

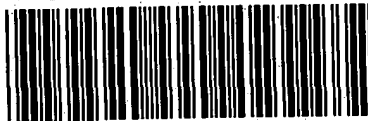
Herbert Smith Freehills LLP

Limited Liability Partnership Registration
No. OC310989

Herbert Smith Freehills LLP

ANNUAL REPORT AND FINANCIAL STATEMENTS
30 APRIL 2022

MONDAY



ABWBVD80

A08

30/01/2023

#42

COMPANIES HOUSE

	Page
MEMBERS' REPORT	1
INDEPENDENT AUDITORS' REPORT	14
STATEMENT OF COMPREHENSIVE INCOME	17
STATEMENT OF FINANCIAL POSITION	18
STATEMENT OF CHANGES IN EQUITY	20
NOTES TO THE FINANCIAL STATEMENTS	21

Herbert Smith Freehills LLP

MEMBERS' REPORT
Year ended 30 April 2022

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 2022.

Principal activities

Herbert Smith Freehills LLP (the "LLP") is a limited liability partnership registered in England and Wales and has offices in Belgium, mainland China, Germany, Italy, Japan, Malaysia, Singapore, United Arab Emirates and the United Kingdom.

The LLP also controls entities operating in Hong Kong, South Africa, Spain, Thailand, France, Germany, Italy, United Kingdom and United States of America (collectively referred to as "the Group" and the "Firm"). In March 2022 the Firm took the decision to cease business operations in Russia.

Principal activities

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:

- Susan Black (Term ended 30 April 2022)
- Gavin Davies
- Michael Poulton (Appointed on 1 May 2022)
- Donald Rowlands
- Hubert Segain
- Alan Watts

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

Business review

Herbert Smith Freehills is a leading international law firm known for our insight and diverse perspectives. This vision guides us through a uniquely challenging and competitive era for the legal profession. It means that:

- We are recognised as one of the world's leading international law firms, by clients, by peers and our communities.
- We have international reach and we respect and respond creatively to local differences in all our markets.
- We do the best and most important work for our chosen clients, built upon genuine client relationships.
- We take pride in our technical excellence and deep understanding of our clients and markets.
- We value the diversity of our people and put people and communities at the heart of our culture.
- We differentiate ourselves through our insights and diverse perspectives.

The Firm made the decision in March 2022 to close the Moscow office, following the invasion of Ukraine by Russia. As part of the office closure process, the majority of Moscow office-based partners established an independent law firm of their own, which is separate from the Firm. A number of the Moscow office-based partners and employees have been redeployed to other offices in the Firm. The wellbeing of our people and minimising the disruption to the services we provide our clients has been at the forefront of our minds during these difficult times.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Business review (continued)

Our activity levels have been sustained since the emergence of the Covid-19 pandemic. 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 taking a phased approach to managing the reopening of our offices, in accordance with local regulatory requirements and alignment with our own policy. A key part of our policies is a more flexible hybrid work environment for all our employees, aligning with how we expect our employees want to work going forward.

Our people continue to be at the forefront of supporting the communities in which they live. In particular, we have encouraged support for Médecins Sans Frontières (Doctors Without Borders), our global charity partner and pro bono client, in its projects worldwide.

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. We continue to adapt our approach 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. Despite the pandemic and, more recently, the implications of the invasion of Ukraine, global demand for legal services has been robust across most of the jurisdictions in which we operate. Overall, we achieved revenue growth in the financial year ended 30 April 2022.

Looking ahead, inflation and growing macroeconomic headwinds are posing new risks. We have sought to set ourselves up in the best way possible to work through these challenges, focussing on our Ambition 2025 strategy and supported by a resilient balance sheet.

Strategy

Our strategic ambitions are set out in "Ambition 2025", our global vision and strategy. As the world changes rapidly, we want to cement our position as a leading international law firm. That means we need to continue to transform our business, and the way we work, to benefit our people and our clients.

Ambition 2025 gives rise to four strategic ambitions:

1. **Clients & Markets:** we will be recognised as a leading firm in our chosen markets and practices
2. **People & Culture:** we will foster ambition, diversity, high performance and collaboration
3. **Digital & Legal Transformation:** we will take advantage of the opportunities created by technology and digitalisation
4. **Financial Growth & Investment:** we will deliver profitable, sustainable financial growth globally

Clients & Markets

The services we deliver inevitably depend on our clients and our being able to differentiate in meeting our clients' needs through insights, expertise and understanding. Our aim is to be recognised as a leading firm in our markets and practices, working in teams with a clear focus to build a resilient client base, growing our multi-market relationships. This work is led by our regional executive bodies, with guidance from the Clients & Markets Advisory Board which advises the Executive and provides insight to inform and test our clients and markets ambition.

People & Culture

Our people and the culture of our Firm is critical to our continued success. We continue 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 in as one of the world's leading international law firms, and for our people, culture and ambition to be the envy of others. This is guided by our People & Culture Advisory Board, which advises the Executive, comprised of people from across the Firm dedicated to developing and leading our people and culture strategy.

Our regional people forums work with the regional executives to determine how best to implement global and regional priorities. These priorities include a focus on diversity and inclusion, supporting the wellbeing of our people, and evolving the way we work in a hybrid environment.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Business review (continued)

People & Culture (continued)

On 1 May 2022, the Firm's parent entity Herbert Smith Freehills Global LLP promoted 34 lawyers to the partnership, 14 (41%) of whom were women. We continue to make progress towards reaching our target of women comprising 35% of partners by 2023. In late 2021, Herbert Smith Freehills Global LLP launched 8 Drivers for Gender Equity, bringing clarity to our focus areas for improving gender equity across the network.

We continue to work on 10 Actions for Change in relation to improving the representation and experience of people from Black, First Nations, Asian and minority ethnic backgrounds. We also became signatories to the Valuable 500, a global business collective focussed on disability inclusion in employment.

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

Digital & Legal Transformation

Clients continue to expect the best lawyers and expertise, but they also expect their lawyers to be harnessing the opportunities of technology. General Counsel and their legal teams are busy shaping and navigating the legal response to this change alongside their businesses. To realise our ambition, we aim to meet our clients' evolving needs, transforming how we deliver and sell our core services and improving our digital capability.

The Digital Transformation Advisory Board is responding through a multi-year effort to seize the opportunities of technology and digital transformation. The core themes of our response are that it is client driven, lawyer-led and intelligently applied.

Financial Growth & Investment

To achieve our ambition for profitable, sustainable financial growth globally, we will aim to optimise our productivity and profitability, maintaining rigorous financial disciplines and investing for the future. Key areas of focus include innovation in our approach to client service and ensuring that our investments are strategically-targeted.

Regional and practice group performance

Demand for legal services has been robust in the majority of our jurisdictions and practice areas despite continued disruption from the Covid-19 pandemic, and more recently the invasion of Ukraine and general inflationary pressures.

