

**Limited Liability Partnership Registration**  
**No. OC310989**

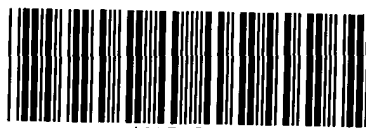
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**Herbert Smith Freehills LLP**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**30 APRIL 2016**

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**MEMBERS' REPORT  
YEAR ENDED 30 APRIL 2016**

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 2016.

**Principal activity**

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

The principal activity is the provision of legal services.

**Designated members**

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

- Nigel Farr (appointed 1 May 2015)
- Greg Mulley (appointed 1 May 2016)
- Paula Hodges
- Sonya Leydecker
- Malcolm Lomers (resigned 30 April 2016)
- Alan Watts (appointed 4 August 2015)
- James Palmer (Chair and Senior Partner)

**Results and business review**

2015/16 financial year has been another year of rising revenues and strong growth in profit. A milestone for 2015/16 has been the launch of Beyond 2020 global strategy.

The firm's service delivery to clients has been significantly enhanced with the expansion of the Legal Project Managers offering and the continued growth of the alternative legal services business.

This is the third consecutive year of significant progress for the firm. The quality of the global firm's people, exceptional global reach and the calibre of work handled across all practice groups has underpinned another strong financial performance.

Confidence and momentum in the business are at an all-time high with a new strategy in place.

**Pro bono and citizenship**

We are enormously proud of our initiatives in the communities in which we live and work. Spanning pro bono legal advice, corporate social responsibility and community work, environmental sustainability and human rights, these continue to flourish. That our work in these areas is so successful is a credit to the efforts of everyone in the firm who supports them and make them core strengths of our culture.

**Diversity and inclusion**

Diversity and inclusivity are deeply important to our firm. We take great pride in all our work in this field, which we believe should be at the heart of our culture because it fosters a workplace in which all our people feel valued and motivated. Our diversity and inclusion networks cover all our offices. We also look to support diversity and inclusion outside the firm in the communities in which we live and work. We have set three priorities: LGBT; gender; and multiculturalism. Our programmes support achieving these, and include the introduction of training to tackle 'unconscious bias'.

**MEMBERS' REPORT (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**People**

People are critical to the delivery of the Beyond 2020 Strategy. Their talent, skills and experience enables the LLP to add value to its clients and to keep delivering on its business objectives. The LLP continues to aspire to be an open, diverse and inclusive place to work and is proud of its collaborative culture, which fosters teamwork and trust amongst all employees. The LLP is also committed to providing the best opportunities for staff, from international assignments and client secondments to pro bono programmes and wellbeing initiatives. The LLP's aim is for employees to feel engaged, connected to its values and motivated to achieve their full potential. At 83 per cent, the sustainable engagement survey of employees exceeds that of comparable professional services firms.

**Members' profit sharing**

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

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

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

**Members' responsibilities statement**

The members are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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 partnership financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Under company law as applied to limited liability partnerships the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. 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 including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

The members are responsible for keeping appropriate 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 as applied to limited liability partnerships by the Regulations. 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.

**MEMBERS' REPORT (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**Disclosure of information to auditors**

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

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

**Registered office**

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

Signed on behalf of the members by



**Sonya Leydecker**  
**Joint CEO**



**Nigel Farr**

**Date: 28 July 2016**

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

### **Report on the financial statements**

#### **Our opinion**

In our opinion, Herbert Smith Freehills LLP's financial statements (the "financial statements"):

- give a true and fair view of the state of the limited liability partnership's affairs as at 30 April 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

#### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 30 April 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the members have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

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

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

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

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the members**

As explained more fully in the Members' Responsibilities Statement set out on page 2, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the limited liability partnership's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the members; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the members' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**David A Snell (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**London**

**Date: 28 July 2016**

**STATEMENT OF COMPREHENSIVE INCOME**  
**YEAR ENDED 30 APRIL 2016**

	Note	2016 £'m	2015 £'m
<b>Revenue</b>			
Fee income		<b>437.0</b>	396.2
Other fee income	3	<b>8.1</b>	6.8
		<b>445.1</b>	403.0
Other operating income	3	<b>0.9</b>	0.7
Staff and related costs		<b>(38.1)</b>	(36.8)
Premises costs		<b>(6.3)</b>	(9.9)
Other costs		<b>(257.9)</b>	(229.7)
<b>Operating profit</b>	5	<b>143.7</b>	127.3
Dividends received from subsidiary		<b>9.3</b>	11.1
Finance income	6	<b>2.0</b>	2.2
Finance costs	6	<b>(4.0)</b>	(5.8)
<b>Profit on ordinary activities before taxation</b>		<b>151.0</b>	134.8
Taxation	7	<b>(1.2)</b>	(2.9)
<b>Profit for the financial year before members' profit shares</b>		<b>149.8</b>	131.9
Other comprehensive income/(expense):			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial loss on defined benefit post retirement obligation	18	<b>(1.7)</b>	(1.5)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations	17	<b>1.1</b>	(3.9)
<b>Total other comprehensive income/(expense) for the year</b>		<b>(0.6)</b>	(5.4)
<b>Total comprehensive income for the year</b>		<b>149.2</b>	126.5

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 7.



