

REED SMITH LLP

Annual Report and Financial Statements

31 December 2018



REED SMITH LLP

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

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REED SMITH LLP

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

LIMITED LIABILITY PARTNERSHIP INFORMATION

DESIGNATED MEMBERS

B Charot
K Evagora
A Thomas
M T Box
C S Ryan
D E Cameron
P M Taylor

LIMITED LIABILITY PARTNERSHIP NUMBER

OC303620

REGISTERED OFFICE

The Broadgate Tower
20 Primrose Street
London
EC2A 2RS

PRINCIPAL BANKERS

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

AUDITOR

Deloitte LLP
Statutory Auditor
London
United Kingdom

REED SMITH LLP

MEMBERS' REPORT

The Members present their annual report and audited consolidated financial statements of Reed Smith LLP ("the LLP") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the LLP is the provision of legal services. One of the subsidiary companies, Beaufort Trust Corporation Limited, provides professional trusteeship services for pension schemes, charities and family trusts. Independent Pension Trustee Limited conducts trusteeships for both ongoing and closed pension schemes. Reed Smith LLP Astana provides legal services in Kazakhstan.

REVIEW OF BUSINESS

The results for the year and the financial position at the year end were considered satisfactory by the Members who expect continued growth in the foreseeable future.

BRANCHES OUTSIDE THE UNITED KINGDOM

The LLP has branches operating in Abu Dhabi, Dubai, Paris and Athens as defined in Section 1046 (3) of the Companies Act 2006. The results of these branches are consolidated in these financial statements.

DESIGNATED MEMBERS

The Members of the partnership who were in office during the year and up to the date of signing the financial statements were:

B Charot
K Evagora
A Thomas
M T Box
C S Ryan
D E Cameron
P M Taylor

POLICY ON MEMBERS' CAPITAL, PROFIT ALLOCATION AND DRAWINGS

The remuneration of a Member is based upon a combination of the individual Member's contribution and the overall financial performance of the Global Firm (the LLP and related entities). Budgeted compensation is estimated by the Executive Committee ("EC") at the beginning of a financial year. Final allocations of profit, which are dependent on the Global Firm's actual final profit for the year and may include further discretionary payments, are approved by the EC following the year end. The Members' drawings policy provides for the budgeted compensation of each Member to be distributed as determined by the EC.

Members' capital requirements are determined by the EC from time to time. The aggregate required contribution of each Member in respect of any year is determined by reference to the budgeted compensation allocated to such Member for such year. Each Member's capital subscription is repaid in full after withdrawal from the LLP.

DONATIONS

The LLP made charitable donations of £92,180 during the year (2017: £113,319).

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of Members of staff becoming disabled every effort is made to ensure that their employment with the Global firm continues and that appropriate training is arranged. It is the policy of the Global firm and the LLP that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

REED SMITH LLP

MEMBERS' REPORT (continued)

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the LLP. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

INDEPENDENT AUDITOR

The auditor, Deloitte LLP, was appointed by the Members as auditor of the LLP during the year. Deloitte LLP has indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The financial performance, position and cash flows are set out on pages 8 to 15.

Reed Smith LLP meets its day to day working capital requirements through cash reserves and an overdraft facility which was renewed on 10 May 2019. As at 31 December 2018, the Group are not utilising the facility. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

Having carried out a detailed review of the LLP's resources, the Members are confident that the LLP has sufficient cash flows to meet its liabilities as they fall due for at least one year from the date of approval of the financial statements.

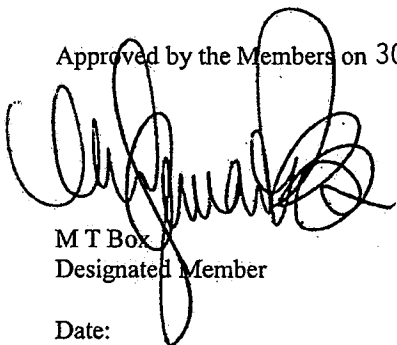
RISK MANAGEMENT AND UNCERTAINTIES

Whilst benefiting from a number of major clients, the LLP is not reliant on a small number of large clients for its ongoing business, and continues to actively pursue new opportunities. The LLP is further diversified through its global operations and different practice groups.

The specific impact of Brexit on our principal risks has been considered by the EC. We remain vigilant and continue to review the potential for known significant impacts on the business. Contingency plans are being developed to mitigate any business continuity risks in the event free trade with the continent is compromised as a result of the EU Referendum.

The LLP maintains adequate Professional Indemnity cover and is not subject to any civil actions which would materially prejudice its financial security.

Approved by the Members on 30 September 2019 and signed on behalf by



M T Box
Designated Member

Date:

MEMBERS' RESPONSIBILITIES STATEMENT

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

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the Members to prepare financial statements for each financial year. Under that law the Members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The financial statements are required by law to give a true and fair view of the state of affairs of the LLP and the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the Members are required to:

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

The Members are responsible for keeping adequate accounting records that 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, as applicable to Limited Liability Partnerships. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REED SMITH LLP

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Reed Smith LLP (the 'parent limited liability partnership') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent limited liability partnership's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and limited liability partnership balance sheets;
- the consolidated and limited liability partnership statements of changes in Members' interests;
- the consolidated cash flow statement;
- the note to the consolidated cash flow statement; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and of the parent limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REED SMITH LLP (continued)

Other information

The Members are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of Members

As explained more fully in the Members' responsibilities statement, the Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Members 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 group's and the parent limited liability partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Members either intend to liquidate the group or the parent limited liability partnership or to cease operations, or have no realistic alternative but to do so.

