Awards 2021
- Most Innovative Law Firm by FT Innovative Lawyers Asia Pacific Awards 2020
- White-Collar Crime Firm of the Year by Benchmark Litigation Asia-Pacific Awards 2020
- International Firm of the Year by Benchmark Litigation Asia-Pacific Awards 2020

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021

Business review (continued)

Financial performance

The global pandemic has brought about significant challenges and disruption for people and organisations worldwide. Throughout this period we have maintained focus on the well-being of our employees and needs of our clients. As already mentioned, the demand for legal services from our clients has been robust, helping the Group and Firm achieve an overall revenue growth of 2% and 11% respectively over the last financial year. This has exceeded expectations, with all regions and practice areas contributing to this revenue growth. The strength and depth of our international footprint has been instrumental in delivering this growth.

There were considerable uncertainties in the global markets in the first quarter of 2020 and as a consequence our financial disciplines had to be strengthened. Tighter controls over recruitment and discretionary expenditure were implemented, along with deferrals of the profit distributions to partners. Whilst our pipeline of client activity remained robust, heightened levels of market uncertainty supported a prudent approach to managing costs and liquidity.

As with many of our peers, a decision was made to freeze salary levels in April 2020 and staff were furloughed in United Kingdom in order to manage activity levels in line with market sentiment. However, client demand remained robust for most offices during the last financial year which led to the Firm returning the furlough funds to the United Kingdom government in Summer 2020.

The global Firm's underlying cost base also decreased with the lockdown, with most offices being completely closed for a period of time, in addition to reduced expenditure on business development, meetings and events, travel and facilities management. As the consequence of the spike in demand contributing to increase in revenues against a reduced cost base, profitability exceeded revenue growth.

Given the growth, no funding was sought under any of the liquidity schemes offered in the United Kingdom. The internal measures of slowing down partner distributions and drawing down an additional £75.0m from our Revolving Credit Facility provided sufficiently liquidity to manage the business. The additional £75.0m drawdown was repaid in September 2020 and profit distributions to partners caught up in May 2021.

In January 2021, salary levels were reviewed and annual increases implemented in line with wider practices in our markets. In March 2021, a one-off bonus of 5% of salary was paid to all employees.

With the international nature of our business, a significant amount of revenues are generated in currencies other than Sterling. Exchange rates movements are to be expected and despite measures taken by the Firm to manage fluctuating exchange rate effects, a transactional loss of £3.8m was reported through the Statement of Comprehensive Income. 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.

Cash inflows from operating activities were considerably higher than the prior year due to enhanced financial disciplines across both client receivables management and cost containment. This has had a positive impact on the overall working capital requirements. Our continued strengthening of cash and debt management has put the Firm in a robust financial position with an improvement of £62.5m in net cash thereby helping us close the financial year with net debt of £19.9m against £82.4m for the previous financial year.

The global firm has a multi-year Revolving Credit Facility that provides us with a £300.0m working capital facility with a syndicate of eight banks, providing the Firm with sufficient liquidity to manage the business. This, combined with a robust pipeline of activity positions the Firm well to deliver on its aspirations in the year ahead.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021

Business review (continued)

Covid-19

Our global response to Covid-19 was informed by 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.

We have been able to sustain an uninterrupted service throughout the pandemic due to our robust business continuity and crisis management systems as well as our investment in technology. As restrictions relax across our office locations, we are taking a phased approach to the reopening of our offices, in step with government policies, advice from medical advisers, and alignment to our own global Covid-19 response policy.

The Firm updated its agile working policy with an expectation that everyone will work in the office for an average of 60% of their working time once an office is fully open and returns to more 'normal' operations. The 60% benchmark can be adjusted to suit each individual, team and situation.

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, in its projects worldwide.

Going Concern

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

The Designated Members have 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 Designated Members have a reasonable expectation that the Firm has adequate resources to continue in operational existence for the foreseeable future.

Members' profit share and capital contributions

The members of the LLP are also members, partners, employees or consultants of one or more of the underlying operating entities within the Group as well as Herbert Smith Freehills Global LLP. In these financial statements however, members' interests represent the participating interests of the members in their capacity as members, partners, employees or consultants of the LLP.

Herbert Smith Freehills Global LLP determines the respective profit entitlements of Herbert Smith Freehills LLP and Herbert Smith Freehills Australia Partnership. The basis of profit sharing and any associated tax retention in the underlying operating entities is determined by the members' agreement for Herbert Smith Freehills LLP and the partnership record for Herbert Smith Freehills Australia Partnership.

The members and members' equivalent (i.e. employees or consultants) of Herbert Smith Freehills LLP are required to provide capital or loans as prescribed by the members' agreement for Herbert Smith Freehills LLP. The capital and loans are repayable in full upon retirement and, accordingly, are classified as a liability.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Managing our stakeholders

The long term success of our global 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, ultimate parent company 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 Global 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 global 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.

Details of the global 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 global firm, including organisation charts where appropriate.

The global 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 continued to be conducted virtually to support those working remotely.

People engagement

The Global Council and Executive 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.

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. Our Insights survey of our people and their experience was conducted in June 2020. The survey provides important data, helping us to understand what motivates our people and how we can enhance their experience at Herbert Smith Freehills. Despite the difficult conditions at the time, many people told us that they have never felt more proud of our global firm's culture, of the way the global firm has come together to support each other, and that we have kept on delivering the best possible service to our clients. Our people are proud to work for the global firm, and this sense of pride has been strengthened by the way we've responded to Covid-19. The survey indicated that we need to get better at sharing work and providing opportunities with development goals in mind, and a number of workstreams have since been launched to address this.

