

**SLATER & GORDON LIMITED
AND CONTROLLED ENTITIES
ABN 93 097 297 400**

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2012**

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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DIRECTORS' REPORT

The directors present their report, together with the financial report of the consolidated entity consisting of Slater & Gordon Limited ("the Company") and its controlled entities (jointly referred to as "the Group"), for the financial year ended 30 June 2012 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards ("IFRS").

Directors

The directors in office at any time during the financial year and up to the date of this report are:

- John Skippen – appointed Acting Chair on 16 March 2012 and Chair on 23 August 2012
- Andrew Grech – Managing Director
- Ian Court
- Ken Fowlie
- Erica Lane
- Anna Booth – resigned as a director and Chair on 16 March 2012

Details of the skills, experience, expertise and special responsibilities of each director are set out in a subsequent section of this report.

Principal activities

The principal activity of the Group during the financial year was the operation of legal practices in Australia and the United Kingdom ("UK").

Results

The profit after income tax of the Group was \$24,992,000 (2011: \$27,908,000).

Review of operations

A review of the operations of the Group during the financial year, its financial position and business strategies and prospects for the future financial years are set out in the directors' report below.

Significant changes in the state of affairs

Significant changes in the Group's state of affairs during the year ended 30 June 2012 were as follows:

Acquisition of Russell Jones & Walker ("RJW")

On 30 April 2012 the Group acquired the UK law firm RJW for a consideration as follows:

	GBP £'000	AUD \$'000
Consideration		
Completion date cash payment	26,288	40,953
Fair value of deferred consideration payments	8,247	12,847
Equity issue to vendors	18,418	28,692
	52,953	82,492

The strategic rationale of this acquisition is to:

- deliver geographic expansion and diversification in a market 4 to 5 times that of Australia's with a similar legal jurisdiction;
- provide a new platform for growth beyond the current 2015 horizon with strong organic growth expected to continue;
- provide a first mover opportunity to Slater & Gordon under the recent UK legal regulatory change and to capitalise on the Company's experience as the world's first listed law firm; and
- enter the UK market via a well aligned, established and investment ready partner.

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Acquisition of Conveyancing Works (Qld) Pty Limited ("CWQ")

On 25 November 2011, the Group acquired a 100% shareholding in CWQ. The strategic rationale of this acquisition is to:

- continue to diversify outside the personal injury legal market;
- underpin strategic growth for the domestic conveyancing practice in Queensland; and
- provide a platform for further expansion of the conveyancing practice into New South Wales, Victoria and Western Australia.

Further details regarding these acquisitions can be found in Note 30 to the financial statements for the year ended 30 June 2012.

Significant events – Write down of WIP and disbursements in Vioxx class action.

As disclosed to the market on 11 May 2012, the High Court decided that it would not grant leave to the lead plaintiff, Mr Graeme Peterson, to appeal the decision of the Full Court of the Federal Court, which upheld an appeal by the Australian subsidiary of the drug manufacturer Merck overturning the original decision in this matter on 12 October 2012.

As a result of this, the Board determined to write down the full value of the WIP and disbursements in the Vioxx class action. This write down is disclosed in Note 5 to the financial statements for the year ended 30 June 2012.

Subsequent events

There are no subsequent events.

Dividends paid, recommended and declared

The dividends paid and declared since the start of the financial year are as follows:

	2012	2011
	\$'000	\$'000
<i>Dividends on ordinary shares</i>		
Interim franked dividend at the tax rate of 30% for 2012: 2.5 cents per share (2011 – 2.2 cents per share)	3,793	3,285
Final franked dividend at the tax rate of 30% for 2011: 3.3 cents per share (2010 – 3.0 cents per share)	4,993	4,412
	8,786	7,697

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of \$5,898,000 (3.5 cents per share) to be paid on 26 October 2012 out of retained earnings at 30 June 2012.

Share options

No options over unissued shares or interests in the Company were granted during or since the end of the financial year and there were no options outstanding at the end of the financial year.

Indemnification and insurance of directors and officers

During or since the end of the financial year, the Group has given indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

A premium of \$33,000 (2011: \$32,000) for a twelve month period was incurred in respect of directors, officers and the Company Secretary of the Company against a liability brought upon such an officer.

Further disclosure required under section 300(9) of the Corporations Act 2001 is prohibited under the terms of the contract.

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Information on directors and company secretaries

The skills, experience, expertise and special responsibilities of each person who has been a director of the Company at any time during or since the end of the financial year is provided below, together with details of the company secretaries as at the year end.

John Skippen
ACA
Chair, Non-executive Director

John has over 30 years experience as a chartered accountant and was the former Finance Director of Harvey Norman Holdings Ltd. John has also served as a Director of Briscoe Group Limited (NZ) (2004-2011) and Mint Wireless Limited (2007-2008).

On 16 March 2012 John was appointed Chair of the board following the resignation of Anna Booth.

John is currently a Non Executive Director of Flexigroup Limited (appointed November 2006), Super Retail Group Ltd (appointed September 2008) and Emerging Leaders Investment Ltd (appointed October 2010).

John is Chair of the Board and a member of the Audit, Compliance and Risk Management committee and the Nomination and Remuneration Committee. John brings to the Board extensive financial, public company and retail experience and skills in financial management, general management and strategy.

Andrew Grech
LLB MAICD
Managing Director

Andrew joined Slater & Gordon in 1994 and has worked as a litigator in most areas of the Company's litigation practice. Andrew also spent three years in the then fledgling Sydney office between 1997 and 2000. Since he became Managing Director in 2000, the Group has enjoyed substantial growth, expanding from seven offices in 2002 to a network of over 69 offices across Australia and 10 offices in the UK in 2012. Andrew has also successfully managed the acquisition and integration of 28 firms since 2006.

Andrew's more than 20 years' experience as a legal practitioner has equipped him with very strong skills in the assessment and management of litigation risks. During his tenure as Managing Director, Andrew has developed skills in all facets of legal practice management.

Andrew served as the founding chair of the Youth Junction Inc., a not for profit youth charity operating in Sunshine, Victoria and remains a member of its voluntary board. Andrew is also a member of the Advisory Committee of the McCabe Centre for Law & Cancer.

Ken Fowlie
LLB BCom MAICD
Executive Director

Ken has extensive litigation experience particularly in claims for sufferers of asbestos related illness (including acting for the ACTU and asbestos support groups in negotiations with James Hardie) and large, multi-party group and representative actions.