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

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report in respect of the following matters if, in our opinion:

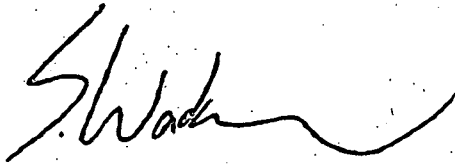
- adequate accounting records have not been kept by the parent limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent limited liability partnership financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REED SMITH LLP (continued)

Use of our report

This report is made solely to the limited liability partnership's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the limited liability partnership's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the limited liability partnership and the limited liability partnership's Members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'S. Wadsworth', with a stylized, flowing script.

Saul Wadsworth (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

Date: 30 September 2019

REED SMITH LLP**CONSOLIDATED PROFIT AND LOSS ACCOUNT****Year ended 31 December 2018**

	Note	2018 £	2017 £
TURNOVER		194,759,508	192,385,382
Cost of sales		(50,985,842)	(48,517,217)
GROSS PROFIT		143,773,666	143,868,165
Administrative expenses		(71,182,824)	(66,600,467)
Other operating income	6	926,119	-
OPERATING PROFIT	5	73,516,961	77,267,698
Interest receivable and similar income	7	349,685	171,230
Interest payable and similar charges	8	(187,102)	(209,838)
PROFIT BEFORE TAXATION		73,679,544	77,229,090
Tax on profit in corporate subsidiaries	9	(227,742)	(441)
PROFIT FOR THE FINANCIAL YEAR AVAILABLE FOR DISCRETIONARY DIVISION AMONG MEMBERS		<u>73,451,802</u>	<u>77,228,649</u>

All results relate to continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	2018 £	2017 £
Profit for the financial year available for division among Members		73,451,802	77,228,649
Actuarial gain on partners' annuities	14	600,000	300,000
Foreign exchange loss on opening net assets and profits and losses of overseas operations		(1,432,438)	(418,783)
Total comprehensive income for the year		<u>72,619,364</u>	<u>77,109,866</u>

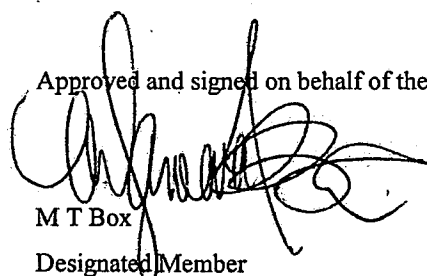
REED SMITH LLP

CONSOLIDATED BALANCE SHEET **31 December 2018**

	Note	2018 £	2017 £
FIXED ASSETS			
Tangible assets	10	7,472,777	8,805,108
CURRENT ASSETS			
Debtors	12	176,393,416	151,773,235
Cash at bank and in hand		41,170,552	26,604,145
		217,563,968	178,377,380
CREDITORS: amounts falling due within one year	13	(115,501,601)	(81,077,208)
NET CURRENT ASSETS		102,062,367	97,300,172
TOTAL ASSETS LESS CURRENT LIABILITIES		109,535,144	106,105,280
PROVISIONS FOR LIABILITIES	14	(15,145,882)	(6,600,000)
NET ASSETS ATTRIBUTABLE TO MEMBERS		94,389,262	99,505,280
REPRESENTED BY:			
Loans and other debts due to Members			
Members' capital classified as a liability under FRS102		21,769,898	21,091,313
Other reserves classified as a liability under FRS102		-	1,304,101
		21,769,898	22,395,414
Members' other interests			
Other amounts classified as equity		72,619,364	77,109,866
		94,389,262	99,505,280
Total Members' Interests			
Amounts due from Members		(44,180,956)	(38,291,278)
Loans and other debts due to Members		21,769,898	22,395,414
Other amounts classified as equity		72,619,364	77,109,866
		50,208,306	61,214,002

The financial statements of Reed Smith LLP, registered number OC303620 were approved by the Designated Members on behalf of the Members and authorised for issue on 30 September 2019.

Approved and signed on behalf of the Members


M T Box
Designated Member

REED SMITH LLP**LLP BALANCE SHEET
31 December 2018**

	Note	2018 £	2017 £
FIXED ASSETS			
Tangible assets	10	7,376,885	8,625,331
Investments	11	100,117	100,117
		<u>7,477,002</u>	<u>8,725,448</u>
CURRENT ASSETS			
Debtors	12	174,662,084	150,055,331
Cash at bank and in hand		40,945,789	25,807,022
		<u>215,607,873</u>	<u>175,862,353</u>
CREDITORS: amounts falling due within one year	13	<u>(113,523,398)</u>	<u>(78,934,437)</u>
NET CURRENT ASSETS		<u>102,084,475</u>	<u>96,927,916</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		109,561,477	105,653,364
PROVISIONS FOR LIABILITIES	14	<u>(15,145,882)</u>	<u>(6,600,000)</u>
NET ASSETS ATTRIBUTABLE TO MEMBERS		<u>94,415,595</u>	<u>99,053,364</u>
REPRESENTED BY:			
Loans and other debts due to Members			
Members' capital classified as a liability under FRS102		21,769,898	21,091,313
Other reserves classified as a liability under FRS102		-	984,603
		<u>21,769,898</u>	<u>22,075,916</u>
Members' other interests			
Other amounts classified as equity		72,645,697	76,977,448
		<u>94,415,595</u>	<u>99,053,364</u>
Total Members' Interests			
Amounts due from Members		(44,613,318)	(38,291,278)
Loans and other debts due to Members		21,769,898	22,075,916
Other amounts classified as equity		72,645,697	76,977,448
		<u>49,802,277</u>	<u>60,762,086</u>

The LLP has taken advantage of Section 408 of the Companies Act 2006 as applied by the Limited Liability Partnership (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and has not included its own Profit and Loss Account in these financial statements.