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 organisation 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.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Managing our stakeholders (continued)

We have a whistleblowing hotline through an external provider and recommendations arising are investigated by the provider. A clear process is set out in the global firm's Reporting Concerns and Whistleblowing policy which is accessible through our global intranet.

Investing in our people

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

We have structured technical training programmes for our lawyers to ensure that they meet regulatory requirements and clients expectations. In 2021 we launched a new virtual learning curriculum to support our lawyers with the skills around being a lawyer. We are also working as part of a City Consortium to design new law school programmes to support our future joiners to pass the new system of qualification for England and Wales solicitors (the Solicitors Qualifying Examination). For our Business Services teams we have launched a new virtual learning brochure to build the relevant knowledge, skills and mind-set to support high performance. Training for lawyers and Business Services is supported by coaching and mentoring to support personal reflection and to embed learning.

Our global commitment to health and wellbeing remains a priority. Our global health and wellbeing hub was refreshed in 2020 and we launched a new enhanced global Employee Assistance Programme, focussing on the five pillars of health and wellbeing: mental, physical, occupational, social and financial.

Diversity and Inclusion

Our Leading for Inclusion 2018-2021 strategy positions the creation of an inclusive culture as the overriding objective of our Diversity & Inclusion strategy.

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, 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 2021**

Managing our stakeholders (continued)

Our commitment to ethnic diversity continues globally.

In 2020, we launched our 10 Actions for Change, a global set of commitments aimed at improving the representation and experience, of Black, First Nations, Asian and minority ethnic colleagues. Areas of commitment include: addressing barriers to recruitment; delivering anti-racism workshops; better informing and tracking our approach using robust data; investing in research; engaging meaningfully with our clients on anti-racism; increasing mentoring and work experiences opportunities for young people from Black, First Nations, Asian and minority ethnic backgrounds; supporting diversity within our supply chain; increasing pro bono support; and increased accountability through our regional executives.

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

Since 2014 when Herbert Smith Freehills Global LLP first set gender targets, the global firm has 59% more female partners across its global network - 129 compared to 81 in 2014, bringing the percentage of women partners to 28% - which put us, for the first time, at the number one position when compared to other global law firms. The percentage of women partners in leadership roles has increased to 25%. However, we are firmly focussed on increasing gender balance in our partner leadership roles and this is reflected in new targets announced on 1 May 2019, which is to have women comprising 35% of partners and partner leadership roles by 1 May 2023.

The actions that the global 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 an unprecedented year, we continued to implement our mental health commitments under Thrive – our first global mental health strategy 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.

In the last year, we launched a first-of-its-kind research paper working globally in partnership with Deloitte and Open for Business (a coalition of leading LGBT+ inclusive employers) focused on the experiences of LGBT+ people working and travelling abroad.

We continue to work towards our commitments under the Valuable 500 to prioritise global disability inclusion and recently launched a survey to shape our priorities for the coming year with input from those across the business with a disability.

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Managing our stakeholders (continued)

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.

Communities and environment

Pro bono and citizenship

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

The Pro Bono and Responsible Business Council oversees the global firm's approach to Pro bono and Responsible Business work on behalf of the Global Council and the Global Executive, updating stakeholders on activities regularly.

The communities in which the global firm is actively involved varies by jurisdiction based on the social impact and justice 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. The Pro Bono and Responsible Business Council is well aware of the importance to the communities where the global firm has a sizeable presence and therefore takes an active interest in the selection of the causes that the global firm wishes to support.

Across the Group's offices this year we contributed over 31,000 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 Group's projects and achievements during the year include:

- 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 through supporting the Fair Employment Foundation in its investments into migrant worker employment agencies in SE Asia to disseminate best ethical practice;
- advising on a range of initiatives in support of refugees around the world, to meet our obligations as a signatory to the United Nations Refugee Agency (UNHCR) Refugee Pledge. This work includes a new project supporting refugees to apply for work permits from the Immigration Department, and continuing support to refugee clinics in Australia and London;
- supporting a coalition of pro bono clearing houses, including, LawWorks and the Law Centres Network (United Kingdom), PILA (Ireland) and PILnet (United States of America, 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 Australia, the United Kingdom and the Republic of Ireland and there is demand for it in Asia and continental Europe;

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

Managing our stakeholders (continued)

Communities and environment (continued)

- advising UK charity Kick It Out with a report on the topic of online harm, considering how regulatory interventions in other industries could apply in this space, and mentoring a range of equality-promoting organisations through UK charity Equally Ours, as part of our commitment to anti-racism initiatives;
- ranking 7th in the UK Social Mobility Index for our continued commitment to providing talented individuals, from all backgrounds, with access to the firm and career progression.
- 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 Belfast, London, Madrid and India. We have partnered with a number of clients who are working to improve education opportunities, representation and pathways across sectors; and
- our people have been volunteering to support people experiencing or at risk of homelessness or other forms of disadvantage and vulnerability as well as people with disabilities and the elderly 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.

The Global Council engages on environment and climate change issues through the Pro Bono and Responsible Business Council, which comprises 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 Responsible Business Council is supported by regional Sustainability Action Groups, which are chaired by sustainability Partner champions who take a keen interest in these matters.

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

In December 2020 we committed to reducing our overall greenhouse gas (GHG) emissions and then balancing that lower figure with emissions removed from the earth's atmosphere to reach a net sum of zero by 2030. We are planning to do so in a number of ways, including: using clean energy; working with those suppliers who are also committed to reducing emissions; and supporting initiatives that remove any carbon dioxide that the global firm produces from the atmosphere.