**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 APRIL 2016**

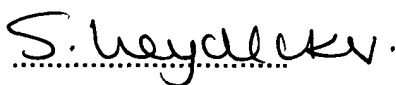
	<b>Note</b>	<b>2016 £'m</b>	<b>2015 £'m</b>
<b>Fixed assets</b>			
Tangible fixed assets	9	<b>10.4</b>	9.7
Investments	10	<b>0.5</b>	0.5
		<b>10.9</b>	10.2
<b>Current assets</b>			
Client receivables	11	<b>184.7</b>	157.6
Other receivables	12	<b>114.1</b>	77.2
Amounts due from members	17	<b>70.0</b>	61.2
Cash and bank balances		<b>30.4</b>	37.6
		<b>399.2</b>	333.6
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	14	<b>(130.8)</b>	(67.1)
Current tax liabilities		-	(1.0)
Other amounts due to members	17	<b>(44.0)</b>	(51.4)
Provisions	16	<b>(0.4)</b>	(2.0)
		<b>(175.2)</b>	(121.5)
<b>Net current assets</b>		<b>224.0</b>	<b>212.1</b>
<b>Total assets less current liabilities</b>		<b>234.9</b>	<b>222.3</b>
<b>Creditors: Amounts falling due after more than one year</b>			
Borrowings	13	<b>(103.7)</b>	(106.3)
Other payables	15	<b>(14.7)</b>	(15.8)
Long term provisions	16	<b>(3.7)</b>	(2.9)
Members' capital classified as a liability	17	<b>(18.2)</b>	(18.5)
		<b>(140.3)</b>	(143.5)
<b>Total liabilities</b>		<b>(315.5)</b>	<b>(265.0)</b>
<b>Net assets attributable to members</b>		<b>94.6</b>	<b>78.8</b>

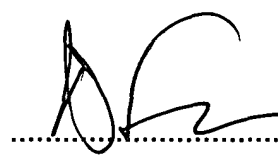
**HERBERT SMITH FREEHILLS LLP**  
**REGISTERED NUMBER OC310989**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 APRIL 2016**

	Note	2016 £'m	2015 £'m
<b>Equity</b>			
Other reserves	17	99.2	84.5
Translation reserve	17	(4.6)	(5.7)
<b>Total shareholders' funds</b>		<u>94.6</u>	<u>78.8</u>
<b>Total members' interests</b>			
Amounts due from members	17	(70.0)	(61.2)
Members' capital classified as a liability	17	18.2	18.5
Other amounts due to members	17	44.0	51.4
Other reserves	17	99.2	84.5
Translation reserve	17	(4.6)	(5.7)
<b>Total members' interests</b>	17	<u>86.8</u>	<u>87.5</u>

The financial statements of the LLP, registered number OC310989 on pages 6 to 32 were authorised for issue by the designated members on behalf of the LLP on 28 July 2016 and signed on their behalf by

  
 .....  
**Sonya Leydecker**

  
 .....  
**Nigel Farr**

**STATEMENT OF CHANGES IN EQUITY  
YEAR ENDED 30 APRIL 2016**

	<b>Other reserves</b>	<b>Translation Reserve</b>	<b>Total equity</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
<b>Balance at 1 May 2014</b>	98.1	(1.8)	96.3
Profit before members' profit shares	131.9	-	131.9
Total other comprehensive expense for the year	<u>(1.5)</u>	<u>(3.9)</u>	<u>(5.4)</u>
Total comprehensive income/(expense) for the year	<u>130.4</u>	<u>(3.9)</u>	<u>126.5</u>
Allocated profits net of members' tax	(65.0)	-	(65.0)
Amounts retained in respect of members' taxation	(63.6)	-	(63.6)
Transfer of amounts due to former members	<u>(2.1)</u>	<u>-</u>	<u>(2.1)</u>
Total transactions with members recognised in equity	<u>(130.7)</u>	<u>-</u>	<u>(130.7)</u>
Amounts due to subsidiaries	<u>(13.3)</u>	<u>-</u>	<u>(13.3)</u>
<b>Balance at 30 April 2015</b>	<b>84.5</b>	<b>(5.7)</b>	<b>78.8</b>
Profit before members' profit shares	149.8	-	149.8
Total other comprehensive (expense)/income for the year	<u>(1.7)</u>	<u>1.1</u>	<u>(0.6)</u>
Total comprehensive income for the year	<u>148.1</u>	<u>1.1</u>	<u>149.2</u>
Transfer of amounts to former members	(1.5)	-	(1.5)
Allocated profit net of members' tax	(64.9)	-	(64.9)
Amounts retained in respect of members' taxation	<u>(67.0)</u>	<u>-</u>	<u>(67.0)</u>
Total transactions with members recognised within equity	<u>(133.4)</u>	<u>-</u>	<u>(133.4)</u>
<b>Balance at 30 April 2016</b>	<b><u>99.2</u></b>	<b><u>(4.6)</u></b>	<b><u>94.6</u></b>