The LLP's profit for the year ended 31 December 2018 was £73,558,583 (2017: £77,108,108).

These financial statements of Reed Smith LLP, registered number OC303620 were approved by the Designated Members on behalf of the Members and authorised for issue on 30 September 2019.

Approved and signed on behalf of the Members

M T Box

Designated Member

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' INTERESTS
31 December 2018

	Members' capital classified as a liability £	Amounts due from Members £	Other amounts classified as a liability £	Other amounts classified as equity £	Total £
Members' interests at 1 January 2017	19,199,860	(35,414,437)	36,435	52,544,439	36,366,297
Profit for the year available for division among Members	-	-	-	77,228,649	77,228,649
Actuarial gain on former partners' annuities (note 14)	-	-	-	300,000	300,000
Foreign exchange loss	-	-	-	(418,783)	(418,783)
Total comprehensive income for the year	-	-	-	77,109,866	77,109,866
Allocated profits	-	35,414,437	17,130,002	(52,544,439)	-
Capital introduced by Members	5,178,999	-	-	-	5,178,999
Movement in amounts due to former Members	362,139	-	-	-	362,139
Repayments of Members' capital	(3,649,685)	-	-	-	(3,649,685)
Drawings	-	(38,291,278)	(15,862,336)	-	(54,153,614)
Members' interests at 31 December 2017	21,091,313	(38,291,278)	1,304,101	77,109,866	61,214,002
Profit for the year available for division among Members	-	-	-	73,451,802	73,451,802
Actuarial gain on former partners' annuities (note 14)	-	-	-	600,000	600,000
Foreign exchange loss	-	-	-	(1,432,438)	(1,432,438)
Total comprehensive income for the year	-	-	-	72,619,364	72,619,364
Allocated profits	-	38,291,278	38,818,588	(77,109,866)	-
Capital introduced by Members	4,210,854	-	-	-	4,210,854
Movement in amounts due to former Members	(123,293)	-	-	-	(123,293)
Repayments of Members' capital	(3,408,976)	-	-	-	(3,408,976)
Transfer to other amounts classified as liability	-	(3,522,111)	3,522,111	-	-
Drawings	-	(40,658,845)	(43,644,800)	-	(84,303,645)
Members' interests at 31 December 2018	21,769,898	(44,180,956)	-	72,619,364	50,208,306

LLP STATEMENT OF CHANGES IN MEMBERS' INTERESTS
31 December 2018

	Members' capital classified as a liability £	Amounts due from Members £	Other amounts classified as a liability £	Other amounts classified as equity £	Total £
Members' interests at 1 January 2017	19,199,860	(35,731,691)	383,645	51,933,404	35,785,218
Profit for the year available for division among Members	-	-	-	77,108,108	77,108,108
Actuarial gain on former partners' annuities (note 14)	-	-	-	300,000	300,000
Foreign exchange loss	-	-	-	(430,660)	(430,660)
Total comprehensive income for the year	-	-	-	76,977,448	76,977,448
Allocated profits	-	35,731,691	16,201,713	(51,933,404)	-
Capital introduced by Members	5,178,999	-	-	-	5,178,999
Movement in amounts due to former Members	362,139	-	-	-	362,139
Repayments of Members' capital	(3,649,685)	-	-	-	(3,649,685)
Drawings	-	(38,291,278)	(15,600,755)	-	(53,892,033)
Members' interests at 31 December 2017	21,091,313	(38,291,278)	984,603	76,977,448	60,762,086
Profit for the year available for division among Members	-	-	-	73,558,583	73,558,583
Actuarial gain on former partners' annuities (note 14)	-	-	-	600,000	600,000
Foreign exchange loss	-	-	-	(1,512,886)	(1,512,886)
Total comprehensive income for the year	-	-	-	72,645,697	72,645,697
Allocated profits	-	38,291,278	38,686,170	(76,977,448)	-
Capital introduced by Members	4,210,854	-	-	-	4,210,854
Movement in amounts due to former Members	(123,293)	-	-	-	(123,293)
Repayments of Members' capital	(3,408,976)	-	-	-	(3,408,976)
Transfer to other amounts classified as liability	-	(3,954,451)	3,954,451	-	-
Drawings	-	(40,658,867)	(43,625,224)	-	(84,284,091)
Members' interests at 31 December 2018	21,769,898	(44,613,318)	-	72,645,697	49,802,277

REED SMITH LLP**CONSOLIDATED CASH FLOW STATEMENT****Year ended 31 December 2018**