Ken has taken a lead role in establishing Slater & Gordon's presence in New South Wales. Until December 2009, Ken managed the significant growth of Slater & Gordon's NSW team, the majority of whom joined the Group through the acquisition of smaller firms.

Until 30 June 2011, as General Manager of the Commercial and Project Litigation practice, Ken had stewardship of the Group's portfolio of high profile project litigation cases. During 2011-2012 Ken has been on a leave of absence from his management role to complete further study. Ken has continued to serve on the Board during this time.

Ken brings to the Board a unique operational perspective in two of the Group's key strategic areas. As a legal practitioner with over 16 years' experience and qualifications and a strong interest in economics, Ken contributes skills in legal practice, legal practice management, risk management, financial analysis and financial reporting.

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Ian Court
FAICD
Non-executive Director

Ian has extensive experience as a senior executive and non-executive director in a diverse range of companies and industry sectors. He is currently a non-executive director with AssetCo Management Pty Ltd (Chair of the Projects Committee), SSSR Holdings Pty Ltd and Western Liberty Group Holdings Pty Ltd. He is a non-executive director and Chair of ACTU Member Connect Pty Ltd, Chair of the Industry Funds Management Investor Advisory Board and a non-executive director of Praeco Pty Ltd.

Prior non-executive positions held include companies in the financial services, unlisted infrastructure, private equity and property sectors including, Victorian Funds Management Corporation, Epic Energy Holdings Pty Ltd, Pacific Hydro Pty Ltd, Federal Airports Corporation, Utilities of Australia Pty Ltd, Bennelong Funds Management Pty Ltd, Ecogen Holdings Pty Ltd, Australian Venture Capital Association Ltd, Australian Prime Property Funds Custodian Pty Ltd and deputy Chair of ISPT Pty Ltd. Ian was also inaugural president of the Australian Institute of Superannuation Trustees (AIST). Prior executive positions include CEO of Development Australia Funds Management Ltd (1998-2004) and Executive Chair of Cbus (1992-1998). Earlier in his career Ian was a senior industrial officer with the ACTU (1982-1992).

Ian is the Chair of the Audit, Compliance and Risk Management committee. Ian brings to the Board expertise and skills in finance, financial markets, business strategy, human resources, risk management and corporate governance.

Erica Lane
B App Sc, Grad Dip Comp, MBA
(Melbourne), MBA (Chicago),
MAICD
Non-executive Director

Erica has extensive experience as a non-executive director and senior executive particularly in financial services (banking, insurance, funds management and investment banking), professional services and healthcare.

Erica has served as a non-executive director and chaired various committees for Victorian Funds Management Corporation and Eastern Health. Earlier in her career, Erica held senior executive positions with ANZ Bank, CS First Boston (USA) and Booz Allen & Hamilton. Prior to her business career, Erica practised as a medical microbiologist in the public health system.

Erica currently runs her own business advisory and interim management firm and has consulted extensively on strategic realignment, re-organisation and restructuring and performance improvement across a broad range of industries.

Erica is Chair of the Nomination and Remuneration committee and a member of the Audit, Compliance and Risk Management committee. Erica contributes skills in strategy, finance, general management and business performance improvement.

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Anna Booth B Ec Hons FAICD Non-executive Chair	Anna resigned as a director on the Board on 16 March 2012 following her appointment as Deputy President of Fair Work Australia. Prior to her resignation, Anna was the Chair of the Board and a member of the Nomination and Remuneration Committee.
Wayne Brown BCom (Hons), M Int Bus (Melb), CA MAICD Chief Financial Officer and Joint Company Secretary	Wayne joined Slater & Gordon in 2004 as Chief Financial Officer and Company Secretary. Prior to joining the Group, Wayne was the financial controller of the ASX listed Grand Hotel Group and prior to that, Wayne spent ten years with Arthur Andersen where he specialised in corporate recovery and restructuring. Wayne contributes skills in corporate governance, financial management, analysis and reporting.
Kirsten Morrison BA/LLB (Hons) General Counsel and Joint Company Secretary	Kirsten commenced as a commercial litigator with Slater & Gordon in 2006 and then as General Counsel and Company Secretary in 2008. Prior to joining Slater & Gordon, Kirsten was a lawyer at Allens Arthur Robinson and completed an Associateship to the Hon. Justice Hargrave in the Victorian Supreme Court. Kirsten contributes skills in corporate governance and risk management.

Directors' meetings

The number of meetings of the Board of Directors and of each Board committee held during the financial year and the numbers of meetings attended by each director were:

	Board of Directors		Audit, Compliance & Risk Management Committee		Nomination & Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
A Booth ⁽¹⁾	7	7	-	-	3	3
A Grech	9	9	-	-	-	-
I Court	9	9	5	5	-	-
K Fowlie	9	9	-	-	-	-
E Lane	9	9	5	5	4	4
J Skippen	9	9	5	5	1	1

⁽¹⁾ A Booth resigned as a director on 16 March 2012.

Directors' interests in shares

Directors' relevant interests in shares of the Company as at the date of this report are detailed below.

	Ordinary shares of the Company
A Grech	8,116,613
I Court	44,000
K Fowlie	6,086,221
E Lane	150,000
J Skippen	-

Directors' interests in contracts

Directors' interests in contracts are disclosed in Note 28 to the financial statements.

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Auditor's independence declaration

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided with this report.

Non-audit services

Written approval for non-audit services is provided by resolution of the Audit, Compliance and Risk Management Committee and approval is notified to the Board of Directors. Non-audit services provided by Pitcher Partners, the auditors of the Group, during the year are detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

During the year, the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2012	2011
	\$'000	\$'000
Due diligence investigations		
- Pitcher Partners	170	232
- Related practices of Pitcher Partners	365	-
Total remuneration for due diligence investigations	535	232
General controls and IT conversion review		
- Pitcher Partners	-	7
Total remuneration for general controls and IT conversion review	-	7
Total remuneration for non-audit services	535	239

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REMUNERATION REPORT

The Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report, Key Management Personnel (“KMP”) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group, and includes the key executives of the Group.

For the purposes of this report, the term ‘executive’ encompasses the Chief Financial Officer, senior executives and senior employees of the Group.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and executive team.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality, high performing Board and executive team.

Remuneration philosophy

The performance of the Group depends on the quality and performance of its directors and executives. To prosper, the Group must attract, motivate, develop and retain highly skilled directors and executives. The remuneration philosophy of the Group is part of a broader strategy to attract and retain staff, by among other elements, ensuring that the work of the Group reflects the values and aspirations of the people within it. The Group will continue to monitor the level of alignment between the values of the Group and its people.