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 30 APRIL 2016**

**1. Accounting policies**

**Basis of preparation**

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

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

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

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

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

10(d): statement of cash flows,

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

16: statement of compliance with all IFRSs,

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

38 B-D: additional comparative information,

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

111: cash flow statement information, and

134-136: capital management disclosures

- IAS 7, 'Statement of cash flows'
- 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 group

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**1. Accounting Policies (continued)**

**Going concern**

The designated members have adopted the going concern basis in the preparation of these financial statements. The designated members, in reaching this decision, have given consideration to the LLP's forecast, cash flow projections and borrowing facilities for a period of at least 12 months from the date of signing of the financial statements, noting in particular that the LLP has four years remaining in its revolving credit facility with significant headroom. The members are satisfied that there is sufficient flexibility with the timing of payments to partners and the headroom within its banking facilities to allow for actions to be taken to mitigate the effects of business risks arising from a potential downturn in client activity.

**Revenue**

Fee income represents amounts chargeable to clients for professional services provided during the year excluding sales taxes and disbursements.

To the extent that a service has been provided to third parties but no billing made as at the end of the financial year, the amount is recognised as part of fee income and recorded under unbilled client receivables. Fee income recognised in this manner is based on an assessment of the fair value of the services provided at 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.

Where the right to receive payment is contingent on factors outside the LLP's control, fee income is only recognised (over and above any agreed minimum fee) when the likelihood of the contingent event occurring is considered highly probable.

Other fee income represents disbursements recharged to clients.

**Foreign currencies**

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

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 classified in the translation reserve.

**Property, plant and equipment**

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

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

Depreciation for the year is recognised within the income statement under premises costs. The gain or loss arising on the disposal of an asset, determined as the difference between

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**1. Accounting Policies (continued)**

the sale proceeds and the carrying amount of the asset is recognised within the income statement.

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.

**Operating leases: lessee**

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

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

**Borrowings**

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 income statement 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 income statement 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 income statement 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.

**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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**1. Accounting Policies (continued)**

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 IAS 19 (Revised), the administration costs, interest on liabilities and interest on assets are recognised in the consolidated income statement.

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

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

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

**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 the 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.

Professional indemnity insurance premiums are expensed to the income statement over the period of the insurance cover. In common with comparable professional service firms, the LLP is involved in disputes in the ordinary course of business which may give rise to claims. Provision representing the cost of defending and concluding claims is made in the financial statements for all claims where costs are likely to be incurred and can be measured reliably.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**1. Accounting Policies (continued)**

**Financial instruments**

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

The LLP's financial assets are classified as either at 'fair value through profit and loss' ("FVTPL") or 'available-for-sale' ("AFS") financial assets, depending on the nature and purpose of the financial assets, which is determined at the time of original recognition. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on AFS monetary items, are recognised directly in equity. When an AFS investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

**Cash and cash equivalents**

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

**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:

*Unbilled client receivables:*

The value of unbilled client receivables recognised as revenue in the income statement has been derived on the basis of estimations and assumptions regarding the fair value of the unbilled time at the year end.

*Billed client receivables:*

Billed client receivables are recognised at cost less provision for impairment. Provision for impairment represents an allowance for doubtful debts that is estimated, based on the ageing of the debt and assessment of recoverability.