Our emission reduction target is backed by science-based targets aligned with the requirements of the Paris Agreement, which seeks to limit global warming to 2° Celsius above pre-industrial levels, but the Firm will pursue changes to limit warming to 1.5°, and has been verified by the Science Based Targets Initiative (SBTi), an organisation formed by the United Nations, World Wide Fund for Nature, CDP and others to encourage and measure corporate climate action.

As part of a more holistic sustainability and climate change strategy, we have included climate related risks in our Enterprise Risk Protocol, along with a series of actions and risk mitigants.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021

Managing our stakeholders (continued)

Communities and environment (continued)

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 2021. Our calculations are based on the 2020 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).

Our energy 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 2020. This requires continual performance improvement and provides a systematic approach to identifying and developing energy efficiency.

During the reporting period energy consumption and emissions were significantly affected by Covid-19. To minimise energy waste, building controls strategies were modified to account for closed premises during lock-down periods, and ventilation management was reviewed to reflect safety advice developed by the Chartered Institution of Building Services Engineers (CIBSE). The exact impact of these actions cannot be easily quantified. However, even after normalising energy data for weather variation a substantial reduction in energy use occurred during 2020-21 compared to 2019-20.

Covid-19 restrictions also impacted the deployment of further energy efficiency projects through the ISO 50001 Register of Opportunities and opportunities for savings continue to be explored. During this period several energy savings projects took place, including the decommission and removal of UPS and Denco downflow units, which delivered savings of 77,638 KWh or 18.10tn of CO₂e. Routine equipment replacement and servicing continued to maintain efficient operations.

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.

	2020/2021			2019/2020 (Restated)		
	<i>KWh</i>	<i>Miles</i>	<i>CO₂e (tonnes)</i>	<i>KWh</i>	<i>Miles</i>	<i>CO₂e (tonnes)</i>
Gas (Scope 1)	2,198,409		404	1,527,033		280
Electricity (Scope 2)	4,981,375		1,161	7,416,037		1,896
Total energy	7,179,784		1,565	8,943,070		2,176
Transport (Scope 2)		191	0.05		367	0.10
Transport (Scope 3)		1,371	0.38		1,705	0.49
Total			1,565			2,177
Intensity ratio 1 (energy KWh/square foot)	19.09			23.78		
Intensity ratio 2 (CO₂e kg/square foot)			4.16			5.79

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021

Managing our stakeholders (continued)

Communities and environment (continued)

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:

1. 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.
2. The gas consumption for 2019/2020 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 global firm's clients.

Payment terms are agreed with individual suppliers taking into account their company size and the nature of goods or services provided using standard engagement terms to ensure compliance with applicable laws and regulations. We expect all of our suppliers to comply with our standards, such as those relating to data protection, anti-bribery & corruption, modern slavery, labour laws, and diversity and inclusion.

We engage with our strategic suppliers mainly through Executive Sponsors, most of whom are members of the global firm's governance bodies. We formally review the performance of our Strategic Suppliers on an annual basis.

The Risk Management & Audit Committee, with support from the Executive Sponsors, provides oversight of compliance with procurement policies and procedures and receives a quarterly report on third party management risk which focuses on our Contract Management policy.

The procurement team carries out regular risk scanning of our suppliers, including strategic suppliers using externally available data sources and also our annual diversity survey. We use a responsible sourcing assessment platform to conduct further due diligence on suppliers identified as high risk based on their jurisdiction or services provided. Risks identified are escalated to management for remediation.

Members' profit sharing

The amount of profit allocated to members from the total available for division among members is at the discretion of the Global 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' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021

Statement of members' responsibilities in respect of the financial statements

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, 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 LLP and of the profit or loss of the LLP 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 LLP will continue in business.

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

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

These responsibilities are exercised by the Designated Members on behalf of the LLP.

Herbert Smith Freehills LLP

**MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2021**

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



Donald Rowlands



Gavin Davies

Date: 22 July 2021

Herbert Smith Freehills LLP

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 LLP's affairs as at 30 April 2021 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 2021; 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 LLP 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the LLP's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

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.

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

Reporting on other information (continued)

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 statement of members' responsibilities in respect of the financial statements, 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 LLP'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 LLP 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the LLP and industry, we identified that the principal risks of non-compliance with laws and regulations related to Solicitors Regulation Authority (SRA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as 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 evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate reported results and management bias in accounting estimates.

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

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Audit procedures performed by the engagement team included:

- Evaluation of the design of management's controls designed to prevent and detect irregularities
- Discussion with management, the Compliance Officer for Finance and Administration and the Compliance Officer for Legal Practice, including consideration of known or suspected instances of non-compliance with law and regulations and fraud
- Assessment of any whistleblowing matters reported
- Testing unusual or unexpected journal entries, particularly those impacting revenue
- Challenging assumptions and judgements made by management in respect of significant accounting estimates

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the 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 these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

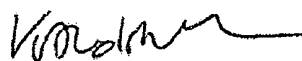
Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the LLP, 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.