The Group embodies the following principles in its remuneration framework:

- Provide fair and competitive rewards to attract high calibre executives (by providing a fixed remuneration compensation and offering specific short and longer term incentives to executives);
- Link executive rewards to the creation of sustainable shareholder value;
- Have a portion of executive remuneration ‘at risk’;
- Establish appropriate, demanding performance hurdles for variable executive remuneration; and
- Provide long term incentives and rewards for performance through the Employee Ownership Plan (“EOP”).

Remuneration structure

In accordance with good corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders and other stakeholders.

Structure

The constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was an aggregate remuneration of \$500,000.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually. In determining the remuneration of non-executive directors, the Board considers the time commitment and nature of the contribution required by directors. Advice is obtained from external consultants independent of management and the remuneration paid to non-executive directors of comparable companies is taken into account when undertaking the annual review process.

During the year ended 30 June 2012, the remuneration of non-executive directors was set for the position of Chair of the Board at \$114,400 and for a director at \$57,200. An additional fee of \$15,000 was paid for any director who acting as a Chair of a Board sub-committee. An additional fee of \$7,500 per subcommittee was paid for any director who acts as a member of a Board sub-committee. The payment of the additional fees for being the Chair or a member of a Board sub-committee is to reflect the additional time commitment required by the director. Non executive directors receive no other form of remuneration, however reasonable expenses incurred in the course of their role are reimbursed.

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Executive remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- reward executives for Group, practice group and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Structure

It is the Board's policy that directors' fees are not paid to executive directors. The adequacy and form of remuneration of the Managing Director, and senior Group executives are reviewed by the Nomination and Remuneration Committee. The remuneration policy for these executives takes into account personal competence, experience and the achievement of key performance indicators ("KPI's"), including:

- financial KPI's including (but not limited to) achievement of budgets for profitability, working capital management; and
- non-financial KPI's including (but not limited to) practice and staff management and business development.

The Nomination and Remuneration Committee is responsible for ensuring that senior executive remuneration is reasonable in comparison with industry and other relevant measures including promoting the long term growth of shareholder value. The Managing Director, in conjunction with the Nomination and Remuneration Committee (where appropriate), annually reviews senior executives' KPI's for their ongoing adequacy and achievement.

The Managing Director, in liaison with other senior executives, is responsible for the level and components of remuneration paid to other senior Group executives and employees. Remuneration levels vary across the Group and have regard to geographical and local circumstances and the need to maintain attractive and competitive income levels.

Executive remuneration is made up from the following components:

- Base remuneration – this element reflects the scope of the role, level of skills and experience and is typically fixed;
- Performance based remuneration – this element comprises two components:
 - Short term incentives in the form of cash bonuses; and
 - Long term incentives in the form of the acquisition of equity in the Group through the Employee Ownership Plan.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee, taking into account the performance of the Group, its divisions and practice groups, and individuals. This is then compared to relevant comparative remuneration in the market and internally and where appropriate, external advice on policies and practices. As noted above, the committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating an additional cost for the Group.

Variable remuneration – short term incentives ("STP")

Objective

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Structure

Cash bonuses to executives and senior employees are paid under predetermined bonus arrangements and are subject to a range of performance criteria. The bonus arrangement varies between executives depending upon their position and

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responsibilities. The criteria are predominantly weighted on the financial performance of practices and/or the Group. Discretionary components are assessed or approved by the Company's Nomination and Remuneration Committee.

Cash bonuses are paid as an incentive to align executives with the objectives of their respective practices. Performance measures are determined in advance and are specifically tailored to the executive's/senior employee's circumstances. Financial budgets are used to measure financial performance, whilst KPI's are used to target key areas identified by the directors and senior management for achieving Practice Group and/or the Group objectives.

Key Management Personnel ("KMP")

The performance of KMP is measured against criteria agreed with each executive and is based on a range of financial and non-financial performance measures. This performance is assessed annually by the Nomination and Remuneration Committee with regard to the desired and actual outcomes, taking into account the evolving nature of the business and the creation of shareholder wealth in the long term.

The Board may exercise its discretion in recommending changes to the Nomination and Remuneration Committee's assessment of the performance of the KMP.

The KMP who may be eligible to a cash performance bonus with a combined total of up to \$469,450 (2011: \$574,100) in respect of the year ended 30 June 2012 are Andrew Grech, Wayne Brown, Cath Evans, Janine Gregory, James Higgins and Hayden Stephens.

KPI's for executives are based on above budget performance linked to the relevant measures including net fee, gross margin, EBIT margin, cash flow (debtor and paid disbursement performance) for which the executive is accountable. In addition there are non-financial KPI's with set performance criteria linked to the development of staff that report to the relevant executive, development of technical skills and brand and business development. The achievement or non-achievement of these performance criteria will determine whether the bonus or components of the bonus have been met.

The estimated bonuses due to KMP for the year ended 30 June 12 is \$292,250 (2011: \$336,000). The entitlement to these bonuses has been based on the assessment of the KMP achievement or otherwise of the performance criteria (KPI's) for the financial year.

KPI's that management are subject to include financial KPI's, such as achievement of budgets for profitability, working capital management and non-financial KPI's such as practice and staff management and business development.

Variable remuneration – long term incentives ("LTI")

Objective

In the financial year ended 30 June 2007 (prior to listing on the ASX) the firm introduced the Employee Ownership Plan ("EOP") to provide an opportunity for senior employees to build a shareholding in the Company over time. The EOP serves as an incentive and reward for longer term performance and a retention strategy for key employees.

Structure

The Board has the authority to invite employees to participate in the EOP and subscribe for VCR shares. VCR shares are vesting, converting and redeemable shares in the capital of the Company. The EOP provides for the issue of VCR shares to participants in a number of tranches and for the Company to make a loan to participants equal to the total amount that is to be subscribed.

When making an offer to an employee to subscribe for VCR shares, the Board has the power to specify:

- the number of VCR shares which may be subscribed for by a particular employee;
- the issue price. The Board sets the issue price based on the previous 20 business day Volume Weighted Average Price ("VWAP") prior to the date of the issue;
- the number of tranches into which the VCR shares will be divided and the vesting date for each tranche;
- the period for which an absolute restriction on disposal will apply (this period may not exceed 3 years from vesting);
- any conditions to be placed on vesting (achievement of pre determined KPI's which are relevant to the employee and are aligned to the performance measures set in the STI's refer above);
- any events which would result in the forfeiture of the VCR shares; and
- the period for which the Company will be able to buy back or require the forfeiture of the converted shares.