*Provisions*

Obligations arising from client claims and onerous lease commitments require significant judgement.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**3. Other fee income and other operating income**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Recharges for disbursements	<u>8.1</u>	6.8
Other fee income	<u>8.1</u>	<u>6.8</u>
Sub lease rental income	-	0.1
Sundry income	<u>0.9</u>	0.6
Other operating income	<u>0.9</u>	<u>0.7</u>

**4. Employee information**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Salaries	<u>32.1</u>	31.8
Social security costs	<u>0.6</u>	0.2
Pension costs -defined contribution plans	<u>0.3</u>	0.3
	<u>33.0</u>	<u>32.3</u>
	<b>No.</b>	<b>No.</b>
Average number of persons employed:		
Fee-earning staff	<u>187</u>	190
Other staff	<u>122</u>	120
	<u>309</u>	<u>310</u>

**5. Operating profit**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
The operating profit for the year is stated after charging:		
Depreciation of property, plant & equipment	<u>4.2</u>	6.8
Impairment of tangible fixed assets	-	1.3
Net foreign exchange losses	<u>1.8</u>	3.0
Operating lease charges - leasehold properties	<u>4.2</u>	<u>6.8</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**5. Operating profit (continued)**

	<b>2016</b> <b>£'m</b>	<b>2015</b> <b>£'m</b>
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	<b>0.2</b>	0.2
Fees payable to the LLP's auditors and its associates for other services:		
- The audit of the LLP's subsidiaries	<b>0.2</b>	0.2
Total audit fees	<b>0.4</b>	0.4
- Audit-related assurance services	<b>0.1</b>	-
- Taxation compliance services	<b>0.3</b>	0.1
- Other taxation advisory services	<b>0.1</b>	0.1
- Other services	<b>0.3</b>	0.3
Total non-audit fees	<b>0.8</b>	0.5

**6. Finance costs – net**

	<b>2016</b> <b>£'m</b>	<b>2015</b> <b>£'m</b>
<b>Finance income</b>		
Bank interest receivable	<b>0.1</b>	0.2
Interest on pension scheme assets	<b>1.9</b>	2.0
	<b>2.0</b>	2.2
<b>Finance costs</b>		
Bank overdraft interest	-	(1.3)
Bank loan interest	<b>(2.4)</b>	(2.5)
Interest on pension scheme liabilities	<b>(1.6)</b>	(2.0)
	<b>(4.0)</b>	(5.8)
<b>Net finance costs</b>	<b>(2.0)</b>	<b>(3.6)</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**7. Taxation**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Current tax on profits for the year	<b>1.2</b>	2.7
Adjustments in respect of prior years	-	0.2
Total current taxation on profit on ordinary activities	<u><b>1.2</b></u>	<u>2.9</u>

In most locations, including the UK, 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.

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Profit on ordinary activities before taxation	<b>151.0</b>	134.8
Less: Amounts subject to personal tax	<b>(147.1)</b>	(128.9)
	<u><b>3.9</b></u>	<u>5.9</u>
Tax at standard UK corporate rate at 20.0% (2015: 20.9%)	<b>0.8</b>	1.2
Tax effects of:		
Different tax rates and bases in other jurisdictions	-	0.9
Unrelieved losses	<b>0.4</b>	0.6
Adjustments in respect of prior years	-	0.2
Total charge	<u><b>1.2</b></u>	<u>2.9</u>

The effective applicable rate for profits of Herbert Smith Freehills LLP subject to tax represents the combined rate in jurisdictions where Herbert Smith Freehills LLP and its offices have a liability for tax.

The effective applicable tax rate for profits of Herbert Smith Freehills LLP subject to tax of 29.0% (2015: 47.0%) is higher than the statutory rate of corporation tax in the UK for 2016 of 20.0% (2015: 20.9%). This is due to higher overseas tax rates and the existence of losses for which there exists insufficient evidence of future recoverability.

An unrecognised deferred tax asset of £1.7m (2015: £1.5m) exists in respect of losses carried forward. The asset would be recovered in the event of sufficient future taxable profits.

**8. Members' share of profits**

The profit for the financial year after charging all expenses is divided amongst the members after the issuance of these audited financial statements. The member receiving the highest remuneration inclusive of other benefits and payments received £1.6m (2015: £1.8m).

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Average number of members	<u><b>180</b></u>	<u>184</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**9. Property, plant and equipment**

	<b>Leasehold improvements, furniture, fixtures and fittings £'m</b>	<b>Office equipment and computers £'m</b>	<b>Total £'m</b>
<b>Cost</b>			
At 1 May 2015	82.7	2.6	85.3
Additions	4.5	0.3	4.8
Exchange differences	0.4	-	0.4
<b>At 30 April 2016</b>	<b>87.6</b>	<b>2.9</b>	<b>90.5</b>
<b>Accumulated depreciation</b>			
At 1 May 2015	73.2	2.4	75.6
Charge for the year	4.0	0.2	4.2
Exchange differences	0.2	0.1	0.3
<b>At 30 April 2016</b>	<b>77.4</b>	<b>2.7</b>	<b>80.1</b>
<b>Carrying amount</b>			
<b>At 30 April 2016</b>	<b>10.2</b>	<b>0.2</b>	<b>10.4</b>
At 30 April 2015	9.5	0.2	9.7