Herbert Smith Freehills LLP

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



Kate Wolstenholme (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 July 2021

**STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 APRIL 2021**

	Note	2021 £m	2020 £m
Revenue			
Fee income	3	507.2	457.1
Other fee income	3	2.4	3.5
		509.6	460.6
Other operating income	4	20.2	20.6
Staff and related costs	5	(59.2)	(50.5)
Premises costs		(25.1)	(23.8)
Net impairment losses on financial and contract assets		(0.3)	(10.4)
Other costs		(266.7)	(287.5)
Operating profit	6	178.5	109.0
Dividends received from subsidiary		11.9	10.6
Finance income	7	1.2	2.3
Finance costs	7	(8.9)	(10.7)
Profit on ordinary activities before taxation		182.7	111.2
Taxation	8	(1.9)	(2.2)
Profit for the financial year before members' profit shares		180.8	109.0
Other comprehensive (expense) / income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of defined benefit liability	22	(0.2)	(0.3)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations	20	(2.4)	0.2
Total other comprehensive expense for the year		(2.6)	(0.1)
Total comprehensive income for the year		178.2	108.9

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 APRIL 2021

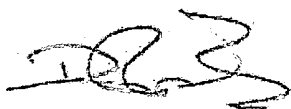
	Note	30 April 2021 £m	30 April 2020 £m
Fixed assets			
Tangible fixed assets	10	13.3	12.9
Right-of-use assets	11	137.7	153.4
Investments	12	1.0	1.0
		152.0	167.3
Current assets			
Client receivables	13	94.3	100.4
Contract assets	14	99.2	85.7
Other receivables	15	211.4	211.2
Amounts due from members	20	31.2	50.0
Other amounts due from members	20	29.0	-
Cash and bank balances		85.3	146.4
		550.4	593.7
Creditors: Amounts falling due within one year			
Trade and other payables	16	(232.9)	(214.1)
Current tax liabilities	8	-	(0.4)
Lease liabilities	18	(19.7)	(18.5)
Other amounts due to members	21	-	(5.2)
Provisions	19	(0.6)	(0.7)
Members' capital classified as a liability	20	(0.6)	(0.5)
		(253.8)	(239.4)
Net current assets		296.6	354.3
Total assets less current liabilities		448.6	521.6
Creditors: Amounts falling due after more than one year			
Borrowings	17	(105.2)	(228.8)
Lease liabilities	18	(129.5)	(146.2)
Provisions	19	(6.8)	(6.5)
Members' capital classified as a liability	20	(30.0)	(32.5)
		(271.5)	(414.0)
Total liabilities		(525.3)	(653.4)
Net assets attributable to members		177.1	107.6

Herbert Smith Freehills LLP
Registered number OC310989


STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 APRIL 2021

	Note	30 April 2021 £m	30 April 2020 £m
Equity			
Other reserves	20	180.6	108.7
Translation reserve	20	(3.5)	(1.1)
Total shareholders' funds		<u>177.1</u>	<u>107.6</u>
Total members' interests and other interests			
Amounts due from members	20	(31.2)	(50.0)
Members' capital classified as a liability	20	30.6	33.0
Other amounts due (from)/to members	20	(29.0)	5.2
Other reserves	20	180.6	108.7
Translation reserve	20	(3.5)	(1.1)
Total members' interests and other interests		<u>147.5</u>	<u>95.8</u>

The financial statements of the LLP, registered number OC310989 on pages 21 to 58 were authorised for issue by the designated members on behalf of the LLP on 22 July 2021 and signed on their behalf by:



.....
Donald Rowlands



.....
Gavin Davies

**STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 APRIL 2021**

	Other reserves	Translation Reserve	Total equity
	£m	£m	£m
Balance at 1 May 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>
Profit for the financial year before members' profit shares	180.8	-	180.8
Total other comprehensive expense for the year	<u>(0.2)</u>	<u>(2.4)</u>	<u>(2.6)</u>
Total comprehensive income / (expense) for the year	<u>180.6</u>	<u>(2.4)</u>	<u>178.2</u>
Allocated profit net of members' tax	(59.8)	-	(59.8)
Amounts retained in respect of members' taxation	<u>(48.9)</u>	<u>-</u>	<u>(48.9)</u>
Total transactions with members recognised within equity	<u>(108.7)</u>	<u>-</u>	<u>(108.7)</u>
Balance at 30 April 2021	<u>180.6</u>	<u>(3.5)</u>	<u>177.1</u>

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 APRIL 2021**

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 financial statements are presented in Pound Sterling. 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 2021**

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

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the International Accounting Standards Board ('IASB') issued *Covid-19-Related Rent Concessions (Amendment to IFRS 16)* that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a Covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the LLP has early adopted the amendment to IFRS 16 (as issued by the IASB in May 2020). The early adoption has not had a material impact on the LLP.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms. The amendments are however not relevant to the LLP at this stage.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021**

1. Accounting Policies (continued)

Adoption of new and revised standards (continued)

(a) New and amended IFRS standards that are effective (continued)

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the LLP has applied the below amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual report that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards:

The LLP has adopted the amendments included in *Amendments to References to the Conceptual Framework in IFRS Standards* for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new *Framework*. Not all amendments, however, update those pronouncements with regard to references to and quotes from the *Framework* so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the *Framework* they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, AND SIC-32.

Amendments to IFRS 3 Definition of a business

The LLP has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments are applicable prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020. The adoption of the amendments has not had any impact on the LLP.

Amendments to IAS 1 and IAS 8 Definition of material:

The LLP has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

1. Accounting Policies (continued)

Adoption of new and revised standards (continued)

(b) New and revised IFRS 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.

- IFRS 17 *Insurance Contracts*
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IFRS 3 - *Reference to the Conceptual Framework*
- Amendments to IAS 1 - *Classification of Liabilities as Current or Non-Current*. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, or other assets or services.
- Amendments to IAS 16 – *Property, Plant and Equipment – Proceeds before intended use*
- Amendments to IAS 37 – *Onerous Contracts – Cost of Fulfilling a Contract*. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract', consisting of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated but instead the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.
- Annual Improvements to IFRS Standards 2018-2020. The Annual Improvements include amendments to two Standards that impact the Group.
 - IFRS 9 *Financial Instruments* – the amendment clarifies that in applying the '10 percent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
 - IFRS 16 *Leases* – the amendment removes the illustration of the reimbursement of leasehold improvements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

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, have 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 of the LLP has a Revolving Credit Facility covering the next four 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 of 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 2021**

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 Pound Sterling are translated at the average rate of exchange prevailing for the reporting period and the balance sheets are translated into Pound 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.