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The EOP provides for a full recourse interest free loan from the Company to the employee to facilitate the employee's subscription for VCR shares. The loan is secured by the VCR shares or the converted VCR shares. The offer made by the Board must specify the date by which the loan must be repaid. This date may not be later than 5 years after vesting (refer to Note 26).

The vesting conditions for VCR shares are based on the KPI's set and approved by the Board for the relevant senior employee in respect of their area(s) of responsibility. The KPI's will include financial and non-financial KPI's and are aligned to the performance measures set in the STI's (refer above).

The EOP provides for senior managers to be offered from one to several allocations of VCR shares over their career with the Group. Individuals can therefore build a substantial stake in the Company over time.

If the participant ceases employment with the Group, their vested and unvested VCR shares can be forfeited or bought back by the Company and set off against any outstanding loan. The participant may be deemed liable for any shortfall between the value of the shares forfeited or brought back by the Company and the loan amount.

At the cessation of the period of the restriction (three years maximum) following vesting and conversion of a VCR share, each participant is required to enter into a binding commitment with the Company in respect of their converted VCR shares. Under the binding commitment the participants in the EOP will be under the following restrictions:

- They will be required to maintain a minimum level of shareholding for as long as they remain an employee of the Group. The minimum holding is calculated based on the lower of 5 times the employee's annual salary and 20% of the aggregate VCR shares issued to that employee which have vested and converted to shares.
- If they cease to be employed by the Group, they may forfeit or be required to dispose of some or all of their vested and unvested VCR shares upon such termination. The ramifications of a departure from employment are linked to the circumstances surrounding that departure.

The KMP who have shares under the EOP (refer Note 25) subject to performance criteria in respect of the year ended 30 June 2012 are the Chief Financial Officer, Wayne Brown, General Manager – Commercial & Project Litigation, James Higgins and the General Manager – PI South, Janine Gregory.

Employment contracts

Executive Directors

Mr Andrew Grech, the Managing Director, is employed under a rolling contract. The current employment contract commenced on 1 July 2006. Under the terms of the present contract:

- Mr Grech receives fixed remuneration of \$417,295 per annum (inclusive of superannuation);
- Mr Grech is also eligible to receive a bonus of up to \$104,450 for the year ended 30 June 2012, inclusive of superannuation (2011: \$121,600), at the discretion of the board, based on the achievement of certain key performance indicators. A cash bonus of \$121,600 was paid post 30 June 2012 in respect to the year ended 30 June 2011. For the year ended 30 June 2012 a cash bonus of \$75,000 has been provisionally determined. Key performance indicators include financial and non-financial KPI's and are aligned to the performance measures set in the STI's (refer above);

Mr Ken Fowlie, an executive director, is employed under a rolling contract. The current employment contract commenced on 1 July 2006. Under the terms of the present contract:

- Mr Fowlie receives fixed remuneration of \$350,000 per annum (inclusive of superannuation);
- Mr Fowlie is not entitled to receive a bonus for the year ended 30 June 2012 (2011: \$100,000). A cash bonus of \$100,000 was paid in respect to the year ended 30 June 2011.

In addition, both executive directors are bound by the following terms and conditions in their employment contracts:

- The director may resign from their position and thus terminate their employment contract by giving three months written notice;
- The Company may terminate their employment agreement by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of the director's remuneration);
- The Company may terminate their employment contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination;
- Their employment agreement contains a restraint of trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company, 24 months);

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- The performance of the director is reviewed annually by the Nomination and Remuneration Committee and/or the Board. The director is assessed on achievement of the Group's goals and budgets applicable to the year in review. The Committee also reviews the remuneration of the director on an annual basis. The findings are reported to, and approved by, the Board; and,

Prior to 21 May 2012, both executive directors were Vendor Shareholders and were subject to a shareholders agreement which had been entered into by all seven Vendor Shareholders. This agreement placed restrictions on the ability of the directors and all other Vendor Shareholders to dispose of their shareholding which included the following provision:

- If a Vendor Shareholder ceases to be employed by the Company, they may be required to transfer some or all of their shares to, or at the direction of, the other Vendor Shareholders for nominal consideration. The ramifications of a departure from employment are linked to the circumstances surrounding that departure, as determined pursuant to the terms of the agreement by simple majority decision of the other Vendor Shareholders.

The Company was not a party to the shareholders agreement and could not enforce the shareholders agreement. Only the Vendor Shareholders could enforce compliance with these restrictions. Those rights are vested in the Vendor Shareholders jointly and severally.

On 21 May 2012, all remaining restrictions on the disposal of shares under the shareholders agreement (other than those related to ceasing employment in certain circumstances referred to above) were lifted as per the terms of the agreement. Vendors are required under the agreement to maintain a minimum shareholding while an employee of the Company and the rights of the vendor shareholders referred to above continue to apply to that minimum shareholding in relation to cessation of employment.

Other executives (standard contracts)

- All executives have rolling contracts.
- The Group may terminate the executive's employment agreement by providing one to three months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration).
- Any executive who is an EOP Participant is subject to consequences which flow from the cessation of their employment as discussed above (see "Variable remuneration – Long term incentives ("LTI").
- Any executive who is a Vendor Shareholder is subject to the consequences which flow from the cessation of their employment as a term of the shareholders agreement which has been entered into by the seven Vendor Shareholders as discussed above.
- The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- The employment agreement contains a restraint of trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company, 24 months).

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The names and positions of each person who held the position of director at any time during the financial year is provided above.

Further details regarding components of KMP remuneration are detailed below.

Directors' remuneration:

2012	Short term			Post employment	Other long term benefits ⁽⁶⁾	Equity	Other benefits	Total	Total performance related			Total performance related %		
	Salary/ Fees ⁽⁵⁾	Cash Bonus ⁽⁷⁾	Non- monetary	Super					Cash Bonus	Non- Monetary	Share based payments	Cash Bonus	Non- Monetary	Share based payments
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
A Booth ⁽¹⁾	82,188	-	-	7,397	-	-	-	89,585	-	-	-	-	-	-
A Grech ⁽²⁾	372,797	75,000 ⁽³⁾	8,786	20,930	10,604	-	-	488,117	75,000 ⁽³⁾	-	-	15.3%	-	-
I Court	48,050	-	-	24,150	-	-	-	72,200	-	-	-	-	-	-
K Fowlie ⁽²⁾	165,669	⁽⁴⁾	-	15,775	3,892	-	-	185,336	⁽⁴⁾	-	-	-	-	-
E Lane	62,849	-	-	16,852	-	-	-	79,701	-	-	-	-	-	-
J Skippen	59,358	-	-	5,342	-	-	-	64,700	-	-	-	-	-	-
	790,911	75,000	8,786	90,446	14,496	-	-	979,639	75,000	-	-	7.66%	-	-
2011														
A Booth ⁽¹⁾	118,716	-	-	10,684	-	-	-	129,400	-	-	-	-	-	-
A Grech ⁽²⁾	358,704	121,600	8,786	15,199	14,669	-	-	518,958	121,600	-	-	23.4%	-	-
I Court	51,265	-	-	20,935	-	-	-	72,200	-	-	-	-	-	-
K Fowlie ⁽²⁾	331,109	100,000	8,447	15,199	5,510	-	-	460,265	100,000	-	-	21.7%	-	-
E Lane	47,211	-	-	24,989	-	-	-	72,200	-	-	-	-	-	-
J Skippen	58,680	-	-	6,020	-	-	-	64,700	-	-	-	-	-	-
	965,685	221,600	17,233	93,026	20,179	-	-	1,317,723	221,600	-	-	16.8%	-	-

⁽¹⁾ A Booth resigned as a director on 16 March 2012.

⁽²⁾ These are also executives and would be included for the purposes of the Executives' Remuneration.

⁽³⁾ A Grech was entitled to a bonus of \$68,000 in respect to the 2010 financial year which was paid during the 2012 financial year.

⁽⁴⁾ K Fowlie was entitled to a bonus of \$100,000 in respect to the 2011 financial year which was paid during the 2012 financial year.

⁽⁵⁾ Salary/Fees includes salaries paid/payable, including movements in annual leave provision and long service leave taken.

⁽⁶⁾ Other long term benefits represents the net present value of long service leave earned for the year of service.

⁽⁷⁾ Cash bonuses represent the accrual for bonuses in respect of the relevant financial year. These amounts are expected to be paid in the subsequent financial year.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

Executives' remuneration:

2012		Short term			Post employment	Other long term benefits ⁽⁴⁾	Share based payments	Other benefit ⁽¹⁾ ⁽²⁾	Total	Total performance related			Total performance related %		
	Position	Salary / Fees ⁽³⁾	Cash Bonus ⁽⁵⁾	Non-monetary	Super					Cash Bonus	Non-Monet ary	Share based payments	Cash Bonus	Non-Monet ary	Share based payments
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%	%
W Brown	Chief Financial Officer	232,113	20,000	19,501	15,775	7,290	18,675	52,226 ⁽¹⁾	365,580	20,000	-	18,675	5.5%	-	5.1%
C Evans	General Manager – Client Experience	371,654	37,250	8,653	28,944	8,378	-	-	454,879	37,250	-	-	8.2%	-	-
J Gregory	General Manager – Personal Injuries Victoria	291,615	100,000	8,653	15,775	14,094	32,832	89,696 ⁽¹⁾	552,665	100,000	-	32,832	18.1%	-	5.9%
J Higgins	General Manager – Commercial & Project Litigation	282,310	60,000	-	15,775	9,910	10,612	107,893 ⁽¹⁾	486,500	60,000	-	10,612	12.3%	-	2.2%
H Stephens	General Manager – Personal Injuries North	334,639	-	-	15,775	6,711	-	80,000 ⁽²⁾	437,125	-	-	-	-	-	-
		1,512,331	217,250	36,807	92,044	46,383	62,119	329,815	2,296,749	217,250	-	62,119	9.5%	-	2.7%
2011															
W Brown	Chief Financial Officer	251,174	27,000	23,532	15,199	17,654	47,033	38,523 ⁽¹⁾	420,115	27,000	-	47,033	6.4%	-	11.2%
R Cunich	General Manager – Business and Private Clients	192,024	-	-	31,181	1,256	28,163	18,917 ⁽¹⁾	271,541	-	-	28,163	-	-	9.9%
C Evans	General Manager – Personal Injuries South	343,075	49,377	7,680	15,199	4,053	-	-	419,384	49,377	-	-	11.8%	-	-
C Prast	General Manager – Western Australia	219,129	-	31,111	15,199	19,194	27,571	42,185 ⁽¹⁾	354,389	-	-	27,571	-	-	8.1%
H Stephens	General Manager – Personal Injuries North	364,740	-	-	15,199	12,498	-	107,500 ⁽²⁾	499,937	-	-	-	-	-	-
		1,370,142	76,377	62,323	91,977	54,655	102,767	207,125	1,965,366	76,377	-	102,767	3.9%	-	5.2%

⁽¹⁾ Includes notional benefit on interest-free VCR Share loan calculated at a commercial interest rate.

⁽²⁾ Includes living away from home allowance.

⁽³⁾ Salary/Fees includes salaries paid/payable, including movements in annual leave provision and long service leave taken.

⁽⁴⁾ Other long term benefits represents the net present value of long service leave earned for the year of service.

⁽⁵⁾ Cash bonuses represent the accrual for bonuses in respect of the relevant financial year. These amounts are expected to be paid in the subsequent financial year.

With effect from 1 July 2011, and due to a consolidation of reporting accountabilities,

- Rod Cunich and Christ Prast ceased to meet the definition of “Key Management Personnel”, and
- Janine Gregory and James Higgins met the definition of “Key Management Personnel”

There are no other non-director executives.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

Rounding of amounts

The amounts contained in the directors' report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



John Skippen
Chair
Melbourne
7 September 2012



Andrew Grech
Managing Director



PITCHER PARTNERS

An independent Victorian Partnership
ABN 27 975 255 196

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Slater & Gordon Limited

In relation to the independent audit for the year ended 30 June 2012, to the best of my knowledge and belief here have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.

(ii) No contraventions of any applicable code of professional conduct.