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**10. Investments**

	<b>2016</b>	<b>2015</b>
<b>Cost</b>	<b>£'m</b>	<b>£'m</b>
As at 1 May and 30 April	<u><b>0.5</b></u>	<u><b>0.5</b></u>

The LLP's subsidiary undertakings and their principal activities are set out below:

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**
**10. 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	Hong Kong	Legal services
Herbert Smith Freehills South Africa Attorneys Inc	South Africa	Legal services

**11. Client receivables**

	2016 £'m	2015 £'m
Billed client receivables	114.5	93.6
Unbilled client receivables	70.2	64.0
	<u>184.7</u>	<u>157.6</u>

**Billed client receivables due within one year**

	2016 £'m	2015 £'m
Amount receivable for the supply of services	120.5	99.0
Allowance for doubtful receivables	(6.0)	(5.4)
Billed client receivables	<u>114.5</u>	<u>93.6</u>

Billed client receivables include amounts (see below for aged analysis) which are past due at the reporting date. The LLP has not recognised a doubtful allowance against these amounts as there has not been a significant change in the credit quality and therefore the amounts are still considered recoverable. The average age of these receivables balances is 42 days (2015: 62 days).

**Ageing of past due but not impaired receivables balances**

	2016 £'m	2015 £'m
30 - 60 days	19.2	12.7
61 - 90 days	9.1	5.6
91 - 120 days	2.4	2.9
121+days	7.9	4.4
	<u>38.6</u>	<u>25.6</u>

**Movement in the allowance for client receivables**

	2016 £'m	2015 £'m
At start of the year	5.4	5.7
Increase in impairment	4.7	5.2
Amounts written off during the year as uncollectible	(4.0)	(5.4)
Amounts recovered during the year	(0.1)	-
Foreign exchange translation gains and losses	-	(0.1)
At end of the year	<u>6.0</u>	<u>5.4</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**11. Client receivables (continued)**

**Ageing of the allowance for doubtful receivables**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
0 - 30 days	<b>1.4</b>	0.8
31 - 60 days	-	0.1
61 - 90 days	<b>0.2</b>	0.2
91 - 120 days	<b>0.2</b>	-
121+ days	<b>4.2</b>	4.3
	<b><u>6.0</u></b>	<b><u>5.4</u></b>

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

**12. Other receivables**

**Due within one year:**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Prepayments	<b>4.6</b>	4.1
LLP non-UK tax receivable	<b>0.8</b>	0.9
Amounts due from group undertakings	<b>94.6</b>	62.2
Other receivables	<b>14.1</b>	10.0
	<b><u>114.1</u></b>	<b><u>77.2</u></b>

The other classes within receivables do not contain impaired assets nor are any items past due.

**13. Borrowings**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
<b>Bank loans:</b>		
- Between two and five years	<b>103.7</b>	106.3
	<b><u>103.7</u></b>	<b><u>106.3</u></b>
<b>Total borrowings:</b>		
- After more than one year	<b>103.7</b>	106.3
	<b><u>103.7</u></b>	<b><u>106.3</u></b>

The members have subordinated their interests in respect of certain outstanding bank facilities. Borrowings represent a revolving credit facility with nine participating banks as part of a syndicate which replaced previous borrowings. The facility into which the LLP participates is unsecured and bears interest at 1.2% above LIBOR or equivalent plus a commitment fee of 0.5% on any undrawn facilities.

The fair value of borrowings at the balance sheet date is equivalent to their carrying value.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**14. Trade and other payables**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Trade payables	21.8	9.7
Amounts due to Group undertakings	71.2	24.7
Other taxes and social security	5.1	4.3
Other payables	7.9	10.4
Accruals	23.3	13.7
Employee benefits	-	0.3
Liability to former members	1.5	4.0
	<b>130.8</b>	<b>67.1</b>

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

**15. Other payables**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Lease incentives- deferred	<b>14.7</b>	<b>15.8</b>

**16. Provisions**

	<b>Onerous leases and dilapidations £'m</b>	<b>Employee benefits £'m</b>	<b>Other £'m</b>	<b>Total provisions 2016 £'m</b>	<b>Total provisions 2015 £'m</b>
At 1 May	3.8	0.3	0.8	4.9	0.2
Reclassified from trade and other payables	-	-	-	-	1.5
Utilisation	(0.8)	(0.3)	-	(1.1)	(0.5)
Charged to the statement of comprehensive income	0.4	0.4	-	0.8	3.9
Reversals to the statement of comprehensive income	(0.5)	-	-	(0.5)	(0.2)
<b>At 30 April</b>	<b>2.9</b>	<b>0.4</b>	<b>0.8</b>	<b>4.1</b>	<b>4.9</b>

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Current provisions	0.4	2.0
Non-current provisions	3.7	2.9
	<b>4.1</b>	<b>4.9</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**
**16. Provisions (continued)**
**Onerous leases and dilapidations**

In respect of leases for premises that are surplus to requirements, a provision has been recognised to cover the costs of continuing rental obligations. The lease to which the provision relates expires in 2019.