	Note	2018 £	2017 £
Net cash flow from operating activities	A	97,873,492	60,786,306
Cash flows from investing activities			
Purchase of tangible fixed assets		(1,433,679)	(2,215,511)
Proceeds from disposal of fixed assets		4,726	9,160
Interest received		349,685	171,230
Net cash flows from investing activities		(1,079,268)	(2,035,121)
Cash flows from financing activities			
Payments from/(to) group undertakings		3,871,736	(9,959,945)
Drawings paid to Members		(84,187,970)	(54,089,474)
Exchange adjustments		(2,164,096)	(389,498)
Interest paid		(187,102)	(209,838)
Capital introduced by Members		3,964,268	5,178,997
Capital repaid to Members		(3,408,976)	(3,649,686)
Interest paid to Members		(115,677)	(64,140)
Net cash used in financing activities		(82,227,817)	(63,183,584)
Net increase/(decrease) in cash and cash equivalents		14,566,407	(4,432,399)
Cash and cash equivalents at beginning of year		26,604,145	31,036,544
Cash and cash equivalents at end of year		41,170,552	26,604,145

REED SMITH LLP**NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT****Year ended 31 December 2018****A) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2018 £	2017 £
Operating profit	73,516,961	77,267,698
Depreciation of tangible assets	2,083,377	2,429,689
Loss (profit) on disposal of fixed assets	695,258	(1,281)
Increase in provisions	8,545,882	(300,000)
Increase in debtors	(9,904,229)	(15,719,128)
Increase / (decrease) in creditors within one year	23,249,560	(2,937,708)
Taxation (paid) / received	(313,317)	47,036
Cash flow from operating activities	97,873,492	60,786,306

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

1. LIMITED LIABILITY PARTNERSHIP INFORMATION

Reed Smith LLP is a Limited Liability Partnership, registered and incorporated in England and Wales. The registered office and principal place of business is Broadgate Tower, 20 Primrose Street, London, EC2A 2RS.

The Limited Liability Partnership principal activities and nature of its operations are disclosed in the Members' report on page 2.

Accounting convention

The financial statements have been prepared under the historical cost convention in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102') and the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' (published January 2017).

The functional currency of Reed Smith LLP is considered to be pounds sterling because that is the currency of the primary economic environment in which the Partnership operates. The financial statements are presented in sterling, which is the functional currency of the LLP. Monetary amounts in these financial statements are rounded to the nearest whole pound, unless indicated otherwise.

Reed Smith LLP meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

Basis of consolidation

These financial statements consolidate the profit and loss accounts and balance sheets of Reed Smith LLP's UK operations together with the Paris, Athens, Abu Dhabi and Dubai offices and its subsidiary undertakings (see note 11).

Uniform accounting policies have been adopted across the Group and profits and losses on intra group transactions have been eliminated. An individual balance sheet for Reed Smith LLP has been presented. The LLP has taken advantage of Section 408 of the Companies Act 2006 as applied by the Limited Liability Partnership (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and has not included its own Profit and Loss Account in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis. The financial performance, position and cash flows are set out on pages 8 to 15.

Reed Smith LLP meets its day to day working capital requirements through cash reserves and an overdraft facility which was renewed on 10 May 2019. As at 31 December 2018, the Group are not utilising the facility. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

Having carried out a detailed review of the LLP's resources, the Members are confident that the LLP has sufficient cash flows to meet its liabilities as they fall due for at least one year from the date of approval of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

2. ACCOUNTING POLICIES

Turnover

Turnover represents revenue earned for professional services and the provision of advice to clients. Revenue is recognised as earned when, and to the extent that, the firm obtains the right to consideration in exchange for its performance under the relevant contracts. It is measured at the fair value of the right to consideration, which represents amounts chargeable to clients, including recoverable expenses and disbursements, but excluding Value Added Tax.

All work in the course of completion at the year end has been valued on the basis of the revenue expected to be earned given the stage of completion at the reporting date. All work of a wholly contingent nature where revenue is dependent on events outside of the control of the partnership has been valued at £nil.

Other operating income

Other operating income comprises rental income from a part sub-let of Broadgate towers, cafeteria revenue and other miscellaneous income. Sublet income is credited to the profit and loss account in the period to which it relates. Cafeteria revenue is recognised at the point of sale.

Disbursement income

Amounts recharged for hard disbursements, those amounts invoiced to the Firm for services performed for clients, are charged directly to client matters and do not pass through the profit and loss account. Amounts recharged for soft disbursements, for recoveries of photocopies and other items not invoiced directly to the Firm, are included in turnover with the corresponding cost being included in administrative expenses in the profit and loss account.

Cost of sales

Cost of sales comprises the salaries and other direct employment costs of the firm's professional fee earning staff.

Provisions

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the amount of which can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recorded at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account. The profits and losses of overseas operations are recorded at the average rate for the year, while assets and liabilities are translated at the closing rate at the balance sheet date. The foreign exchange differences arising from the translation into sterling of the profit and loss and balance sheet of overseas operations are included in the statement of comprehensive income.

Taxation

In most jurisdictions the tax payable on the profits of the LLP is the personal liability of the Members. Consequently no reserve for taxation is made in the financial statements in respect of Members' tax liabilities, and the profits are shown within 'Members' interests' or as 'Loans and other debts due to Members' without any deduction for tax.