M W PRINGLE
Partner

7 September 2012



PITCHER PARTNERS
Melbourne

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$'000	2011 \$'000
Revenue			
Fee revenue	4	213,812	178,046
Other revenue	4	3,892	4,263
Total revenue		217,704	182,309
Less: Expenses			
Salaries and employee benefit expenses		(110,112)	(88,007)
Rental expenses		(11,768)	(8,693)
Advertising and marketing expenses		(12,345)	(9,430)
Administration and office expenses		(19,293)	(14,355)
Consultant fees		(1,818)	(935)
Finance costs	5	(6,847)	(6,066)
Bad and doubtful debts	5	(8,172)	(3,967)
Depreciation and amortisation expenses	5	(3,684)	(2,743)
Costs associated with acquisitions		(1,414)	(1,444)
Other expenses		(5,757)	(5,126)
Profit before income tax expense		36,494	41,543
Income tax expense	6	(11,502)	(13,635)
Profit for the year		24,992	27,908
Other comprehensive income			
Foreign currency translation differences - foreign operations	19(b)	(332)	-
Changes in fair value of cash flow hedges, net of tax	19(a)	(419)	86
Other comprehensive income for the year, net of tax		(751)	86
Total comprehensive income for the year		24,241	27,994
Profit for the year attributed to:			
Owners of the Company	20(a)	24,983	27,908
Non-controlling interests	21(a)	9	-
		24,992	27,908
Total comprehensive income for the year attributed to:			
Owners of the Company		24,232	27,994
Non-controlling interests		9	-
		24,241	27,994
Basic earnings per share (cents)	24	16.2 cents	19.1 cents
Diluted earnings per share (cents)	24	15.7 cents	18.3 cents

The accompanying notes form an integral part of these financial statements.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 \$'000	2011 \$'000
Current assets			
Cash and cash equivalents	8	4,373	4,032
Receivables	9	127,948	95,404
Work in progress	10	246,206	179,606
Current tax asset	6	395	391
Other current assets	11	7,435	4,836
Total current assets		386,357	284,269
Non-current assets			
Plant and equipment	12	14,596	9,419
Work in progress	10	1,937	7,045
Intangible assets	13	107,104	55,259
Other non-current assets	14	15,426	18,401
Total non-current assets		139,063	90,124
Total assets		525,420	374,393
Current liabilities			
Payables	15	81,326	62,129
Short term borrowings	16	12,484	7,165
Current tax liabilities	6	659	-
Provisions	17	12,031	11,464
Total current liabilities		106,500	80,758
Non-current liabilities			
Payables	15	9,762	5,765
Long term borrowings	16	96,092	40,554
Deferred tax liabilities	6	66,444	49,917
Derivative financial instruments		948	349
Provisions	17	2,368	1,633
Total non-current liabilities		175,614	98,218
Total liabilities		282,114	178,976
Net assets		243,306	195,417
Equity			
Contributed equity	18	142,181	109,809
Reserves	19	(996)	(245)
Retained profits	20	102,050	85,853
Total equity attributable to equity holders in the Company		243,235	195,417
Non-controlling interest	21	71	-
Total equity		243,306	195,417

The accompanying notes form an integral part of these financial statements.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

2012:	Note	Contributed Equity	Retained Earnings	Hedging Reserve	Translation Reserve	Total	Non- controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2011		109,809	85,853	(245)	-	195,417	-	195,417
Net Profit after tax for the year		-	24,983	-	-	24,983	9	24,992
Total other comprehensive income for the year	19	-	-	(419)	(332)	(751)	-	(751)
Total comprehensive income for the year		-	24,983	(419)	(332)	24,232	9	24,241
Transactions with owners in their capacity as owners								
Ordinary and VCR shares issued (net)	18	33,459	-	-	-	33,459	-	33,459
Share buy-back	18	(1,042)	-	-	-	(1,042)	-	(1,042)
Dividends paid	7	-	(8,786)	-	-	(8,786)	-	(8,786)
Costs of equity raising	18	(45)	-	-	-	(45)	-	(45)
Acquisition of a controlled entity with non-controlling interests	21	-	-	-	-	-	62	62
Total transactions with owners in their capacity as owners		32,372	(8,786)	-	-	23,586	62	23,648
Balance as at 30 June 2012		142,181	102,050	(664)	(332)	243,235	71	243,306

The accompanying notes form an integral part of these financial statements.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

2011:	Note	Contributed Equity	Retained Earnings	Hedging Reserve	Translation Reserve	Total	Non- controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2010		81,182	65,642	(331)	-	146,493	-	146,493
Net Profit after tax for the year		-	27,908	-	-	27,908	-	27,908
Total other comprehensive income for the year	19	-	-	86	-	86	-	86
Total comprehensive income for the year		-	27,908	86	-	27,994	-	27,994
Transactions with owners in their capacity as equity holders								
Ordinary and VCR shares issued (net)	18	30,026	-	-	-	30,026	-	30,026
Share buy-back	18	(1,111)	-	-	-	(1,111)	-	(1,111)
Dividends paid	7	-	(7,697)	-	-	(7,697)	-	(7,697)
Costs of equity raising	18	(288)	-	-	-	(288)	-	(288)
Total transactions with owners in their capacity as equity holders		28,627	(7,697)	-	-	20,930	-	20,930
Balance as at 30 June 2011		109,809	85,853	(245)	-	195,417	-	195,417

The accompanying notes form an integral part of these financial statements.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$'000	2011 \$'000
Cash flow from operating activities			
Receipts from customers		202,929	166,702
Payments to suppliers and employees		(182,110)	(140,633)
Interest received	4(a)	357	500
Borrowing costs		(5,374)	(3,991)
Income tax (paid)/refunded	6	157	(2,539)
Net cash provided by operating activities	22 (b)	15,959	20,039
Cash flow from investing activities			
Payment for software development		(778)	(1,026)
Payment for plant and equipment		(3,495)	(1,815)
Costs associated with acquisition of businesses		(1,414)	(1,677)
Payment for acquisition of businesses, net of cash in subsidiaries		(45,619)	(59,839)
Payment for acquisition of businesses - deferred consideration		(19,077)	(2,032)
Net cash used in investing activities		(70,383)	(66,389)
Cash flow from financing activities			
Proceeds from share issue	18	-	15,877
Proceeds from non-controlling interests	21	62	-
Costs of raising equity	18	(45)	(837)
Proceeds from related parties and employees		6,008	1,589
Proceeds from borrowings		89,089	34,491
Repayment of borrowings		(32,068)	(23,132)
Dividends paid	7	(8,786)	(7,697)
Net cash provided by financing activities		54,260	20,291
Net increase/(decrease) in cash held		(164)	(26,059)
Effect of exchange rate fluctuations on cash held		80	-
Cash at beginning of financial year		4,032	30,091
Cash at end of financial year	22 (a)	3,948	4,032

The accompanying notes form an integral part of these financial statements.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Slater & Gordon Limited ("the Company") which is a company limited by shares, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its controlled entities referred to in Note 29, together referred to as ("the Group") and individually as ("Group Entities"). The financial report was authorised for issue by the directors as at the date of the Directors' Report.

The following is a summary of material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Compliance with IFRS

Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards ("IFRS").