Regional performance

We report our global performance across our three regions: Asia; Continental Europe, Middle East and Africa; and the United Kingdom / United States. Within the Asia and Continental Europe, Middle East and Africa regions, revenue growth was strong in a number of jurisdictions. Within the UK/US region, our London and Belfast offices performed well. We have maintained 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 Firm is organised by global practice group, delivering services to clients via cross practice sector and client focussed teams. Globally, all of our practice groups increased revenue compared to the prior year with Corporate showing particularly strong growth.

- Our global Disputes Resolution practice achieved revenues ahead of last year as we continued to handle some of the most significant cases in the markets where we operate.
- Corporate performed strongly in all regions, especially in the UK.
- The Finance practice achieved good growth globally, this included higher revenues in the UK.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Business review (continued)

Regional and practice group performance (continued)

Practice group performance (continued)

- The Projects practice had a particularly strong showing in Continental Europe and Middle East.
- The Real Estate practice performed better than last year with strong performances in the UK.
- Our Competition, Regulation & Trade practice continues to work on significant mandates generating good revenue growth.
- The Employment, Pensions & Incentives practices experienced good growth globally.

The use of our Alternative Legal Services offerings in many of our client engagements across all practice groups continues to generate revenue growth across UK, Continental Europe and Africa.

Notable mandates for the financial year include:

- Acting for RSA Insurance Group Limited (formerly RSA Insurance Group PLC) in defending a claim brought under section 90A FSMA following the discovery of accounting misconduct within its Irish subsidiary in late 2013. This is now the most advanced section 90A claim brought by a group of shareholders in the English courts.
- AerCap, the world's biggest aircraft leasing company, in a US\$3.5 billion insurance claim in connection with 116 aircraft and 23 engines lost in Russia.
- Acting for Iveco and Fiat Chrysler as coordinating and UK competition litigation counsel in relation to follow-on damages claims stemming from the European Commission's settlement decision in Trucks, one of the most high profile competition infringement and follow-on damages cases in Europe.
- Acting for Citi in a criminal cartel prosecution which was abandoned by the Commonwealth Director of Public Prosecutions.
- Capital & Counties plc on its proposed £3.5 billion merger with Shaftesbury plc, resulting in a combined £5 billion portfolio.
- US\$1.2 billion sale by Carlyle Group and Southern Capital Group of a 94% stake in mobile tower and telecommunication infrastructure company STP to Protelindo.

Market recognition and rewards

Our brand remains strong internationally, reflecting our strong culture of commitment to our clients. Notable recognition and awards include the following:

- Innovation in Dispute Resolution, FT Innovative Lawyer Europe Awards 2021
- Top Legal Adviser, Leading Legal Adviser and Established Legal Adviser, MergerLinks 2021
- Global Law Firm of the Year in Europe, The Lawyer European Awards 2021
- China (International Firms) Dispute Resolution Law Firm of the Year, Chambers Asia-Pacific & Greater China Region Awards 2022
- Projects, Energy and Infrastructure Deal of the Year, ALB Malaysia Law Awards 2022
- Leading Law Firm in South Eastern Asia, MergerLinks 2021

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Business review (continued)

Financial performance

Demand for legal services from our clients has been robust notwithstanding the continuing external challenges mentioned above. This demand contributed to the Firm's revenue growth of 5% for the last financial year, with most regions and all practice areas contributing to this growth. We continue to focus on our financial disciplines which include tighter controls over recruitment and discretionary expenditure. Whilst our pipeline of client activity has remained robust, current market sentiment supports the continuation of a prudent approach to managing costs and liquidity.

Discretionary expenditure including business development and travel have shown an increase with the easing of Covid-related restrictions. Changing working patterns have meant that we have been able to achieve savings in certain other categories, most notably facilities management. The competition for talent has led to inflationary pressures in some markets which continues to require careful consideration and management. In aggregate, we have been able to maintain the rest of our cost base at around the similar level to the prior year which, in conjunction with revenue growth, helped us achieve profit growth.

Given the international nature of our business, the majority of revenues are generated in currencies other than Sterling and therefore the Firm is exposed to exchange rate volatility. 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 financial impact of currency movements against Sterling.

The Firm's parent entity Herbert Smith Freehills Global LLP has a multi-year Revolving Credit Facility of £300.0m with a syndicate of eight banks, which provides the Firm with access to liquidity to manage the business. Combined with a robust pipeline of activity, this positions the Firm well to deliver on its aspirations for the year ahead.

Going Concern

Our business continues to be resilient, current market sentiment points towards greater macroeconomic headwinds and uncertainty, and we continue to monitor market conditions closely to ensure that appropriate mitigating actions can be taken on a timely basis. 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 due consideration, 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.

Herbert Smith Freehills Global LLP determines the respective profit entitlements of Herbert Smith Freehills LLP. 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.

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.

Managing our stakeholders

The long term success of our Firm is critically dependent on the way we work with a large number of important stakeholders. The Global Council, the Chief Executive Officer and the Global Executive of the Firm's parent entity Herbert Smith Freehills Global LLP are collectively responsible for the successful leadership and management of the firm and engagement with stakeholders. In practice, the Council delegates the day-to-day management of the Firm to the Chief Executive Officer and the Global Executive. However, it retains ultimate responsibility for the performance of the Firm.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Managing our stakeholders (continued)

The Global Executive then works with the Global Operations Committee, the practice group leadership teams and the Regional Executive Committees (collectively "Executive Teams") to oversee and manage the governance of the Firm and engage with key stakeholders.

We understand that at its heart the success of our business hinges on our people being motivated by their work and providing exceptional service to our clients. Our Firm is a diverse group of people who take pride in their work and their work environment. 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 Firm's governance structure are provided as part of induction for all new employees. There is information on the Firm's global intranet pages, accessible by all employees, regarding the role and composition of the various governance bodies within the Firm, including organisation charts where appropriate.

The Firm has global, regional and functional communications, including those from the Senior Partner and Chief Executive Officer updating on key issues. With Covid-related restrictions on movement easing, both the Chief Executive Officer and Senior Partner have recently visited a number of offices in the network. Communications now take a hybrid approach and in-person sessions are held when appropriate but communications continue to be conducted virtually to support those working remotely.

Our people

The Global Council and Executive Teams engage with our people regularly across a number of broad issues. Engagement is generally virtual but there are increasing opportunities to meet in person.

Engagement with our people is key to our success. We have regular surveys on themes relating to the engagement of our people globally. Throughout the Covid-19 pandemic, surveys were undertaken to assess sentiments on returning to the office from both a safety perspective and on agile working. The results of surveys are then followed up to continue our high levels of employee engagement. Our Insights survey of our people and their experience of the Firm has been conducted over the past three years. The survey provides important data, helping us to understand what motivates our people and how we can enhance their experience at the Firm.

One of the key strategic projects currently underway is to determine and articulate the experience of life at Herbert Smith Freehills (Life@HSF), so that we can ensure that this evolves in a way to help us achieve our ambitions. This project includes consultations with people across the network including focus groups with colleagues in every region, across all roles. This will provide everyone with an opportunity to contribute their views on our existing strengths as a firm and what needs to evolve in our culture and working experience. In addition, there are networks to support a range of groups dealing with topical and internal community discussions, and helping to connect our employees for the betterment of the Firm and its culture. Staff attrition levels are reported to the Executive Teams on a regular basis and exit interviews completed with departing employees, with learnings cascaded and applied as needed.