The results of companies and certain overseas branch operations consolidated within these financial statements are subject to tax at the level of the entity and recorded in the profit and loss account. To the extent that tax that is the liability of those entities has not been paid, it is carried as a liability in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

2. ACCOUNTING POLICIES (continued)

Pensions

The LLP operates a defined benefit pension scheme providing benefits based on final pensionable pay. The scheme closed to new Members on 31 July 2005 and contributions to the scheme ceased on this date. The assets of the scheme are held separately from those of the LLP, held in trust invested by a fund manager. Any further employer contributions are determined by a qualified actuary on the basis of triennial valuations. The scheme assets are valued in accordance with FRS 102 (see note 15).

Service costs are shown within administrative expenses and the interest costs and expected returns on assets are shown within interest receivable or interest payable, as appropriate. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Based on the FRS102 valuation the scheme had a surplus of £991,000 at 31 December 2018 (2017: £652,000) but, as this is not recoverable by Reed Smith LLP, no asset has been recognised on the balance sheet.

Additionally the LLP operates a defined contributions pension scheme for employees. The annual contributions payable are charged to the profit and loss account.

Tangible fixed assets

Tangible fixed assets are initially stated at cost, less depreciation and any impairment losses. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements	Lower of 17 years or the remaining term of the lease
Fixtures, fittings and equipment	Straight line over 2-10 years

Fixed asset investments

Interest in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the LLP. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Annuities

Under the terms of the merger agreement between Richards Butler LLP and Reed Smith Rambaud Charot LLP the firm has a commitment to pay annuities to certain former partners of Richards Butler LLP, an unlimited liability partnership which is now dissolved, and current Members who were partners of Richards Butler LLP prior to May 1994. The decrease in the amount payable for the year to 31 December 2018 has been included in the statement of comprehensive income of these financial statements. The net present value of annuities due to current annuitants, retired partners and current Members who are entitled to annuities, including widows and dependants as at 31 December 2018, which has been calculated in accordance with the provisions of FRS102. "Retirement benefits", amount to £7.2m (2017: £7.8m). Included in the £7.2m is a sum of £1.2m (2017: £1.2m) due to current Members and this has been charged to Members' interests; the balance being due to former Members and included in provisions (see note 14).

The service costs are shown within administrative costs and the interest costs and expected returns on assets are shown within interest receivable or interest payable, as appropriate. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

2. ACCOUNTING POLICIES (continued)

Members' participating interest

Members' participation rights are the rights of a Member against the LLP that arise under the Members' agreement (for example, in respect of amounts subscribed or otherwise contributed, remuneration and profits).

Members' participation rights in the earnings or assets of the LLP are analysed between those that are, from the LLP's perspective, either a financial liability or equity, in accordance with Section 22 of FRS 102. A Members' participation rights including amounts subscribed or otherwise contributed by Members, for example Members' capital are classed as liabilities unless the LLP has the unconditional right to refuse payment to Members, in which case they are classified as equity.

All amounts due to Members that are classified as liabilities are presented within 'Loans and other debts due to Members'. Undivided amounts that are classified as equity are shown within 'Members' other interests' Amounts recoverable from Members'. Amounts recoverable from Members are presented as debtors and shown as amounts due from Members, within Members' interests.

Where profits are automatically divided as they arise, the LLP does not have an unconditional right to refuse payment and the amounts arising that are due to Members are in the nature of liabilities. They are therefore treated as an expense and presented as Members' remuneration charged as an expense in arriving at the result for the relevant year. To the extent that they remain unpaid at the year end, they are shown as liabilities in the balance sheet.

Conversely, where profits are divided on after a decision by the LLP or its representative, so that the LLP has an unconditional right to refuse payment, such profits are classed as an appropriation of equity rather than an expense. They are therefore shown as a residual amount available for discretionary division among Members in the profit and loss account and are equity appropriations in the balance sheet.

Other amounts applied to Members, for example, remuneration paid under an employment contract and interest on capital balances, are treated in the same way as all other divisions of profits, as described above, according to whether the LLP, has in each case, an unconditional right to refuse payment.

Leased assets

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Client Funds

As a legal practice operating within the United Kingdom, Reed Smith LLP holds client funds in accordance with the rules of the Solicitors Regulation Authority. These funds are held separately from Reed Smith LLP and are not reflected in the balance sheet.

Impairment of fixed assets

At each reporting date, the LLP reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the LLP estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, assets are allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

2. ACCOUNTING POLICIES (continued)

Impairment of fixed assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit and loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reason for the impairment loss has ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset (or cash generating unit) in prior years.

Financial instruments

The LLP has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all its financial instruments.

Financial instruments are recognised in the LLP balance sheet when the LLP becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors, amounts due from Members and cash and bank balances, are initially measured at transaction price including transaction costs, are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

Other financial assets

Other financial assets, including trade investments, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each reporting date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets original effective interest rate. The impairment loss is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the LLP transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

2. ACCOUNTING POLICIES (continued)

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the LLP after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, amounts due to group undertakings and bank loans and overdrafts, are initially recorded at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the LLP's contractual obligations are discharged, cancelled or they expire.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the LLP's accounting policies, which are described in note 2, the Members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations (which are dealt with separately below), that the Members have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Work in progress

The LLP reviews unbilled time on contracts for legal services at the year end and an assessment is made of the extent to which revenue has been earned and the amount expected to be realised. Provisions are made for irrecoverable time.

ii) Impairment of debtors

The LLP makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

REED SMITH LLP**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2018****4. SEGMENTAL ANALYSIS**

Segmental analysis has not been included as Reed Smith LLP considers such disclosure to be prejudicial to their business since it would be helpful to competitors who do not generally provide similar information publicly.