The provision for dilapidations is in respect of a property lease which contains a requirement for the premises to be returned to its original state prior to the conclusion of the lease term. The lease to which the provision relates expires in December 2030.

**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.

**17. Members' interests**

	Other reserves £'m	Translation reserve £'m	Members' capital £'m	Other amounts due to members £'m	Amounts due from members £'m	Total 2016 £'m
At beginning of year	84.5	(5.7)	18.5	51.4	(61.2)	87.5
Profit before members' remuneration and profit shares	149.8	-	-	-	-	149.8
Allocated profits net of members' tax	(64.9)	-	-	-	64.9	-
Amounts retained in respect of members' taxation	(67.0)	-	-	67.0	-	-
Amounts paid to or on behalf of members	-	-	-	(74.4)	(73.7)	(148.1)
Transfer of amounts due to former members	(1.5)	-	-	-	-	(1.5)
Actuarial loss relating to pension scheme	(1.7)	-	-	-	-	(1.7)
Capital introduced	-	-	1.7	-	-	1.7
Capital repaid	-	-	(2.0)	-	-	(2.0)
Exchange differences on translation of foreign operations	-	1.1	-	-	-	1.1
<b>At end of year</b>	<b>99.2</b>	<b>(4.6)</b>	<b>18.2</b>	<b>44.0</b>	<b>(70.0)</b>	<b>86.8</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**18. Retirement benefit obligations**

*Defined contribution schemes*

The LLP operates defined contribution pension schemes across its offices. The pension cost charge for the year in relation to the defined contribution schemes amounted to £0.3m (2015: £0.3m).

*Defined benefit schemes*

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

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004.

A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, Herbert Smith Freehills LLP must agree with the Trustee of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The Scheme is managed by Cheviot Trustee Limited (the Trustee). The Trustee has responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to their professional advisers where appropriate. The most recent actuarial valuation was carried out by an independent actuary as at 31 December 2013. The valuation showed that the market value of the Scheme's assets, excluding members' Additional Voluntary Contributions, was £47.0m which represented 95.0% of the benefits that had accrued to Scheme members.

The actuarial valuation described above has been updated at 30 April 2016 by a qualified independent actuary using revised assumptions that are consistent with the requirements of IAS 18 (revised) - Employee Benefits. Investments have been valued for this purpose at fair value.

The Scheme exposes the LLP to a number of risks:

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

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

**Actuarial assumptions**

The principal assumptions used to calculate the Scheme's liabilities as part of the updated valuation at 30 April 2016 are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate	<b>3.4% pa</b>	3.3% pa
Retail Prices Index (RPI) inflation	<b>3.0% pa</b>	3.2% pa
Consumer Prices Index (CPI) inflation	<b>2.1% pa</b>	2.3% pa
LPI 5% pension increases	<b>2.9% pa</b>	3.1% pa
LPI 2.5% pension increases	<b>2.2% pa</b>	2.2% pa
Revaluation in deferment	<b>2.1% pa</b>	2.3% pa
Salary increases	<b>4.5% pa</b>	4.7% pa
Post retirement mortality assumption	90%/100% (m/f) S1PA CMI 2013 1.0%	
Tax free cash	Allowance for 80% of members to take the maximum cash available at retirement	

**Assets**

The major categories of assets as a percentage of total Scheme assets are as follows:

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Equities and other growth assets	<b>57%</b>	61%
Corporate bonds	<b>11%</b>	12%
LDI and cash	<b>32%</b>	27%
	<b>100%</b>	<b>100%</b>

The assets do not include any investment in the LLP.