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

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Managing our stakeholders (continued)

Our people (continued)

Investing in our people

The Firm's objective is to invest in all its people, across our legal practice and business services teams. We have structured technical training programmes for our lawyers for the purpose of ensuring that they meet regulatory requirements and client expectations, as well as a comprehensive virtual learning curriculum to support our lawyers to develop the business skills, knowledge and mind-sets required at each stage of their careers. Additional, targeted, development is offered to meet identified needs and Firm priorities. In the UK, the Firm is 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 offer a regularly updated learning schedule 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. Each office will have its own programmes for ensuring the wellbeing of staff in that location. This can include subsidised membership schemes for health and wellbeing services covering a range of activities, classes, treatments and memberships. We are also in the process of making changes to our global employee assistance programme to further enhance the support available to our employees.

Diversity and inclusion

Our Leading for Inclusion strategy positions the creation of an inclusive culture as the overriding objective of our diversity and inclusion strategy.

We are committed to ensuring a diverse and inclusive culture. We believe it is important to embrace the difference that makes each of our people 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 including our new 8 Drivers for Gender Equity
- our 10 Actions for Change in relation to ethnicity
- 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

We continue our focus on increasing the proportion of women in the partnership and in key leadership roles. In late 2021, the Firm's parent Herbert Smith Freehills Global LLP launched 8 Drivers for Gender Equity, bringing clarity to focus areas for improving gender equity across the network. During the course of 2021, Herbert Smith Freehills Global LLP also became a lead partner for the General Counsel for D&I group.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Managing our stakeholders (continued)

Diversity and Inclusion (continued)

Our commitment to ethnic diversity continues globally. We continue work under 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.

In London, we have set a target that the proportion of minority ethnic trainees retained as newly qualified lawyers will be at least the same as the proportion of minority ethnic trainees in each intake.

LGBT+ inclusion

We are proud of our work on LGBT+ inclusion, and have recently appointed partner sponsors to represent each of our four regions.

Ability

We are progressing our work under our commitments to the Valuable 500, to prioritise global disability inclusion.

Mental health

We continue to implement our mental health commitments under Thrive, our 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.

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

The Pro Bono and Responsible Business Council oversees the 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 Firm is actively involved vary 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 needs within the community. In the United Kingdom, access to justice and social mobility have been identified as two areas of focus.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Managing our stakeholders (continued)

Communities and environment

Pro bono and citizenship

The Pro Bono and Responsible Business Council closely monitors our Pro Bono and Responsible Business work to the communities where the Firm has a sizeable presence and therefore takes an active interest in the selection of the causes that the Firm wishes to support.

Some of the Firm's projects and achievements during the year are presented below.

- Supporting a coalition of pro bono clearing houses, including LawWorks and the Law Centres Network (United Kingdom), PILA (Ireland) and PILnet (Asia, Europe). These organisations are collaborating to build digital capacity by extending an online pro bono portal developed by Justice Connect.
- Working to improve the condition of migrant workers in 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.
- 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.
- Undertaking research projects for refugee-focused NGOs and UNHCR to explore the extent of digital and financial inclusion for refugees across Asia including in India, Indonesia, Papua New Guinea and Malaysia.
- Lawyers from across our European offices are participating in the Rule 39 Initiative, a project to defend the rights of refugees by drafting submissions to the European Court of Human Rights in Strasbourg for emergency relief against States on behalf of refugees.
- As part of our commitment to anti-racism initiatives, advising on the establishment and registration of Black Equity Organisation, a national and independent civil-rights organisation founded to advance justice and equity for black people in Britain.
- Supporting our global charity partner Médecins Sans Frontières as they respond to humanitarian crises across the globe.

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 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 Firm's sustainability goals, environmental considerations have been integrated effectively into governance arrangements, including the activities of the Global Council and the Executives.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Managing our stakeholders (continued)

Communities and environment

In December 2020 the Firm's parent entity Herbert Smith Freehills Global LLP committed to reducing its 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. The global firm is planning to do so in a number of ways including: using clean energy; encouraging our suppliers to reduce their emissions; and supporting credible initiatives that remove carbon dioxide from the atmosphere. This commitment covers carbon from our entire global operations and includes Scopes 1, 2 and 3 as defined by the Greenhouse Gas Protocol. We envisage the robustness of this data improving as we improve the granularity and range of data collected.

Global carbon emissions for Herbert Smith Freehills Global LLP

Emissions type	2021/22	2019/20 (baseline)	Reduction against baseline %
	Tonnes carbon equivalent (tCO ₂ e)	Tonnes carbon equivalent (tCO ₂ e)	
Scope 1 – Direct	425	547	(22%)
Scope 2 – Indirect (Energy) (location based*)	4,398	6,212	(29%)
Scope 2 – Indirect (Energy) (Market based*)	3,354	6,665	(50%)
Scope 3 – Other Indirect	32,074	47,376	(32%)
Total (Market based)	35,853	54,588	(34%)
Intensity ratio (kg CO ₂ e /FTE)	7,824	11,575	(32%)

*Emissions associated with electricity use are reported using both location based and market based emission factors

The table above includes carbon emissions for our global operations and have been calculated using the Greenhouse Gas Protocol methodology. It relies on a mixture of actual data and GHG Protocol recommended proxies where data is not available. Scope 1 and 2 data has been externally verified for accuracy and completeness in accordance with the ISO 14064-Part 3 standard.

Our carbon strategy includes near-term carbon targets that have been verified by the Science Based Targets Initiative (SBTi), an organisation formed by the United Nations, World Wide Fund for Nature, CDP and World Resource Institute to encourage and measure corporate climate action. As part of a holistic sustainability and climate change strategy, we included climate related risks in our Enterprise Risk Protocol, along with a series of actions and risk mitigants. We are now framing our review and management of climate risks in line with the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations, preparatory to fuller disclosures next year.

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 year ended 30 April 2022. Our calculations are based on the 2021 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 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, such as the Streamlined Energy and Carbon Reporting (SECR) and Energy Savings Opportunities Scheme (ESOS). We operate an energy management system accredited to ISO 50001:2018 for our United Kingdom based operations, which achieved recertification in 2021. This requires continual performance improvement and provides a systematic approach to the efficient use of energy.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Managing our stakeholders (continued)

Communities and environment

During the reporting period energy consumption and emissions continued to be affected by Covid-19. To minimise energy waste, building controls strategies have been 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. 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 the year ended 30 April 2022 as compared with the prior year. The table below illustrates our energy usage and the carbon equivalent emissions over the two years, to demonstrate the savings made as part of our programme to improve energy use efficiency.