5. OPERATING PROFIT

	2018 £	2017 £
Operating profit is after charging (crediting):		
Loss (profit) on disposal of fixed assets	695,258	(1,281)
Depreciation of tangible assets on owned assets	2,083,377	2,429,689
Operating lease rentals - land and buildings	15,222,072	12,840,840
Foreign exchange loss	1,192,155	1,295,706
	<u> </u>	<u> </u>

The analysis of the auditor's remuneration is as follows:

	2018 £	2017 £
Fees payable to the LLP's auditor for the audit of the LLP's financial statements	68,500	82,250

Fees payable to the auditor and their associates for other services to the Group:

The audit of the LLP's subsidiaries pursuant to legislation	7,000	7,750
Total audit fees	<u>75,500</u>	<u>90,000</u>
Fees payable to the LLP's auditor in respect of:		
Other services pursuant to legislation	38,500	45,000
Other services relating to taxation - compliance	88,540	65,000
- advisory	31,460	-
Fees payable to the LLP's auditor in respect of the audit of the associated pension scheme	<u>6,250</u>	<u>5,740</u>
Total non-audit fees	<u>164,750</u>	<u>115,740</u>

6. OTHER OPERATING INCOME

	2018 £	2017 £
Cafeteria revenue	271,337	-
Rental sublet	273,838	-
Other income	380,944	-
	<u>926,119</u>	<u>-</u>

REED SMITH LLP

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2018**

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £	2017 £
Bank interest	<u>349,685</u>	<u>171,230</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £	2017 £
On bank loans and overdrafts	178,436	209,838
Other interest paid	8,666	-
	<u>187,102</u>	<u>209,838</u>

9. TAX ON PROFIT IN CORPORATE SUBSIDIARIES

Corporate taxes payable on the profits of Group entities are charged to the profit and loss account as follows:

	2018 £	2017 £
Tax charge on profit in corporate subsidiaries	<u>227,742</u>	<u>441</u>

The standard rate of corporation tax for the year, based on the UK standard rate of corporation tax is 19% (2017 – 19.25%). The actual tax charge for the current year differs from the standard rate for the reasons set out in the following reconciliation:

	2018 £	2017 £
Profit before taxation	73,679,544	77,229,090
Amounts subject to personal tax	(73,641,323)	(77,226,884)
	<u>38,221</u>	<u>2,206</u>
Tax on profit at standard rate	7,262	441
Underprovision in respect of prior years	248	-
Tax on overseas entity	220,232	-
Total actual amount of current tax	<u>227,742</u>	<u>441</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 19% with effect from 1 April 2017 and 17% effective from 1 April 2020.

REED SMITH LLP

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2018**

10. TANGIBLE FIXED ASSETS

GROUP

	Leasehold improvements £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 January 2018	19,138,724	12,926,803	32,065,527
Exchange rate movements on overseas assets	106,938	69,195	176,133
Additions	1,010,383	423,296	1,433,679
Disposals	(4,038,357)	(4,745,867)	(8,784,224)
At 31 December 2018	16,217,688	8,673,427	24,891,115
Accumulated depreciation			
At 1 January 2018	12,317,087	10,943,332	23,260,419
Exchange rate movements on overseas assets	101,859	56,923	158,782
Disposals	(3,343,451)	(4,740,789)	(8,084,240)
Charge for the year	1,206,957	876,420	2,083,377
Transfer	218,776	(218,776)	-
At 31 December 2018	10,501,228	6,917,110	17,418,338
Net book value			
At 31 December 2018	5,716,460	1,756,317	7,472,777
At 31 December 2017	6,821,637	1,983,471	8,805,108

LLP

	Leasehold improvements £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 January 2018	19,008,353	12,704,826	31,713,179
Exchange rate movements on overseas assets	117,279	87,750	205,029
Additions	1,010,383	397,949	1,408,332
Disposals	(4,038,357)	(4,745,867)	(8,784,224)
At 31 December 2018	16,097,658	8,444,658	24,542,316
Accumulated depreciation			
At 1 January 2018	12,247,636	10,840,212	23,087,848
Exchange rate movements on overseas assets	107,107	65,543	172,650
Disposals	(3,343,451)	(4,740,789)	(8,084,240)
Charge for the year	1,174,039	815,134	1,989,173
Transfer	218,776	(218,776)	-
At 31 December 2018	10,404,107	6,761,324	17,165,431
Net book value			
At 31 December 2018	5,693,551	1,683,334	7,376,885
At 31 December 2017	6,760,717	1,864,614	8,625,331

REED SMITH LLP

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

11. FIXED ASSET INVESTMENTS

LLP

£

Shares in subsidiary undertakings

Cost and net book value

At 1 January 2018 and 31 December 2018

100,117

Holdings of more than 20%

The Limited Liability Partnership holds more than 20% of the share capital of the following Companies; all of which are registered to Broadgate Tower, 20 Primrose Street, London EC2A 2RS.