Tangible fixed assets

Tangible fixed assets are 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 2021

1. Accounting Policies (continued)

Leases (continued)

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 2021

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.

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 2021

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 2021

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 2021

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.

Government grants and subsidies

Government grants and subsidies are not recognised until there is reasonable assurance that the LLP will comply with the conditions attaching to them and that the grants will be received. Government grants and subsidies are recognised in the Statement of Comprehensive Income on a systematic basis over the period in which the LLP recognises as expenses the related costs in respect of which the grants are intended to compensate. Government grants and subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the LLP with no future related costs are recognised in the Statement of Comprehensive Income in the year in which they become receivable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

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 judged based on 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 £3.0m.

Billed client receivables

Billed client receivables are initially recognised at fair value and held at cost less an estimated allowance for expected credit losses. Expected credit losses are estimated 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 £3.2m.

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, based on the LLP's internal geographic reporting structure is as follows:

	2021 £m	2020 £m
United Kingdom / United States of America	407.7	372.7
Continental Europe, Middle East and Africa	35.5	22.4
Asia	64.0	62.0
Fee income	507.2	457.1
	2021 £m	2020 £m
Recharges for internal disbursements	2.4	3.5
Other fee income	2.4	3.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

4. Other operating income

	2021	2020
	£m	£m
Recharges of premises costs to group undertaking	18.4	19.0
Sundry income	1.8	1.6
Other operating income	<u>20.2</u>	<u>20.6</u>

5. Employee information

	2021	2020
	£m	(Restated)
		£m
Salaries*	52.7	43.9
Social security costs	1.3	1.0
Pension costs – defined contribution plans	0.9	1.2
Other staff related costs	4.3	4.4
	<u>59.2</u>	<u>50.5</u>

	2021	2020
	No.	No.
Average number of persons employed**:		
Fee-earning staff	248	231
Other staff	167	220
	<u>415</u>	<u>451</u>

* Salaries include amounts paid to member equivalents.

** Headcount figures are on a full time equivalent (FTE) basis.

6. Operating profit

	2021	2020
	£m	£m
The operating profit for the year is stated after charging:		
Depreciation of property, plant & equipment	3.4	3.5
Depreciation of right-of-use assets	20.0	19.7
Loss on disposal of tangible fixed assets	0.1	
Net foreign exchange losses	3.8	1.2
	<u>3.8</u>	<u>1.2</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

6. Operating profit (continued)

	2021 £m	2020 £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	0.4	0.3
Total audit fees	0.6	0.5
- Other services pursuant to legislation	0.1	0.1
- Taxation compliance services	0.1	-
- Taxation advisory services	-	0.1
Total non-audit fees	0.2	0.2

7. Finance income and costs

	2021 £m	2020 £m
Finance income		
Bank interest receivable	0.2	0.8
Interest on pension scheme assets	1.0	1.5
	1.2	2.3
Finance costs		
Bank loan interest	(3.4)	(4.7)
Other interest and bank charges	(0.2)	-
Interest expense on lease liabilities	(4.5)	(4.8)
Interest on pension scheme liabilities	(0.8)	(1.2)
	(8.9)	(10.7)
Net finance costs	(7.7)	(8.4)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

8. Taxation

	2021	2020
	£m	£m
Current tax on profits for the year	2.1	2.2
Prior year adjustment	(0.2)	-
Total current taxation on profit on ordinary activities	<u>1.9</u>	<u>2.2</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.

	2021	2020
	£m	£m
Profit on ordinary activities before taxation	182.7	111.2
Less: Amounts subject to personal tax	(175.7)	(106.4)
	<u>7.0</u>	<u>4.8</u>
Tax at corporate rates	1.4	0.9
Tax effects of:		
Prior year adjustment	(0.2)	-
Different tax rates and bases in other jurisdictions	1.2	0.9
Unrelieved losses	(0.5)	0.4
Total charge	<u>1.9</u>	<u>2.2</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 27.1% (2020: 45.8%) is higher than the statutory rate of corporation tax in the United Kingdom for 2021 of 19.0% (2020: 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 £0.2m (2020: £0.6m) 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 from 20% to 19.0% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019. In March 2020, the tax rate was substantively enacted at 19% for the financial year beginning 1 April 2020 rather than reducing to 17%. 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 2021

8. Taxation (continued)

Movements in current tax liabilities during the year are as follows:

	2021	2020
	£m	£m
Current tax liability at 1 May	0.4	1.5
Tax charge for the year	1.9	2.2
Corporate taxes paid	(2.6)	(1.8)
Amounts adjusted against other amounts due to members	(0.9)	(1.5)
Current tax (debtor) / liability at 30 April	(1.2)	0.4

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 £1.9m (2020: £1.6m).