Streamline Energy and Carbon Reporting (SECR):

	2021/22			2020/21 (Restated***)		
	KWh	Miles	CO ₂ e (tonnes)	KWh	Miles	CO ₂ e (tonnes)
Natural gas (Scope 1)	1,002,471		184	2,198,409		404
Electricity (Scope 2) Location based*	5,102,297		1,083	4,981,375		1,161
Electricity (Scope 2) Market based*	5,102,297		0	4,981,375		35
Travel (Scope 1, 2 and 3)**	14,771	12,726	3.57	1,738	1,562	0.43
Total – Market based	6,119,539		188	7,181,522		439
Intensity ratio 1 (Energy KWh/square foot)	18.4			21.6		
Intensity ratio 2 (CO ₂ e kg/square foot)			0.57			1.32

*Emissions associated with electricity use are reported using both location based and market based emission factors

**Includes company-owned vehicles, grey-fleet and hire cars

*** Restated as more reliable energy billing data has become available resulting in certain estimates being replaced by actuals

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

1. Scope 1 and 2 carbon data externally verified for accuracy and completeness in accordance with the ISO 14064-Part 3 standard.
2. The electricity we purchase is sourced from renewable sources. Our reporting uses Defra *location-based* carbon emission factors which reflect UK average grid emissions. Note that when using market-based emission factors these emissions would be close to zero.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Managing our stakeholders (continued)

Our suppliers

Our supply chain predominantly consists of goods and services purchased to enable our people to deliver legal services to our clients. The key categories we procure are property space, facilities management, human resources, hospitality and catering, other professional services, and information technology. Some of our suppliers may also be the Firm's clients. Payment terms are agreed with individual suppliers taking into account their company size and the nature of goods or services provided using standard engagement terms to ensure compliance with applicable laws and regulations. In the UK, we publish our payment practices on a six-monthly basis on the UK Government portal and the data benchmarks well with our peers. Through our standard Services Agreement and our Third Party Compliance Standards we seek to ensure compliance by the suppliers (including agents, subcontractors and employees) with our standards, such as those relating to data protection, anti-bribery & corruption, modern slavery, labour laws, and diversity and inclusion.

We segment our supply chain based on risk, business criticality and commercial value and engage with the suppliers that we classify as strategic through Executive Sponsors, the Global Executive or the Global Operations Committee. Executive Sponsors are also closely involved in the agreement of key terms. 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 over compliance with procurement policies and procedures and receives a quarterly report on third party management risk which focuses on our Contract Management policy.

Regular risk assessment exercises are completed using externally available data sources on our suppliers. We use a modern slavery and human trafficking risk assessment platform to conduct further due diligence on suppliers identified as high risk based on their jurisdiction or services provided.

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.

MEMBERS' REPORT (CONTINUED)
YEAR ENDED 30 APRIL 2022

Statement of members' responsibilities in respect of the financial statements (continued)

The members are 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 also 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 overseen by the designated members on behalf of the LLP.

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.

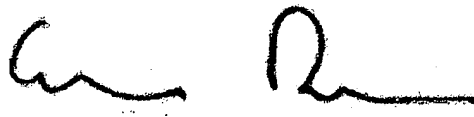
Registered office

The registered office of the LLP is Exchange House, Primrose Street, London EC2A 2EG.

Signed on behalf of the members on 28 July 2022 by



Donald Rowlands



Gavin Davies

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 2022 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 2022; the statement of comprehensive income and 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. Audit procedures performed by the engagement team included:

- Evaluation of the design of management's controls designed to prevent and detect irregularities

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)

- 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.



Kate Wolstenholme (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 July 2022

**STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 APRIL 2022**

	Note	2022 £m	2021 £m
Revenue			
Fee income	3	531.3	507.2
Other fee income	3	3.3	2.4
		534.6	509.6
Other operating income	4	19.4	20.2
Staff and related costs	5	(59.7)	(59.2)
Premises costs		(24.5)	(25.1)
Net impairment losses on financial and contract assets		(10.8)	(0.3)
Other costs		(288.3)	(266.7)
Operating profit	6	170.7	178.5
Dividends received from subsidiary		12.0	11.9
Finance income	7	1.3	1.2
Finance costs	7	(7.4)	(8.9)
Profit on ordinary activities before taxation		176.6	182.7
Taxation	8	(2.3)	(1.9)
Profit for the financial year before members' profit shares		174.3	180.8
Other comprehensive income / (expense):			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of defined benefit liability	22	(0.1)	(0.2)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations	20	2.6	(2.4)
Total other comprehensive income / (expense) for the year		2.5	(2.6)
Total comprehensive income for the year		176.8	178.2

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 APRIL 2022

	Note	30 April 2022 £m	30 April 2021 £m
Fixed assets			
Tangible fixed assets	10	15.7	13.3
Right-of-use assets	11	123.5	137.7
Investments	12	1.0	1.0
		<u>140.2</u>	<u>152.0</u>
Current assets			
Client receivables	13	111.7	94.3
Contract assets	14	120.1	99.2
Other receivables	15	245.1	211.4
Amounts due from members	20	20.9	31.2
Other amounts due from members	20	21.4	29.0
Cash and bank balances		76.2	85.3
		<u>595.4</u>	<u>550.4</u>
Creditors: Amounts falling due within one year			
Trade and other payables	16	(283.6)	(232.9)
Lease liabilities	18	(18.2)	(19.7)
Provisions	19	(0.5)	(0.6)
Members' capital classified as a liability	20	(0.8)	(0.6)
		<u>(303.1)</u>	<u>(253.8)</u>
Net current assets		<u>292.3</u>	<u>296.6</u>
Total assets less current liabilities		<u>432.5</u>	<u>448.6</u>
Creditors: Amounts falling due after more than one year			
Borrowings	17	(103.4)	(105.2)
Lease liabilities	18	(116.6)	(129.5)
Provisions	19	(6.6)	(6.8)
Members' capital classified as a liability	20	(32.6)	(30.0)
		<u>(259.2)</u>	<u>(271.5)</u>
Total liabilities		<u>(562.3)</u>	<u>(525.3)</u>
Net assets attributable to members		<u>173.3</u>	<u>177.1</u>

Herbert Smith Freehills LLP
Registered number OC310989

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 APRIL 2022

	Note	30 April 2022 £m	30 April 2021 £m
Equity			
Other reserves	20	174.2	180.6
Translation reserve	20	(0.9)	(3.5)
Total shareholders' funds		173.3	177.1
Total members' interests and other interests			
Amounts due from members	20	(20.9)	(31.2)
Members' capital classified as a liability	20	33.4	30.6
Other amounts due from members	20	(21.4)	(29.0)
Other reserves	20	174.2	180.6
Translation reserve	20	(0.9)	(3.5)
Total members' interests and other interests		164.4	147.5

The financial statements of the LLP, registered number OC310989 on pages 17 to 51 were authorised for issue by the designated members on behalf of the LLP on 28 July 2022 and signed on their behalf by:



.....
Donald Rowlands



.....
Gavin Davies

**STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 APRIL 2022**

	Other reserves £m	Translation Reserve £m	Total equity £m
Balance at 1 May 2020	108.7	(1.1)	107.6
Profit for the financial year before members' profit shares	180.8	-	180.8
Total other comprehensive expense for the year	(0.2)	(2.4)	(2.6)
Total comprehensive income/(expense) for the year	180.6	(2.4)	178.2
Allocated profit net of members' tax	(59.8)	-	(59.8)
Amounts retained in respect of members' taxation	(48.9)	-	(48.9)
Total transactions with members recognised within equity	(108.7)	-	(108.7)
Balance at 30 April 2021	180.6	(3.5)	177.1
Profit for the financial year before members' profit shares	174.3	-	174.3
Total other comprehensive (expense)/income for the year	(0.1)	2.6	2.5
Total comprehensive income for the year	174.2	2.6	176.8
Allocated profit net of members' tax	(99.3)	-	(99.3)
Amounts retained in respect of members' taxation	(81.3)	-	(81.3)
Total transactions with members recognised within equity	(180.6)	-	(180.6)
Balance at 30 April 2022	174.2	(0.9)	173.3

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 APRIL 2022**

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 101 'Reduced Disclosure Framework'. In preparing these financial statements, Herbert Smith Freehills LLP applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, Herbert Smith Freehills LLP transitioned to UK-adopted international accounting standards (as described above) on 1 May 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change. The financial statements of Herbert Smith Freehills LLP have been prepared in accordance with UK Generally Accepted Accounting Practice and with the requirements of the Companies Act 2006 as applicable to Limited Liability Partnerships reporting under those standards.

The financial statements are presented in 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';
 - iii. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

1. **Accounting Policies (continued)**

Basis of preparation (continued)

- IAS 7, 'Statement of cash flows'
- 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 for the current year

Impact of the initial application of Interest Rate Benchmark Reform

In the prior year, the LLP adopted the Phase 1 amendments *Interest Rate Benchmark Reform—Amendments to IFRS 9/IAS 39 and IFRS 7*. These amendments allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform. In the current year, the LLP adopted the Phase 2 amendments *Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*. Adopting these amendments enables entities to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. In response to Phase 2, modifications have been made during the current year to the parent entity's revolving credit facility which the LLP draws from, in respect of borrowings in the relevant currencies that will mature at a future date. The adoption of Phase 2 does not have a material impact on these financial statements.

Impact of the initial application of Covid-19-Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16

In the prior year, the LLP early adopted *Covid-19-Related Rent Concessions (Amendment to IFRS 16)* that provided 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. In March 2021, the International Accounting Standards Board (IASB) issued *Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)* that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022. In the current financial year the LLP has applied the amendment to IFRS 16 in advance of its effective date. The early adoption has not had a material impact on the results or financial position of the LLP.

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 as 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 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and (c) There is no substantive change to other terms and conditions of the lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

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 Group in future periods.

- IFRS 17 (including the June 2020 amendments to IFRS 17) *Insurance Contracts*. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an entity and its associate or joint venture.
- 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.
- Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.
- Amendments to IAS 16 *Property, Plant and Equipment – Proceeds before intended Use*. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss.
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets - 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.
- Annual Improvements to IFRS Standards 2018-2020 Cycle *Amendments to IFRS 1 First-time Adoption of International Financial reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*.
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements - Disclosure of Accounting Policies*. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies and replace all instances of the term 'significant accounting policies' with 'material accounting policy information'.
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates*. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates.
- Amendments to IAS 12 *Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction*. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

1. Accounting Policies (continued)

Going concern

The designated members have adopted the going concern basis in the preparation of these financial statements. In reaching this decision, consideration has been given to forecasts and cash flow projections prepared by the Firm's parent entity Herbert Smith Freehills Global LLP covering a period of 18 months from the balance sheet date. The designated members note in particular that as at the balance sheet date, the parent entity has a Revolving Credit Facility covering the next three years with sufficient headroom in relation to liquidity for the Firm and compliance with applicable covenants. The designated members are satisfied that there is flexibility with the timing of payments to partners and access to liquidity through the parent entity's funding facilities to support the going concern basis.

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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

1. **Accounting Policies (continued)**

Foreign currencies

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

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

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 2022

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

1. Accounting Policies (continued)

Leases (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

1. Accounting Policies (continued)

Pension costs and other post-retirement benefits (continued)

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 fair value of the plan assets over the present value of the defined benefit obligation at the end of the reporting period would be recognised in the balance sheet subject to there being an unrestricted right over any surplus. 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 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 Statement of Financial Position. The LLP contributes to employee pension schemes as required under applicable laws. The funds are managed by independent fund managers and trustees.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

1. Accounting Policies (continued)

Financial instruments (continued)

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. 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 over which the LLP recognises as expenses the related costs 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 2022

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 for the LLP of £3.6m.

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 for the LLP of £3.8m.

Defined benefit pension scheme

Significant judgements include the decision not to recognise the pension scheme valuation surplus as in the LLP's judgement, 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:

	2022	2021
	£m	£m
United Kingdom / United States of America	434.8	407.7
Continental Europe, Middle East and Africa	37.6	35.5
Asia	58.9	64.0
Fee income	531.3	507.2
	2022	2021
	£m	£m
Recharges for internal disbursements	3.3	2.4
Other fee income	3.3	2.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

4. **Other operating income**

	2022	2021
	£m	£m
Recharges of premises costs to group undertaking	17.8	18.4
Sundry income	1.6	1.8
Other operating income	19.4	20.2

5. **Employee information**

	2022	2021
	£m	£m
Salaries*	52.1	52.7
Social security costs	1.5	1.3
Pension costs – defined contribution schemes	0.9	0.9
Other staff related costs	5.2	4.3
	59.7	59.2

Average number of persons employed:**

	2022	2021
	No.	No.
Fee-earning staff	232	248
Other staff	171	167
	403	415

* Salaries include amounts paid to member equivalents.

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

6. **Operating profit**

	2022	2021
	£m	£m
The operating profit for the year is stated after charging:		
Depreciation of tangible fixed assets	3.3	3.4
Depreciation of right-of-use assets	19.4	20.0
(Profit) / loss on disposal of tangible fixed assets	(0.2)	0.1
Net foreign exchange losses	9.4	3.8

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

6. Operating profit (continued)

	2022	2021
	£m	£m
The analysis of auditors' remuneration is as follows:		
Fees payable to the LLP's auditors for the audit of the LLP's annual financial statements	0.2	0.2
Fees payable to the LLP's auditors and its associates for other services:		
- The audit of the LLP's subsidiaries and associated undertakings pursuant to legislation	0.4	0.4
Total audit fees	<u>0.6</u>	<u>0.6</u>
- Other services pursuant to legislation	0.1	0.1
- Taxation compliance services	-	0.1
Total non-audit fees	<u>0.1</u>	<u>0.2</u>

7. Finance income and costs

	2022	2021
	£m	£m
Finance income:		
Bank interest receivable	0.1	0.2
Interest on pension scheme assets	1.2	1.0
	<u>1.3</u>	<u>1.2</u>
Finance costs:		
Bank loan interest	(2.2)	(3.4)
Other interest and bank charges	(0.1)	(0.2)
Interest expense on lease liabilities	(4.1)	(4.5)
Interest on pension scheme liabilities	(1.0)	(0.8)
	<u>(7.4)</u>	<u>(8.9)</u>
Net finance costs	<u>(6.1)</u>	<u>(7.7)</u>