Company	Country of registration or incorporation	Principal activity	Shares held		Capital and reserves	Profit (loss) for the year
			Class	%	£	£
Subsidiary undertakings						
Beaufort Trust Corporation Limited	England & Wales	Provides professional trusteeships for pension schemes, charities and family trusts.	Ordinary	100	336,860	29,865
Independent Pension Trustee Limited	England & Wales	Undertakes the role of Independent Pension Scheme Trustee.	Ordinary	100	789,344	842
RB Secretariat Limited	England & Wales	Dormant	Ordinary	100	2	-
Reed Smith Corporate Services Limited	England & Wales	Dormant	Ordinary	100	4	-
Reed Smith Pension Trustee Limited*	England & Wales	Dormant	Not Applicable	-	-	-
Reed Smith Services	England & Wales	Dormant	Ordinary	100	52,734	-
Reed Smith Limited	England & Wales	Dormant	Ordinary	100	1	-
Richards Butler Limited	England & Wales	Dormant	Ordinary	100	2	-

Interest in indirect limited liability partnership

Reed Smith LLP Kazakhstan	Kazakhstan	Legal services	Ordinary	100	175,647	(109,866)
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* Company limited by guarantee.

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

REED SMITH LLP

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2018**

12. DEBTORS

	GROUP		LLP	
	2018	2017	2018	2017
	£	(as restated)	£	(as restated)
		£		£
Trade debtors	42,281,757	39,769,251	40,783,738	38,952,457
Amounts due from Members	44,180,956	38,291,278	44,613,296	38,291,278
Amounts owed by group undertakings	44,375,824	35,350,603	44,110,420	35,091,172
Corporation tax	26,490	-	-	-
Other debtors	7,017,610	6,543,179	6,882,491	6,145,884
Prepayments	4,360,427	1,464,065	4,348,939	1,453,274
Accrued income	34,150,352	30,354,859	33,923,200	30,121,266
	<u>176,393,416</u>	<u>151,773,235</u>	<u>174,662,084</u>	<u>150,055,331</u>

All amounts owed by Group undertakings are non interest bearing, unsecured and are due on demand.

The prior year amounts owed to parent undertaking (disclosed in note 13) have been restated to reallocate amounts owed by group undertakings inappropriately included in the prior year. These amounts owed by group undertakings amounted to £35,350,603 on a group basis and £35,091,172 on an LLP basis and thus have been removed for the prior year comparative.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		LLP	
	2018	2017	2018	2017
	£	(as restated)	£	(as restated)
		£		£
Trade creditors	15,022,253	11,700,829	14,996,809	11,615,884
Amount owed to parent undertaking	80,713,461	51,937,489	78,962,422	49,905,210
Corporation tax	7,063	-	-	-
Other taxation and social security costs	3,662,440	3,389,434	3,555,272	3,418,906
Other creditors	5,106,662	5,070,137	5,106,930	5,070,137
Accruals and deferred income	10,989,722	8,979,319	10,901,965	8,924,300
	<u>115,501,601</u>	<u>81,077,208</u>	<u>113,523,398</u>	<u>78,934,437</u>

All amounts owed to Group undertakings are non interest bearing, unsecured and are repayable on demand.

The prior year amounts owed to parent undertaking have been restated to reallocate amounts owed by group undertakings inappropriately included in the prior year. These amounts owed by group undertakings amounted to £35,350,603 on a group basis and £35,091,172 on an LLP basis and thus have been removed for the prior year comparative.

The LLP has use of a rolling overdraft facility of £5 million which incurs interest of 1.65 percent above the Bank of England base rate.

For the year ended 31 December 2017, the total amount for provisions of litigation claims and dilapidation provisions recorded by Reed Smith LLP was not separately disclosed as it was concluded by management that this may seriously prejudice Reed Smith LLP in these matters. For the year ended 31 December 2018, these amounts have been disclosed as provisions for liabilities.

REED SMITH LLP

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

14. PROVISIONS FOR LIABILITIES

	Provision for dilapidations £	Provision for litigation claims £	Annuities £	Total £
GROUP AND LLP				
At 1 January 2018	-	-	6,600,000	6,600,000
Actuarial gain charged to statement of comprehensive income	-	-	(600,000)	(600,000)
Net movement	1,587,889	5,257,993	-	6,845,882
Amounts reclassified from other creditors to provisions	2,100,000	200,000	-	2,300,000
At 31 December 2018	<u>3,687,889</u>	<u>5,457,993</u>	<u>6,000,000</u>	<u>15,145,882</u>

Payments of annuities are expected over the period from January 2017 to December 2055.

A provision for dilapidations of the leased offices in London at Broadgate Tower is held at 31 December 2018. The lease expires in December 2023.

Other provisions mainly consists of client related legal claims. The LLP is, from time to time and in the normal course of business, subject to a variety of client related actions or proceedings. When such circumstances arise, management provides for its best estimate of cost when an outflow of economic resources is considered probable.

15. PENSION COSTS

Defined contributions

During the year, the LLP made contributions to certain employees' private pension schemes.

	2018 £'000	2017 £'000
Contributions payable by the LLP for the year	<u>3,978</u>	<u>3,787</u>

Defined benefit

The LLP operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the LLP. The contributions are determined by a qualified actuary on the basis of triennial valuations.

The scheme closed to benefit accrual on 31 July 2005 and contributions to the scheme ceased. Employer's additional contributions recommenced under a deficit reduction plan from January 2006 which ceased in September 2016, following actuarial advice. As a closed scheme under the projected unit method, the current service cost will increase as the Members of the scheme approach retirement.