	2021	2020
	No.	No.
Average number of members	<u>183</u>	<u>182</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

10. **Tangible fixed assets**

	Leasehold improvements, furniture, fixtures and fittings £m	Office equipment and computers £m	Total £m
Cost			
At 1 May 2019	99.8	4.0	103.8
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	97.5	2.6	100.1
Additions	3.7	0.2	3.9
Exchange differences	(0.6)	(0.2)	(0.8)
At 30 April 2021	100.6	2.6	103.2
Accumulated depreciation			
At 1 May 2019	83.4	3.6	87.0
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	85.1	2.1	87.2
Charge for the year	3.0	0.4	3.4
Reclassification	0.1	-	0.1
Exchange differences	(0.6)	(0.2)	(0.8)
At 30 April 2021	87.6	2.3	89.9
Carrying amount			
At 30 April 2021	13.0	0.3	13.3
At 30 April 2020	12.4	0.5	12.9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

11. Right-of-use assets

	Buildings £m	Office equipment and motor vehicles £m	Total £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
Additions	3.4	-	3.4
Remeasurement	1.3	0.1	1.4
Exchange differences	(0.8)	-	(0.8)
At 30 April 2021	174.9	2.1	177.0
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
Charge for the year	19.5	0.5	20.0
Remeasurement	0.1	-	0.1
Exchange differences	(0.4)	-	(0.4)
At 30 April 2021	38.2	1.1	39.3
Carrying amount			
At 30 April 2021	136.7	1.0	137.7
At 30 April 2020	152.0	1.4	153.4

The LLP leases several assets including office and residential premises, and office equipment. The average lease term is 9 years for the LLP. Based on value, approximately 1.1% 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 are as follows:

	2021 £m	2020 £m
Depreciation expense on right-of-use assets	20.0	19.7
Interest expense on lease liabilities	4.5	4.8
	24.5	24.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

12. Investments

	2021 £m	2020 £m
Cost		
As at 1 May	1.0	0.5
Investment during the year	-	0.5
As at 30 April	<u>1.0</u>	<u>1.0</u>

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 Kabushiki Kaisha (3)	Japan	Service company	100%
Peregine 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	Legal services	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%
Peregine Secretarial Services Limited (1)#	England and Wales	Special purpose vehicle	100%
Peregine 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%
Precis 2774 Limited (1) #	England and Wales	Special purpose vehicle	100%
Precis 2776 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 S477 of the Companies Act.

- Address is Exchange House, Pinnrose 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 Abdurrahim Place, 14th Floor, Room No 1403, 990 Rama IV Road, Siam Sub-District, Bangkok District, Bangkok 10500.
- Address is Level 24, 80 Collins Street, Melbourne VIC 3000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

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 4th floor, Rosebank Towers, Biermann Avenue, Rosebank, Johannesburg 2196, South Africa

C. Address is Via Rovello 1, 20121 Milan, Italy

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

13. Client receivables

	2021	2020
	£m	£m
Billed client receivables	<u>94.3</u>	<u>100.4</u>

Billed client receivables due within one year

	2021	2020
	£m	£m
Amount receivable for the supply of services	107.4	117.2
Loss allowance	<u>(13.1)</u>	<u>(16.8)</u>
Billed client receivables	<u>94.3</u>	<u>100.4</u>

Billed client receivables include amounts which are past due at the reporting date. The average age of these receivables balances is 67 days (2020: 69 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.

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 but differences in the loss patterns of territories are taken into account.

	2021	2020
	%	%
0 – 30 days	2.0%	3.1%
31 - 60 days	5.7%	15.3%
61 - 90 days	8.7%	8.8%
91 - 120 days	37.7%	28.5%
121 + days	<u>70.9%</u>	<u>55.4%</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

13. Client receivables (continued)

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

	2021	2020
	£m	£m
0 – 30 days	62.4	68.3
31 - 60 days	21.7	18.3
61 - 90 days	7.6	6.8
91 - 120 days	3.7	7.0
121 + days	12.0	16.8
	<u>107.4</u>	<u>117.2</u>

Movement in the loss allowance for client receivables

	2021	2020
	£m	£m
At start of the year	16.8	10.0
Increase in loss allowance	8.8	8.0
Amounts written off during the year	(7.0)	(0.2)
Amounts recovered during the year	(4.8)	(1.0)
Foreign exchange translation movement	(0.7)	-
At end of the year	13.1	16.8

Ageing of the loss allowance for doubtful receivables

	2021	2020
	£m	£m
0 - 30 days	1.3	2.1
31 - 60 days	1.2	2.8
61 - 90 days	0.7	0.6
91 - 120 days	1.4	2.0
121 + days	8.5	9.3
	<u>13.1</u>	<u>16.8</u>

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

14. Contract assets

	2021	2020
	£m	£m
Unbilled client receivables - current	<u>99.2</u>	<u>85.7</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

15. Other receivables

Due within one year:

	2021	2020
	£m	£m
Prepayments	4.7	5.1
Amounts due from group undertakings	188.4	184.2
Current tax debtor	1.2	-
Other receivables	17.1	21.9
	<u>211.4</u>	<u>211.2</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.

16. Trade and other payables

	2021	2020
	£m	£m
Trade payables	16.7	18.4
Amounts due to group undertakings	156.2	133.8
Other taxes and social security	1.0	9.4
Other payables	29.2	28.3
Accruals	29.8	24.2
	<u>232.9</u>	<u>214.1</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.

17. Borrowings

	2021	2020
	£m	£m
Bank loans due between two and five years	<u>105.2</u>	<u>228.8</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

18. Lease liabilities

	2021	2020
	£m	£m
Analysed as:		
Current	19.7	18.5
Non-current	129.5	146.2
	149.2	164.7

	2021	2020
	£m	(Restated)
	£m	£m
Maturity analysis:		
Due within one year	20.9	22.9
Due between one and two years	19.8	23.7
Due between two and three years	18.5	18.8
Due between three and four years	18.2	17.7
Due between four and five years	17.8	17.4
Due after five years	74.5	88.8
	169.7	189.3
Less: unearned interest	(20.5)	(24.6)
	149.2	164.7

Prior year comparatives in the maturity analysis section of the above table have been restated to reflect the amounts gross before any unearned interest.

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.