8. Taxation

	2022	2021
	£m	£m
Current tax on profits for the year	2.3	2.1
Prior year adjustment	-	(0.2)
Total current taxation on profit on ordinary activities	<u>2.3</u>	<u>1.9</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

8. Taxation (continued)

	2022	2021
	£m	£m
Profit on ordinary activities before taxation	176.6	182.7
Less: Amounts subject to personal tax	<u>(170.4)</u>	<u>(175.7)</u>
	6.2	7.0
Tax at corporate rates	1.2	1.4
Tax effects of:		
Prior year adjustment	-	(0.2)
Different tax rates and bases in other jurisdictions	1.1	1.2
Unrelieved losses	<u>-</u>	<u>(0.5)</u>
Total charge	<u>2.3</u>	<u>1.9</u>

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

The effective applicable tax rate for profits of Herbert Smith Freehills LLP subject to tax of 37.1% (2021: 27.1%) is higher than the statutory rate of corporation tax in the United Kingdom for 2022 of 19.0% (2021: 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 £0.4m (2021: £0.2m) exists in respect of losses carried forward. The asset would be recovered in the event of sufficient future taxable profits.

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the rate of corporation tax would remain at 19.0% (rather than reducing to 17.0%, as previously enacted). The Government made a number of budget announcements on 3 March 2021. These include confirming that the rate of corporation tax will increase to 25.0% from 1 April 2023. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these substantively enacted tax rates.

Movements in current tax debtor:	2022	2021
	£m	£m
Current tax debtor at start of the year	(1.2)	0.4
Tax charge for the year	2.3	1.9
Corporate taxes paid	(2.9)	(2.6)
Amounts adjusted against other amounts due to members	<u>-</u>	<u>(0.9)</u>
Current tax debtor at end of the year	<u>(1.8)</u>	<u>(1.2)</u>

9. Members' share of profits

The profit for the financial year after charging all expenses is divided amongst the members after the issuance of audited financial statements. The member receiving the highest remuneration inclusive of other benefits will receive £2.3m (2021: £1.9m).

	2022	2021
	No.	No.
Average number of members	<u>179</u>	<u>183</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

10. **Tangible fixed assets**

	Leasehold improvements, furniture, fixtures and fittings £m	Office equipment and computers £m	Total £m
Cost:			
At 1 May 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
Additions	5.2	0.5	5.7
Exchange differences	0.6	0.2	0.8
At 30 April 2022	106.4	3.3	109.7
Accumulated depreciation:			
At 1 May 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
Charge for the year	3.0	0.3	3.3
Exchange differences	0.6	0.2	0.8
At 30 April 2022	91.2	2.8	94.0
Carrying amount:			
At 30 April 2022	15.2	0.5	15.7
At 30 April 2021	13.0	0.3	13.3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

11. Right-of-use assets

	Buildings £m	Office equipment and motor vehicles £m	Total £m
Cost			
At 1 May 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
Additions	2.0	-	2.0
Remeasurement	(3.2)	-	(3.2)
Exchange differences	0.4	-	0.4
At 30 April 2022	174.1	2.1	176.2
Accumulated depreciation			
At 1 May 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
Charge for the year	19.0	0.4	19.4
Remeasurement	(6.3)	-	(6.3)
Exchange differences	0.3	-	0.3
At 30 April 2022	51.2	1.5	52.7
Carrying amount			
At 30 April 2022	122.9	0.6	123.5
At 30 April 2021	136.7	1.0	137.7

The LLP leases several assets including office and residential premises, and office equipment. The average lease term is 8 years for the LLP. Based on value, approximately 1.4% 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 similar underlying assets. The LLP entered into new lease agreements in respect of office premises in Germany and Singapore which had not commenced as at 30 April 2022. The aggregate future cash outflows to which the Group is exposed are anticipated to be £20.0m.

Amounts recognised in the Statement of Comprehensive Income are as follows:

	2022 £m	2021 £m
Depreciation expense on right-of-use assets	19.4	20.0
Interest expense on lease liabilities	4.1	4.5
	23.5	24.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

12. Investments

	2022 £m	2021 £m
Cost		
As at 1 May and at 30 April	1.0	1.0

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%
Peregrine Services Limited (2)	Hong Kong	Service company	100%
Herbert Smith Freehills (Thailand) Limited* (4)	Thailand	Legal services	49%
Exchange House Services Limited (1)	England and Wales	Service company	100%
Herbert Smith Limited (1)	England and Wales	Service company	100%
Herbert Smith Freehills Spain LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills One Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Two Limited (1)	England and Wales	Investment company	100%
Herbert Smith Freehills Paris LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Middle East LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Three Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills New York LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Four Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Germany LLP (1)	England and Wales	Legal services	100%
Herbert Smith Freehills Six Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Seven Limited (1)#	England and Wales	Investment company	100%
Herbert Smith Freehills Five Pty Limited (5)	Australia	Investment company	100%
Herbert Smith Freehills South Africa LLP (1)	England and Wales	Legal Services	100%
Office Organization & Services Limited (1)#	England and Wales	Special purpose vehicle	100%
Peregrine Secretarial Services Limited (1)#	England and Wales	Special purpose vehicle	100%
Precis Nominees Limited (1)#	England and Wales	Special purpose vehicle	100%
Peregrine Nominees Limited (1)#	England and Wales	Special purpose vehicle	100%
Precis Company Services Limited (1)#	England and Wales	Special purpose vehicle	100%
Precis (2778) 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, Primrose Street, London EC2A 2EG.
- Address is 23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong.
- Address is 41st Floor, Midtown Tower, 9-7-1, Akasaka, Minato-Ku, Tokyo 107-6241.
- Address is Abdulrahim Place, 14th Floor, Room No 1403, 990 Rama IV Road, Silom Sub-District, Bangrak District, Bangkok 10500.
- Address is Level 24, 80 Collins Street, Melbourne VIC 3000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

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
Herbert Smith Freehills South Africa Attorneys Inc. (B)	South Africa	Legal services
Peregrine Trustee Company Limited (D)	England and Wales	Service company

- 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

	2022	2021
	£m	£m
Amount receivable for the supply of services	126.2	107.4
Loss allowance	<u>(14.5)</u>	<u>(13.1)</u>
Billed client receivables due within one year	<u>111.7</u>	<u>94.3</u>

Billed client receivables include amounts which are past due at the reporting date. The average age of these receivables balances is 70 days (2021: 67 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.