The most up to date full actuarial valuation was as at 31 December 2017. The actuary has updated the 2017 valuation to reflect the position as at 31 December 2018 and the results of this updated valuation based upon the requirements of FRS102 are as follows:

	2018 %	2017 %
Discount rate	2.70	2.40
Inflation assumption	2.10	1.80

Current life expectancies are as follows:

Male aged 62 in 2017	25.4	26.7
Female aged 62 in 2017	27.3	28.7
Male aged 42 in 2017 at age 62	26.5	27.1
Female aged 42 in 2017 at age 62	28.6	29.3

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

15. PENSION COSTS (continued)

Reconciliation of the Schemes' assets and defined benefit obligation

	Assets £'000	Defined benefit obligation £'000	Total £'000
At 1 January 2018	4,276	(3,624)	652
Benefits paid and other costs	(86)	86	-
Past service cost	-	(32)	(32)
Interest income/(cost)	81	(81)	-
Actuarial gain	-	447	447
Return on assets excluding interest income	(76)	-	(76)
At 31 December 2018	<u>4,195</u>	<u>(3,204)</u>	<u>991</u>
The fair value of the assets of the Scheme were:		2018 £'000	2017 £'000
Asset Class			
Annuities		2,286	2,431
With profit fund		1,909	1,845
Total		<u>4,195</u>	<u>4,276</u>
The return on the assets was:			
Interest income		81	91
Return on assets less interest income		(76)	191
Total return on assets		<u>5</u>	<u>282</u>
Reconciliation to the balance sheet			
Market value of assets		4,195	4,276
Present value of defined benefit obligation		(3,204)	(3,624)
Funded status		991	652
Irrecoverable surplus		(991)	(652)
Pension asset recognised in the balance sheet		<u>-</u>	<u>-</u>
Amounts recognised in other comprehensive income			
Actuarial gains /(losses) on defined benefit obligation		447	(165)
Actual return on assets less interest		(76)	191
Limit on recognition of assets less interest		(371)	(26)
Amounts recognised in other comprehensive income		<u>-</u>	<u>-</u>

REED SMITH LLP

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

16. FINANCIAL COMMITMENTS

At 31 December 2018 Reed Smith LLP had minimum lease commitments under operating leases expiring as follows:

	GROUP		LLP	
	2018	2017	2018	2017
	£	£	£	£
Operating leases which expire:				
Within one year	10,923,326	13,051,160	10,889,708	12,955,900
In the second to fifth years inclusive	39,793,643	42,793,495	39,737,460	42,734,774
After five years	3,304,585	-	3,304,585	-
	<u>54,021,554</u>	<u>55,844,655</u>	<u>53,931,753</u>	<u>55,690,674</u>

17. INFORMATION IN RELATION TO MEMBERS

	2018	2017
	No	No
The average number of Members during the year was:	136	139
	<u>£</u>	<u>£</u>
Profit attributable to the Member with the highest entitlements	<u>2,658,436</u>	<u>2,528,420</u>

18. EMPLOYEES

	GROUP		LLP	
	2018	2017	2018	2017
	No	No	No	No
The average number of employees during the year was:				
Fee earning staff	327	352	321	348
Administrative staff	315	310	309	304
	<u>642</u>	<u>662</u>	<u>630</u>	<u>652</u>
	2018	2017	2018	2017
	£	£	£	£
Employment costs (excluding Members)				
Wages and salaries	44,954,700	42,848,689	42,925,010	41,244,161
Social security costs	6,532,170	5,437,416	6,471,465	5,376,167
Other pension costs	3,978,182	3,787,184	3,978,182	3,787,184
	<u>55,465,052</u>	<u>52,073,289</u>	<u>53,374,657</u>	<u>50,407,512</u>

REED SMITH LLP

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Year ended 31 December 2018

19. ULTIMATE PARENT ENTITY

The LLP is part of the international law firm headed by Reed Smith LLP (US), ('RSUS'), a Delaware registered LLP that is considered to be the ultimate controlling party. Three Members in RSUS are also Members in Reed Smith LLP, acting in the capacity of bare trustees for the other RSUS Members. Additionally those Members with the status of Equity Partner in the Reed Smith LLP are also Members in RSUS.

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business the LLP has traded with its subsidiaries. The LLP is exempt from disclosing details of these transactions as they are eliminated on consolidation.

The key management personnel of the LLP comprise partners who are Members of the firm's Board. These partners maintain significant client responsibilities. The total share of profit awarded to these key management personnel from the LLP for the year ended 31 December 2018 amounted to £12.2m (2017: £10.9m).

During the year, the partnership incurred network fees of £11.6m (2017: £11.3m) from RSUS. This balance is included within 'Amounts owed to Group undertakings'.

21. PRIOR YEAR RESTATEMENT

The LLP has amended the debtors and creditors due within one year to reallocate amounts owed by group undertakings inappropriately included in amounts due from parent undertakings in the prior year. These amounts owed by group undertakings amounted to £35,350,603 on a group basis and £35,091,172 on an LLP basis, while the amounts owed to group undertakings are £51,937,489 and £49,905,210 respectively, and thus have been removed for the prior year comparative.

The effects of this change are summarised below:

	GROUP		LLP	
	2017	2017	2017	2017
	£	(restated)	£	(restated)
		£		£
Debtors	-	35,350,603	-	35,091,172
Creditors: amounts falling due within one year	(16,586,886)	(51,937,489)	(14,814,038)	(49,905,210)
Total	(16,586,886)	(16,586,886)	(14,814,038)	(14,814,038)