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent has the power to control the financial and operating policies so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are fully consolidated from the date on which control is established. They are de-consolidated from the date that control ceases.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve with equity attributable to owner of the Company.

(c) Segment reporting

Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Managing Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments operating results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and to assess its performance, and for which financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentational currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within finance costs except when they are deferred in equity as qualifying net investment hedges. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Group companies

The results and financial position of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income item are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the dates of the transactions), and;
- all resulting exchange differences are recognised in other comprehensive income

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Hedge of net investment in foreign operation

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Company's functional currency, regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(e) Revenue recognition

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services for project litigation

Where there is an enforceable contractual agreement and the outcome can be reliably measured:

- control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Stage of completion is measured by reference to the time incurred to date as a percentage of the expected time for an outcome to be rendered in the case.

Where there is not an enforceable contractual agreement or the outcome cannot be reliably measured:

- revenue is recognised to the extent of costs incurred and only if the client is under obligation to pay the costs as part of the enforceable contractual agreement.

Interest revenue

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax.

(f) Income tax

Current income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements, and to unused tax losses.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit/loss.

Deferred tax liabilities and assets are calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled. Current and deferred tax balances attributable to amounts recognised directly in equity, are also recognised directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Tax consolidation

The Company and its Australian domiciled subsidiaries have formed a tax consolidated group under the tax consolidation legislation. Trilby Misso Lawyers Limited ("TML") and Slater & Gordon Lawyers NSW Pty Limited ("S&G NSW") formed part of the consolidated tax group throughout the financial year. Conveyancing Works (Qld) Pty Limited ("CWQ") has formed part of the consolidated tax group since it was acquired by the Group on 25 November 2011. As a consequence, the Company and its controlled entities which comprise the tax-consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Slater & Gordon Limited.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and short-term deposits with an original maturity of three months or less. Bank overdrafts are shown within short-term borrowings in current liabilities on the Consolidated Statement of Financial Position. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding banking overdrafts.

(h) Disbursements

Disbursements represent costs incurred during the course of a matter that are recovered from clients. A provision for non-recoverable disbursements is recognised to the extent that recovery of the outstanding receivable balance is considered less than likely. The provision is established based on the Group's history of amounts not recovered over the previous four years.

(i) Work in progress

Work in progress is carried at either cost or it may include profit recognised to date based on the value of work completed. The following are the methodologies adopted for each practice area in determining the value of work in progress:

Time recording valuation

For estate/probate, industrial law, commercial law and funded project litigation matters, time records and historical levels of fees billed are used in determining the value of work completed.

Value pricing and fixed fee valuation

Work in progress for practice areas, other than project litigation matters, that do not calculate the fees due by a client solely by reference to time records is recognised using the percentage of completion method when the stage of completion can be reasonably determined, and the fee per file and probability of success can be reliably estimated, making allowance for the "No Win, No Fee" conditional fee arrangements, under which the Personal Injury practice operates.

Project litigation

Work in progress on project litigation is recognised on self funded project litigation matters for which a favourable outcome is considered probable. For such projects, work in progress is initially valued at costs incurred less a discount for the likely recovery of those costs. Cost includes both variable and fixed costs directly related to cases and those that can be attributed to case activity and that can be allocated to specific projects on a reasonable basis. Where a project litigation matter has reached partial or full settlement and an enforceable agreement to recover the professional fees exists, work in progress is valued at the settled fee amount and discounted for percentage file completion, and the probability of the full fee being collected. Project litigation matters that are not expected to be realised within twelve months are classified as non current.

(j) Plant and equipment

Plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amounts of all fixed assets are depreciated over their estimated useful lives, commencing from the time the asset is held ready for use.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

The depreciation rates used for each class of assets are:

<i>Class of fixed asset</i>	<i>Depreciation rates</i>	<i>Depreciation method</i>
Plant and equipment	1.00 – 40.00%	Straight Line & Diminishing Value
Low value asset pool	18.75 – 37.50%	Diminishing Value

An asset's residual value and useful life is reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Consolidated Statement of Comprehensive Income.

(k) Leases

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

(l) Intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition.

Goodwill is not amortised, but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Software development costs

Software development costs are carried at cost less accumulated amortisation and accumulated impairment losses. These assets have been assessed as having a finite useful life and once operating in the Group are amortised over the useful life of 7-8 years.

Trademarks

The fair value of trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned.

The trademarks are not amortised, but tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Trademarks are carried at fair value at the date they are acquired less accumulated impairment losses.

Customer relationships

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. They are assessed as having a finite useful life and are amortised over their useful life of three years.

(m) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested at least annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

For the purposes of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(n) Acquisition of assets

All assets acquired, including plant and equipment and intangibles, other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(o) Borrowing costs

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the period in which they are incurred.

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, and ancillary costs incurred in connection with the arrangement of borrowings.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result that can be reliably measured.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of Comprehensive Income net of any reimbursement.

(q) Employee benefits

Service benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. These estimated future cash flows have been discounted using market yields, at the reporting date, on government bonds with matching terms to maturity.

Share-based payment transactions

The Group operates an Employee Ownership Plan ("EOP"). The EOP allows employees to purchase Vesting Convertible Redeemable ("VCR") shares in the Company by way of an interest-free loan. The loan has been recorded as a financial instrument as described in section (s) below:

- The VCR shares vest over a specified period of time. At the time of vesting, VCR shares convert into ordinary shares with disposal restrictions. The terms and conditions of these shares are further described at Note 26.
- The value of the benefit received by an employee from issue of the VCR shares is assessed as the difference between the value of the VCR shares at the date of issue and the present value of the amount payable by the employee for purchase of the VCR shares. In accordance with AASB 2 Share Based Payment, the benefit is expensed on a proportional basis over the period from issue date to the date on which the employee becomes unconditionally entitled to the full benefit of ownership of the shares.

(r) Solicitor liability claims

Provision is made for the potential future cost of claims brought against the Group by former clients. The provision is determined by including the estimated maximum amount payable by the Group under its Professional Indemnity Insurance Policy on all claims notified by its insurer.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(s) Financial instruments

Loans and receivables

VCR share loans receivable are non-interest bearing, non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The loans are initially recognised based on fair value and are subsequently stated at amortised cost using the effective interest rate method. Refer to Note 26 for further details.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Non-interest bearing financial liabilities for deferred cash consideration on the acquisition of acquired firms are measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in profit and loss.