	2022	2021
	%	%
0 – 30 days	4.8%	2.0%
31 - 60 days	4.4%	5.7%
61 - 90 days	11.4%	8.7%
91 - 120 days	10.0%	37.7%
121 + days	<u>52.2%</u>	<u>70.9%</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

13. Client receivables (continued)

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

	Billed client receivables		Loss allowance	
	2022 £m	2021 £m	2022 £m	2021 £m
0 – 30 days	72.4	62.4	3.4	1.3
31 - 60 days	24.6	21.7	1.1	1.2
61 - 90 days	8.9	7.6	1.0	0.7
91 - 120 days	3.8	3.7	0.4	1.4
121+ days	16.5	12.0	8.6	8.5
	<u>126.2</u>	<u>107.4</u>	<u>14.5</u>	<u>13.1</u>

Movement in the loss allowance for client receivables

	2022 £m	2021 £m
At start of the year	13.1	16.8
Increase in loss allowance	8.8	8.8
Amounts written off during the year	(3.8)	(7.0)
Amounts recovered during the year	(3.7)	(4.8)
Foreign exchange translation loss / (gain)	0.1	(0.7)
At end of the year	<u>14.5</u>	<u>13.1</u>

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

14. Contract assets

	2022 £m	2021 £m
Unbilled client receivables - current	<u>120.1</u>	<u>99.2</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 2022

15. Other receivables

Due within one year:

	2022	2021
	£m	£m
Prepayments	5.1	4.7
Amounts due from group undertakings	217.1	188.4
Current tax debtor	1.8	1.2
Other receivables	21.1	17.1
	<u>245.1</u>	<u>211.4</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

	2022	2021
	£m	£m
Trade payables	19.1	16.7
Amounts due to group undertakings	200.9	156.2
Other taxes and social security	4.1	1.0
Other payables	29.7	29.2
Accruals	29.8	29.8
	<u>283.6</u>	<u>232.9</u>

Other payables and accruals principally comprise amounts outstanding for purchases of goods and services. The members consider that the carrying value approximates fair value.

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

17. Borrowings

	2022	2021
	£m	£m
Bank loans due between two and five years	<u>103.4</u>	<u>105.2</u>

The members have subordinated their interests in respect of certain outstanding bank facilities. Borrowings represent amounts drawn against the Firm's parent entity Herbert Smith Freehills Global LLP's revolving credit facility with a consortium of eight participating banks. The facility is unsecured and bears interest at 1.2% above the relevant market rate for a given currency 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

18. Lease liabilities

	2022	2021
	<u>£m</u>	<u>£m</u>
Analysed as:		
Current	18.2	19.7
Non-current	116.6	129.5
	<u>134.8</u>	<u>149.2</u>
		2021
	2022	(Restated)
	<u>£m</u>	<u>£m</u>
Maturity analysis:		
Due within one year	19.1	20.9
Due between one and two years	20.6	19.8
Due between two and three years	18.7	18.5
Due between three and four years	18.4	18.2
Due between four and five years	17.5	17.8
Due after five years	57.4	74.5
	151.7	169.7
Less: interest	(16.9)	(20.5)
	<u>134.8</u>	<u>149.2</u>

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:

	2022	2021
	<u>£m</u>	<u>£m</u>
At start of the year	149.2	164.7
Impact of new leases and remeasurements	5.7	4.8
Unwinding of discount	4.1	4.5
Repayment of lease liabilities	(24.2)	(23.3)
Other movements during the year	-	(1.5)
	<u>134.8</u>	<u>149.2</u>
At end of the year		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

19. Provisions

	Dilapidations	Employee	Other	Total
	£m	benefits	£m	provisions
	£m	£m	£m	£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 Statement of Comprehensive Income	(0.2)	-	-	(0.2)
Exchange differences	(0.1)	-	-	(0.1)
At 30 April 2021	5.9	0.6	0.9	7.4
Utilisation	-	(0.5)	(0.2)	(0.7)
Additional provision made in the year	-	0.5	0.2	0.7
Reversal to the Statement of Comprehensive Income	-	-	(0.3)	(0.3)
Exchange differences	-	-	-	-
At 30 April 2022	5.9	0.6	0.6	7.1

	2022	2021
	£m	£m
Current provisions	0.5	0.6
Non-current provisions	6.6	6.8
	7.1	7.4

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 2022

20. Members' interests

LLP	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 2020	108.7	(1.1)	33.0	5.2	(50.0)	95.8
Profit for the financial year before members' profit shares	180.8	-	-	-	-	180.8
Allocated profit	(59.8)	-	-	-	59.8	-
Allocated profits 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	180.6	(3.5)	30.6	(29.0)	(31.2)	147.5
Profit for the financial year before members' profit shares	174.3	-	-	-	-	174.3
Allocated profit	(99.3)	-	-	-	99.3	-
Allocated profits retained for members' tax	(81.3)	-	-	81.3	-	-
Amounts paid to or on behalf of members	-	-	-	(73.7)	(89.0)	(162.7)
Actuarial loss relating to pension scheme	(0.1)	-	-	-	-	(0.1)
Capital introduced	-	-	4.2	-	-	4.2
Capital repaid	-	-	(1.4)	-	-	(1.4)
Exchange difference on translation of foreign operations	-	2.6	-	-	-	2.6
At 30 April 2022	174.2	(0.9)	33.4	(21.4)	(20.9)	164.4

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

21. Financial Instruments (continued)

Financial assets and liabilities

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

Financial assets	2022	2021
	£m	£m
Billed client receivables	111.7	94.3
Contract assets	120.1	99.2
Cash and bank balances	76.2	85.3
Amounts due from members	20.9	31.2
Other amounts due from members	21.4	29.0
Other receivables	238.2	205.5
	588.5	544.5
	588.5	544.5
Financial liabilities	2022	2021
	£m	£m
Borrowings	103.4	105.2
Lease liabilities	134.8	149.2
Trade and other payables	283.6	232.9
Members' capital	33.4	30.6
	555.2	517.9
	555.2	517.9

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

Foreign currency risk

Foreign exchange risk arises from transactions in a currency that is not the entity's functional currency. This risk is monitored using sensitivity analysis and cash flow forecasting. The reporting currency for the LLP is Sterling, whereas it conducts operations globally in a number of different currencies. In addition, the offices of the LLP also invoice clients in currencies other than their functional currencies. Within each of the LLP's foreign operations, revenues and costs are predominantly in the same currency which provides a certain level of natural hedging to foreign currency risk at the entity level. At the LLP level, the net asset exposure to currencies other than Sterling is regularly monitored and such exposure may be partially hedged by means of additional drawdowns under the multi-currency facility.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

21. Financial Instruments (continued)

Currency profile of financial assets and liabilities:

	Financial assets		Financial liabilities	
	2022 £m	2021 £m	2022 £m	2021 £m
Sterling	291.1	301.1	222.1	229.0
Australian Dollars	4.7	5.0	10.3	9.8
Euros	14.3	25.2	53.1	59.8
US Dollars	76.2	75.3	74.8	81.9
Hong Kong Dollars	126.3	83.1	143.9	74.3
Japanese Yen	21.2	11.1	10.5	29.6
Other	54.7	43.7	40.5	33.5
	588.5	544.5	555.2	517.9

Foreign currency sensitivity analysis

Based on the above exposures, the LLP's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies is set out below. A positive number 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 2022 £m	(Loss) / gain 2021 £m
Euro currency impact	(3.9)	(3.4)
US Dollar currency impact	0.1	(0.7)
Hong Kong Dollar currency impact	(1.8)	0.9
Japanese Yen currency impact	1.1	(1.8)

Additionally, there would be an increase in equity of £2.1m (2021: increase of £1.6m) for the LLP where Sterling weakens by 10% arising from the translation of foreign entities. For a 10% strengthening of Sterling against the relevant currency, there would be an equal and opposite impact on equity.