Cash and non-cash movements in lease liabilities are as below:

	2021	2020
	£m	£m
At start of the year	164.7	-
Recognition of lease liabilities under IFRS 16	3.4	182.1
Impact of remeasurements	1.4	-
Interest payable	4.5	4.8
Repayment of lease liabilities	(23.3)	(24.7)
Other movements during the year	(1.5)	2.5
	149.2	164.7
At end of the year	149.2	164.7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

19. Provisions

	Dilapidations	Employee benefits	Other	Total provisions
	£m	£m	£m	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

	Dilapidations	Employee benefits	Other	Total provisions
	£m	£m	£m	2021
				£m
At 1 May 2020	6.2	0.7	0.3	7.2
Utilisation	-	(0.7)	-	(0.7)
Additional provision made in the year	-	0.6	0.6	1.2
Reversal to the income statement	(0.2)	-	-	(0.2)
Exchange differences	(0.1)	-	-	(0.1)
At 30 April 2021	5.9	0.6	0.9	7.4

	2021	2020
	£m	£m
Current provisions	0.6	0.7
Non-current provisions	6.8	6.5
	7.4	7.2

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 2021

20. Members' interests

	Other reserves £m	Translation reserve £m	Members' capital £m	Other amounts due to/(from) members £m	Amounts due from members £m	Total £m
At 1 May 2019	<u>133.3</u>	<u>(1.3)</u>	<u>29.3</u>	<u>26.6</u>	<u>(82.5)</u>	<u>105.4</u>
Profit for the financial year before members' profit shares	109.0	-	-	-	-	109.0
Allocated profit	(73.3)	-	-	-	73.3	-
Amounts retained for members' tax	(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	<u>108.7</u>	<u>(1.1)</u>	<u>33.0</u>	<u>5.2</u>	<u>(50.0)</u>	<u>95.8</u>
Profit for the financial year before members' profit shares	180.8	-	-	-	-	180.8
Allocated profit	(59.8)	-	-	-	59.8	-
Amounts retained for members' tax	(48.9)	-	-	48.9	-	-
Amounts paid to or on behalf of members	-	-	-	(84.0)	(41.0)	(125.0)
Actuarial loss relating to pension scheme	(0.2)	-	-	-	-	(0.2)
Capital introduced	-	-	1.2	-	-	1.2
Capital repaid	-	-	(3.6)	-	-	(3.6)
Amounts adjusted against current tax liabilities	-	-	-	0.9	-	0.9
Exchange difference on translation of foreign operations	-	(2.4)	-	-	-	(2.4)
At 30 April 2021	<u>180.6</u>	<u>(3.5)</u>	<u>30.6</u>	<u>(29.0)</u>	<u>(31.2)</u>	<u>147.5</u>

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 2021

21. 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.

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.

Financial assets	2021	2020
	£m	£m
Billed client receivables	94.3	100.4
Contract assets	99.2	85.7
Cash and bank balances	85.3	146.4
Amounts due from members	31.2	50.0
Other amounts due from members	29.0	-
Current tax debtor	1.2	-
Other receivables	205.5	206.1
	545.7	588.6
	<hr/>	
Financial liabilities	2021	2020
	£m	(Restated)
		£m
Borrowings	105.2	228.8
Lease liabilities	149.2	164.7
Trade and other payables	232.9	214.1
Current tax liability	-	0.4
Members' capital	30.6	33.0
Other amounts due to members	-	5.2
	517.9	646.2

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

21. Financial Instruments (continued)

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.

Currency profile of financial assets and liabilities:

Financial assets	2021	2020
	£m	£m
Sterling	302.3	336.2
Australian Dollars	5.0	0.2
Euros	25.2	27.3
US Dollars	75.3	98.5
Hong Kong Dollars	83.1	54.7
Japanese Yen	11.1	12.2
Other	43.7	59.5
	545.7	588.6

Financial liabilities	2021	2020
	£m	(Restated) £m
Sterling	229.0	390.5
Australian Dollars	9.8	-
Euros	59.8	45.6
US Dollars	81.9	103.1
Hong Kong Dollars	74.3	36.9
Japanese Yen	29.6	32.9
Other	33.5	37.2
	517.9	646.2

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
	2021	2020
	£m	£m
Euro currency impact	(3.4)	(2.0)
US Dollar currency impact	(0.7)	(0.5)
Hong Kong Dollar currency impact	0.9	2.0
Japanese Yen currency impact	(1.8)	(2.3)

Additionally, there would be an increase in equity of £1.6m (2020: increase of £1.7m) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

21. Financial Instruments (continued)

Interest rate risk

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

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 2021 and equity would decrease/increase by £0.8m (2020: £0.8m).

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. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

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 ultimate parent company also maintains a buffer in its borrowing facilities to cover unforeseen cash demands on the business.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

21. 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
2020								
(Restated)								
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
Current tax liabilities		-	0.4	-	-	-	-	0.4
Lease liabilities		-	22.9	23.7	53.9	88.8	(24.6)*	164.7
Members' capital		-	0.5	-	-	-	32.5	33.0
		219.3	23.8	23.7	282.7	88.8	7.9	646.2
2021								
Non-interest bearing:								
Trade and other payables		232.9	-	-	-	-	-	232.9
Fixed and variable rates:								
Borrowings	2.5%	-	-	-	105.2	-	-	105.2
Lease liabilities		-	20.9	19.8	54.5	74.5	(20.5)*	149.2
Members' capital		-	0.6	-	-	-	30.0	30.6
		232.9	21.5	19.8	159.7	74.5	9.5	517.9

* Represents unearned interest on lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

22. Retirement benefit obligations

Defined contribution schemes

The LLP operates a number of defined contribution pension schemes throughout the world. The pension cost charge for the year in relation to the defined contribution schemes amounted to £0.9m (2020: £1.2m).