**Amounts recognised within the statement of financial position**

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Fair value of assets	<b>58.1</b>	58.5
Present value of funded obligations	<b>(49.0)</b>	(51.5)
Surplus	<b>9.1</b>	7.0
Impact of asset ceiling	<b>(9.1)</b>	(7.0)
Net defined benefit liability at end of the year	<b>-</b>	-

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

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

**Reconciliation of net defined benefit liability**

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Net defined benefit liability at 1 May	-	-
Net interest income	(0.3)	-
Remeasurements	1.7	1.5
Administration costs	0.3	0.2
Employer contributions	(1.7)	(1.7)
Net defined benefit liability at 30 April	-	-

**Amounts recognised in the statement of comprehensive income over the year**

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Administration costs	0.3	0.2
Interest on liabilities	1.6	2.0
Interest on assets	(1.9)	(2.0)
Total amount recognised	-	0.2

**Remeasurements over the year**

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Loss/(gain) on scheme assets in excess of interest	1.9	(7.9)
Gains from changes to demographic assumptions	-	(1.4)
(Gains)/losses from changes to financial assumptions	(2.3)	4.5
Changes in effects of asset ceiling	2.1	6.3
Total remeasurements	1.7	1.5

**Reconciliation of assets and defined benefit obligation**

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

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Fair value of assets at 1 May	58.5	48.7
Interest on assets	1.9	2.0
LLP contributions	1.7	1.7
Benefits paid	(1.8)	(1.6)
Administration costs	(0.3)	(0.2)
Return on plan assets less interest	(1.9)	7.9
Fair value of assets at 30 April	58.1	58.5

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

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

**The change in the Defined Benefit Obligation over the year was as below**

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Defined benefit obligation at 1 May	<b>51.5</b>	<b>48.0</b>
Interest on liabilities	<b>1.6</b>	<b>2.0</b>
Benefits paid	<b>(1.8)</b>	<b>(1.6)</b>
Experience loss on defined benefit obligation		
Changes to demographic assumptions	<b>-</b>	<b>(1.4)</b>
Changes to financial assumptions	<b>(2.3)</b>	<b>4.5</b>
Defined benefit obligation at 30 April	<b>49.0</b>	<b>51.5</b>

**Disaggregation of liabilities**

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Deferred members	<b>24.0</b>	<b>25.0</b>
Pensioner members	<b>25.0</b>	<b>26.5</b>
Defined benefit obligation	<b>49.0</b>	<b>51.5</b>

**Sensitivity of the value placed on the liabilities**

<b>Adjustments to assumptions</b>	<b>Approximate effect on liabilities<sup>1</sup></b>
	<b>2016</b>
	<b>£'m</b>
<i>Discount rate</i>	
Plus 0.50%	<b>(3.3)</b>
Minus 0.50%	<b>3.7</b>
<i>Inflation<sup>2</sup></i>	
Plus 0.50%	<b>2.9</b>
Minus 0.50%	<b>(3.3)</b>
<i>Life expectancy</i>	
Plus 1 year	<b>2.2</b>
Minus 1 year	<b>(2.2)</b>
<i>Salary increases<sup>3</sup></i>	
Plus 0.50%	<b>0.6</b>
Minus 0.50%	<b>(0.5)</b>

1. Before allowance for any restriction of surplus.
2. Allows for the salary increase assumption and the pension increase assumptions to vary in line with the inflation assumption.
3. The salary increase assumption is varied in isolation.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

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

**Effect of the Scheme on the LLP future cash flows**

Herbert Smith Freehills LLP is required to agree a Schedule of Contributions with the Trustee of the Scheme following a valuation which must be carried out at least once every three years. The next valuation of the Scheme is due as at 31 December 2016. In the event that the valuation reveals a larger deficit than expected the LLP may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced.

According to the current Schedule of Contributions, Herbert Smith Freehills LLP has agreed to pay contributions of £0.3m in the year to 30 April 2017.

The weighted average duration of the defined benefit obligation is approximately 15 years.

**With Profits Section of the Cheviot pension scheme**

Herbert Smith Freehills LLP also participates in the With Profits Section of the Cheviot pension which was previously considered to be a money purchase arrangement but was reclassified as a cash balance scheme in July 2014 following a change in primary legislation within the UK. Following the reclassification, Herbert Smith Freehills LLP will have continuing obligations to the Section under the statutory provisions to fund any deficit if the Trustee considers it appropriate to require contributions.

The first scheme specific valuation was undertaken by the Scheme actuary as at 31 December 2014 and on the basis of provisional valuation results, the Trustee has concluded that no contributions are currently required from employers, which includes Herbert Smith Freehills LLP. Based on information made available by The Cheviot Trust as at 30 April 2016, Herbert Smith Freehills LLP's estimated share of the cost of providing benefits amounted to £4.2m (2015: £4.4m). A comparison of the expected cost of providing benefits versus the corresponding share of the scheme's assets indicates a surplus of £0.1m.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**19. Operating Lease Commitments**