Interest rate risk

The LLP is exposed to interest rate risk from borrowings at floating interest rates. In the prior year, the LLP adopted the Phase 1 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9/IAS 39 and IFRS 7. In the current year, the LLP adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. In response to the reforms, borrowings in the relevant currencies under the parent entity Herbert Smith Freehills Global LLP's revolving credit facility that were LIBOR linked were transitioned to Sterling Overnight Index Average. The adoption of the Interest Rate Benchmark Reforms has not had a material impact on the amounts reported in these financial statements.

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 2022 and equity would decrease/increase by £0.6m (2021: £0.8m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

21. Financial Instruments (continued)

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.

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.

The 'other' column in the tables includes 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 whose retirement date will occur within the next 12 months is reflected as a current liability, with the balance being reflected as 'other'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

21. Financial Instruments (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 6 months £m	6-12 months £m	1-2 years £m	2-5 years £m	5+ years £m	Other £m	Total £m
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
2022								
Non-interest bearing:								
Trade and other payables		283.6	-	-	-	-	-	283.6
Fixed and variable rates:								
Borrowings	2.2%	-	-	-	103.4	-	-	103.4
Lease liabilities		-	19.1	20.6	54.6	57.4	(16.9)*	134.8
Members' capital		-	0.8	-	-	-	32.6	33.4
		283.6	19.9	20.6	158.0	57.4	15.7	555.2

* Represents interest on lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

22. Retirement benefit obligations

Defined contribution schemes

The LLP operates a number of defined contribution pension schemes. The pension cost charge for the year in relation to the defined contribution schemes amounted to £0.9m (2021: £0.9m).

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 closed to new members and future accrual. The assets of the Scheme are held separately from those of Herbert Smith Freehills LLP in a 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 Statement of Financial Position of the LLP.

The Scheme is managed by Cheviot Trustee Limited ("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, 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 could emerge.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

22. Retirement benefit obligations (continued)

Actuarial assumptions

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

	2022	2021
Discount rate	3.00% pa	1.90% pa
Retail Prices Index (RPI) inflation	3.85% pa	3.50% pa
Consumer Prices Index (CPI) Inflation	3.15% pa	2.70% pa
LPI 5% pension increases	3.60% pa	3.30% pa
LPI 2.5% pension increases	2.49% pa	2.30% pa
Salary increases	5.35% pa	5.00% 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) S3PA tables with CMI 2018 projections (smoothing parameter 7.0) 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	23.6 years
Life expectancy at age 65 of male aged 65	22.5 years	22.5 years
Life expectancy at age 65 of female aged 45	25.2 years	25.1 years
Life expectancy at age 65 of female aged 65	24.0 years	24.0 years

Assets

Bid values of the assets of the scheme are as follows:

	2022	2021
	£m	£m
Equities and growth assets	25.0	26.8
Bonds, liability-driven investment funds and cash	36.0	37.4
Total	61.0	64.2

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

Amounts recognised within the balance sheet are as follows:

	2022	2021
	£m	£m
Fair value of assets	61.0	64.2
Present value of funded obligations	(49.5)	(55.2)
Surplus	11.5	9.0
Impact of asset ceiling	(11.5)	(9.0)
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 2022

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

Reconciliation of net defined benefit liability

	2022	2021
	£m	£m
Net defined benefit asset / (liability) at start of the year	-	-
Net interest income	(0.2)	(0.2)
Remeasurements	0.1	0.2
Administration costs	0.3	0.3
Employer contributions	(0.2)	(0.3)
Net defined benefit asset / (liability) at end of the year	-	-

Amounts recognised in the Statement of Comprehensive Income

	2022	2021
	£m	£m
Administration costs	0.3	0.3
Interest on liabilities	1.0	0.8
Interest on assets	(1.2)	(1.0)
Total amount recognised	0.1	0.1

Amount recognised as part of Other Comprehensive Income

	2022	2021
	£m	£m
Loss / (gain) on assets in excess of interest	2.2	(0.3)
(Gain) / loss from changes to financial assumptions	(5.1)	2.3
Experience losses on liabilities	0.3	2.0
Loss / (gain) from changes to demographic assumptions	0.2	(1.0)
Loss / (gain) from change in effect of asset ceiling	2.5	(2.8)
Total remeasurements	0.1	0.2

Reconciliation of assets and defined benefit obligation

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

	2022	2021
	£m	£m
Fair value of assets at start of the year	64.2	64.8
Interest on assets	1.2	1.0
Employer contributions	0.2	0.3
Benefits paid	(2.1)	(1.9)
Administration costs	(0.3)	(0.3)
Return on plan assets less interest*	(2.2)	0.3
Fair value of assets at end of the year	61.0	64.2

*Actual return on assets was £1.0m (2021: £1.3m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 30 APRIL 2022

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

The change in the defined benefit obligations was as below:

	2022 £m	2021 £m
Defined benefit obligation at start of the year	55.2	53.0
Interest on liabilities	1.0	0.8
Benefits paid	(2.1)	(1.9)
Experience losses on liabilities	0.3	2.0
Loss / (gain) from changes to demographic assumptions	0.2	(1.0)
(Gain) / loss from changes to financial assumptions	(5.1)	2.3
Defined benefit obligation at end of the year	49.5	55.2

Sensitivity of the value placed on the liabilities

Adjustments to assumptions	2022 Approximate (decrease)/increase in liabilities ¹ £m	2021 Approximate (decrease)/increase in liabilities ¹ £m
Discount rate		
Plus 0.5%	(2.9)	(3.5)
Minus 0.5%	3.1	3.9
Inflation²		
Plus 0.5%	2.6	3.1
Minus 0.5%	(2.4)	(3.0)
Salary increases³		
Plus 0.5%	0.1	0.1
Minus 0.5%	(0.1)	(0.1)
Life expectancy⁴		
Plus 1 year	2.3	2.9
Minus 1 year	(2.7)	(2.9)

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 2022

22. Retirement benefit obligations (continued)

Projected charge to the Statement of Comprehensive Income for next year

	Year to 30 April 2023 £m	Year to 30 April 2022 £m
Administrative costs	0.3	0.3
Interest on liabilities	1.5	1.0
Interest on assets	(1.7)	(1.2)
Total charge	0.1	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 Group is required to agree a Schedule of Contributions with the Trustee of the Scheme following an actuarial valuation which must be carried out at least once every three years. The most recent 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 Group may be required to increase contributions above those set out in the existing Schedule of Contributions. The Group expects to pay no contributions in the year to 30 April 2023 as administration costs are due to be met by the Scheme. The weighted average duration of the defined benefit obligation is 13 years. The Group will separately meet the annual Pension Protection Fund Levy.

23. Capital Commitments

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

	2022 £m	2021 £m
Property, plant & equipment	<u>0.2</u>	<u>0.2</u>

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.