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.
- **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.
- **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 2021

22. Retirement benefit obligations (continued)

Actuarial assumptions

The principal assumptions used to calculate the Scheme's liabilities are as follows:

	2021	2020
Discount rate	1.90% pa	1.60% pa
Retail Prices Index (RPI) inflation	3.50% pa	2.75% pa
Consumer Prices Index (CPI) Inflation	2.70% pa	1.95% pa
LPI 5% pension increases	3.30% pa	2.70% pa
LPI 2.5% pension increases	2.30% pa	1.80% pa
Salary increases	5.00% pa	4.25% pa
Post retirement mortality	90%/100% (M/F) S3PA tables with CMI 2018 projections (smoothing parameter 7.0) using a long-term improvement rate of 1.0% pa.	90%/100% (M/F) S2PA tables with CMI 2016 projections (smoothing parameter 7.5) using a long-term improvement rate of 1.0% pa.
Commutation	80% of members are assumed to take the maximum tax free cash possible.	80% of members are assumed to take the maximum tax free cash possible.
Life expectancy at age 65 of male aged 45	23.6 years	24.0 years
Life expectancy at age 65 of male aged 65	22.5 years	22.9 years
Life expectancy at age 65 of female aged 45	25.1 years	25.2 years
Life expectancy at age 65 of female aged 65	24.0 years	23.9 years

Assets

Bid values of the current asset split are as follows:

	2021	2020
	£m	£m
Equities and growth assets	26.8	25.3
Bonds, Liability-Driven Investment Funds and cash	37.4	39.5
Total	64.2	64.8

The assets do not include any investment in shares of the LLP.

Amounts recognised within the balance sheet are as follows:

	2021	2020
	£m	£m
Fair value of assets	64.2	64.8
Present value of funded obligations	(55.2)	(53.0)
Surplus	9.0	11.8
Impact of asset ceiling	(9.0)	(11.8)
Net defined benefit asset/(liability)	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

22. **Retirement benefit obligations (continued)**

Reconciliation of net defined benefit liability

	2021	2020
	£m	£m
Net defined benefit liability at 1 May	-	-
Net interest income	(0.2)	(0.3)
Remeasurements	0.2	0.3
Administration costs	0.3	0.3
Employer contributions	(0.3)	(0.3)
Net defined benefit assets / (liability) at 30 April	<u>-</u>	<u>-</u>

Amounts recognised in the Statement of Comprehensive Income in the year

	2021	2020
	£m	£m
Administration costs	0.3	0.3
Interest on liabilities	0.8	1.2
Interest on assets	(1.0)	(1.5)
Total amount recognised	<u>0.1</u>	<u>-</u>

Amount recognised within Other Comprehensive Income

	2021	2020
	£m	£m
Gain on assets in excess of interest	(0.3)	(0.5)
Loss from changes to financial assumptions	2.3	1.0
Experience losses on liabilities	2.0	-
Gains from changes to demographic assumptions	(1.0)	-
Gain from change in effect of asset ceiling	(2.8)	(0.2)
Total remeasurements	<u>0.2</u>	<u>0.3</u>

Reconciliation of assets and defined benefit obligation

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

	2021	2020
	£m	£m
Fair value of assets at start of the year	64.8	65.0
Interest on assets	1.0	1.5
Group contributions	0.3	0.3
Benefits paid	(1.9)	(2.2)
Administration costs	(0.3)	(0.3)
Return on plan assets less interest*	0.3	0.5
Fair value of assets at end of the year	<u>64.2</u>	<u>64.8</u>

*Actual return on assets was £1.3m (2020: £2.0m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2021

22. Retirement benefit obligations (continued)

The change in the defined benefit obligations was as below:

	2021	2020
	£m	£m
Defined benefit obligation at start of the year	53.0	53.0
Interest on liabilities	0.8	1.2
Benefits paid	(1.9)	(2.2)
Experience losses on liabilities	2.0	-
Gains from changes to demographic assumptions	(1.0)	-
Loss from changes to financial assumptions	2.3	1.0
Defined benefit obligation at end of the year	55.2	53.0

Sensitivity of the value placed on the liabilities

	2021	2020
	Approximate	Approximate
	(decrease)/increase in	(decrease)/increase
	liabilities¹	in liabilities¹
Adjustments to assumptions	£m	£m
Discount rate		
Plus 0.50%	(3.5)	(3.5)
Minus 0.50%	3.9	4.0
Inflation²		
Plus 0.50%	3.1	3.4
Minus 0.50%	(3.0)	(3.7)
Salary increases³		
Plus 0.50%	0.1	0.3
Minus 0.50%	(0.1)	(0.3)
Life expectancy⁴		
Plus 1 year	2.9	2.8
Minus 1 year	(2.9)	(2.7)

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 2021

22. Retirement benefit obligations (continued)

Projected Consolidated Income Statement for next year

	Year to 30 April 2022 £m	Year to 30 April 2021 £m
Administrative costs	0.3	0.3
Interest on liabilities	1.0	0.8
Interest on assets	(1.2)	(1.1)
Total charge to Consolidated Income Statement	0.1	-

The above estimate is based on the following assumptions adopted at the Review Date:

1. Cash flows to/from the pension scheme are broadly the same as for the current year.
2. There are no events that give rise to a settlement, curtailment or past service cost.

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 has been 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. The LLP expects to pay no contributions in the year to 30 April 2022 as administration costs are due to be met by the Scheme. The weighted average duration of the defined benefit obligation is around 16 years.

23. Capital Commitments

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

	2021 £m	2020 £m
Property, plant & equipment	0.2	-

24. 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.