The future aggregate minimum commitments under non-cancellable operating leases are as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Leasehold Properties £'m</b>	<b>Office equipment £'m</b>	<b>Leasehold properties £'m</b>	<b>Office equipment £'m</b>
Expiry Date:				
- Within one year	<b>22.7</b>	-	21.1	0.1
- Between two and five years	<b>75.8</b>	-	75.8	-
- Over five years	<b>157.6</b>	-	174.6	-
	<b>256.1</b>	-	<b>271.5</b>	<b>0.1</b>

At the year end, the LLP had the following minimum amounts to be received under non-cancellable subleases for land and buildings, which fall due as follows:

	<b>2016 £'m</b>	<b>2015 £'m</b>
Within one year	-	0.2
Within two to five years	-	-
In more than five years	-	-
	<b>-</b>	<b>0.2</b>

**20. Capital Commitments**

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

	<b>2016 £'m</b>	<b>2015 £'m</b>
Intangible assets	-	-
Property, plant & equipment	<b>0.1</b>	-
	<b>0.1</b>	-

**21. Financial Instruments**

**Capital structure and risk management**

The LLP is financed with external borrowings, members' capital and members' other balances. The LLP's external financing arrangements comprise a multi-currency revolving credit facility with nine participating 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. The capital structure of the LLP is reviewed regularly to ensure that it remains relevant to the needs of the organisation. The LLP's objective when managing its treasury risks is to safeguard its ability to operate as a going concern and maintain sufficient liquidity to meet obligations as they fall due.

**Financial assets and liabilities**

The following table sets out the carrying value of the principal financial assets and liabilities of the LLP at the balance sheet date. In each case, the carrying value approximates to the fair value. The LLP did not have any 'Available-for-sale' ("AFS") financial assets as at the end of the current year or the prior year.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**21. Financial Instruments (continued)**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
<b>Financial assets</b>		
Billed client receivables	<b>114.5</b>	93.6
Cash and bank balances	<b>30.4</b>	37.6
Other receivables including non-UK tax	<b>109.5</b>	73.1
	<b>254.4</b>	204.3
<b>Financial liabilities</b>		
	<b>£'m</b>	<b>£'m</b>
Borrowings	<b>103.7</b>	106.3
Trade and other payables	<b>130.8</b>	67.1
Current tax liabilities	-	1.0
Members' capital	<b>18.2</b>	18.5
	<b>252.7</b>	192.9

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.

**Currency profile of financial assets and liabilities**

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
<b>Financial assets</b>		
Sterling	<b>119.8</b>	84.0
Australian Dollars	<b>0.4</b>	0.5
Euros	<b>5.7</b>	29.7
US Dollars	<b>42.4</b>	29.8
Hong Kong Dollars	<b>66.5</b>	34.5
Japanese Yen	<b>6.4</b>	9.7
Other	<b>13.2</b>	16.1
	<b>254.4</b>	204.3



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**21. Financial Instruments (continued)**

	2016 £'m	2015 £'m
<b>Financial liabilities</b>		
Sterling	67.4	62.6
Euros	53.2	37.4
US Dollars	65.7	54.5
Hong Kong Dollars	50.8	22.0
Japanese Yen	8.3	9.9
Other	7.3	6.5
	<u>252.7</u>	<u>192.9</u>

**Foreign currency sensitivity analysis**

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

	(Loss)/profit 2016 £'m	(Loss)/profit 2015 £'m
Euro currency impact	(4.8)	(0.8)
US Dollar currency impact	(2.3)	(2.5)
Hong Kong Dollar currency impact	1.6	1.3
Japanese Yen currency impact	(0.2)	-

Additionally, there would be an increase in equity of £0.4m (2015: £0.4m) 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.

**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 2016 and equity would decrease/increase by £0.2m (2015: £0.4m).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 30 APRIL 2016**

**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 BBB-.

Although the LLP has a policy of performing credit checks on all new clients, its main protection against a significant charge to its income statement 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.

**Liquidity risk**

Ultimate responsibility for liquidity risk management rests with management, who have built a liquidity risk management framework to govern the LLP's funding and liquidity requirements. The LLP manages liquidity risk by continuously monitoring forecast and actual cash flow, and by matching the maturity profiles of financial assets and liabilities. The LLP also maintains a buffer in its borrowing facilities to cover unforeseen cash demands on the business.

**Liquidity and interest risk tables**

The following table shows the remaining contractual maturity for the LLP's financial liabilities at the balance sheet date. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the LLP can be required to pay. The table includes both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	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	Total £'m
Non-interest bearing	-	130.8	-	-	-	-	130.8
Fixed rate	2.9%	-	-	-	-	18.2	18.2
Variable rate	2.8%	-	-	-	103.7	-	103.7
		<u>130.8</u>	<u>-</u>	<u>-</u>	<u>103.7</u>	<u>18.2</u>	<u>252.7</u>

**22. 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.