Derivative financial instruments

The Group designates certain derivatives as either:

- hedges of fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of highly probable forecast transactions (cash flow hedges)

The Group currently has cash flow hedges only, relating to interest rate and foreign exchange risk management. At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions are documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flow hedged items, are also documented.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Consolidated Statement of Comprehensive Income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Comprehensive Income.

Amounts accumulated in the hedge reserve in equity are transferred to the Consolidated Statement of Comprehensive Income in the periods when the hedged item will affect profit and loss.

The Group currently has cash flow hedges only, relating to interest rate risk and foreign exchange risk management. It is the Group's policy to hedge a portion of its exposure in order to minimise the impact of an adverse change in interest rates and foreign exchange rates that the Group is subject to.

(t) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the GST incurred is not recoverable from the Australian Taxation Office ("ATO"), and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Consolidated Statement of Financial Position.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(u) Earnings per share

Basic earnings per share ("EPS") is calculated as net profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated as net profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(v) Rounding amounts

The Company is of a kind referred to in ASIC Class Order 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(w) Comparative

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(x) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 34.

(y) New accounting standards and interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective and are detailed below. New accounting standards which are likely to have an impact on the financial statements of the Group are detailed below:

- AASB 9 Financial Instruments
- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 13 Fair Value Measurement

The directors have not yet assessed the impact of these standards or interpretations.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and assumptions concerning the future, which by definition, will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

(a) Estimated impairment of goodwill

Goodwill is allocated to cash generating units ("CGU's") according to applicable business operations. The recoverable amount of a CGU is based on value-in-use calculations. These calculations are based on projected cash flows approved by management covering a period not exceeding five years. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. Refer to Note 13 for further detail.

(b) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Work in progress

The following estimates and judgements are applied in valuing work in progress:

Time recording valuation

An estimate is made of the recoverability of time recorded on a file.

Value pricing and fixed fee valuation

An estimate is made of fees to be earned on a file with reference to internal and external (where available) historical and forecast fee levels. An estimate of the percentage of completion and probability of success is made with reference to internal and external (where available) information and experience, and having regard to where a file is in its life cycle.

Project Litigation

An estimate is made as to the likely recovery of costs incurred as at the reporting date in respect of each project.

(d) Financial instruments at fair value

The Group measures its interest rate swaps at fair value. These fair values are based on level 2 fair value measurements, as defined in the fair value hierarchy in AASB 7, with reference to market data which can be used to estimate future cash flows and discount them to present value. Management's aim is to use and source this data consistently from period to period. Whilst management believes the assumptions used are appropriate, a change of assumptions would impact the fair value calculations.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: SEGMENT REPORTING

The Group has three operating segments, as described below, which are the Group's strategic business units. The strategic business units are managed separately. For each of the strategic business units, the Managing Director reviews internal management reports on a monthly basis. The following summary describes each of the Group's reportable segments:

- **Slater & Gordon ("S&G")** - includes the parent company Slater & Gordon Limited and its subsidiaries Slater & Gordon Lawyers NSW Pty Limited and Conveyancing Works (Qld) Pty Limited (subsequent to acquisition on 25 November 2011). This segment conducts a range of legal services, within the geographical area of Australia. This segment also includes investments in the Group's other segments, and borrowings and capital raising activities to finance investment and operations of the combined Group. There is limited recharge of ongoing management support to other segments in the Group.
- **Trilby Misso Lawyers ("TML")** – includes the subsidiary company Trilby Misso Lawyers Limited which conducts legal services in the field of personal injury law within the geographical area of Queensland.
- **Slater & Gordon UK ("UK")** – includes the Group's operations, conducting a range of legal services, in the United Kingdom subsequent to acquisition of Russell Jones & Walker and its related entities on 30 April 2012.

Segment assets are allocated to countries based on where the assets are located.

2012	Australia		United Kingdom	Total
	S&G	TML	UK	
	\$'000	\$'000	(2 months)	\$'000
	\$'000	\$'000	\$'000	\$'000
Total segment revenue	171,269	35,752	11,480	218,501
Inter-segment revenue	(797)	-	-	(797)
Revenue from external customers	170,472	35,752	11,480	217,704
Earnings before interest tax depreciation and amortisation	32,529	11,770	1,376	45,675
Interest revenue	1,098	249	3	1,350
Interest expense	(6,244)	(360)	(243)	(6,847)
Depreciation and amortisation	(2,445)	(895)	(344)	(3,684)
Net profit before income tax	24,938	10,764	792	36,494
Total segment assets	449,124	79,477	115,555	644,156
Investment in subsidiaries (inter-segment)	(84,559)	-	-	(84,559)
Inter-segment assets	(22,697)	(11,480)	-	(34,177)
Total assets per the balance sheet	341,868	67,997	115,555	525,420
Segment liabilities				
Total segment liabilities	190,125	16,696	109,470	316,291
Inter-segment liabilities	(11,480)	-	(22,697)	(34,177)
Total liabilities per the balance sheet	178,645	16,696	86,773	282,114

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: SEGMENT REPORTING (Continued)

2011

	Australia S&G	TML (11 months)	Total
	\$'000	\$'000	\$'000
Total segment revenue	151,746	32,213	183,959
Inter-segment revenue	(1,650)	-	(1,650)
Revenue from external customers	150,096	32,213	182,309
 Earnings before interest tax depreciation and amortisation	 37,578	 10,950	 48,528
 Interest revenue	 1,593	 231	 1,824
Interest expense	(6,053)	(13)	(6,066)
Depreciation and amortisation	(2,036)	(707)	(2,743)
 Net profit before income tax	 31,082	 10,461	 41,543
 Total segment assets	 352,962	 71,677	 424,639
Investment in subsidiaries (inter-segment)	(48,757)	-	(48,757)
Inter-segment assets	(1,489)	-	(1,489)
Total assets per the balance sheet	302,716	71,677	374,393
 Segment liabilities			
Total segment liabilities	165,687	14,778	180,465
Inter-segment liabilities	-	(1,489)	(1,489)
Total liabilities per the balance sheet	165,687	13,289	178,976

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: REVENUE	Note	2012	2011
		\$'000	\$'000
Fee revenue			
Rendering of services		213,812	178,046
Other revenue			
Service and licence fee	28	840	800
Interest	4(a)	1,350	1,824
Other		1,702	1,639
		<u>3,892</u>	<u>4,263</u>
<i>(a) Interest from</i>			
Other persons		357	500
VCR share loans to employees		993	1,324
		<u>1,350</u>	<u>1,824</u>
 NOTE 5: PROFIT FROM CONTINUING ACTIVITIES			
Finance costs expense			
Interest on bank overdraft and loans		5,398	3,657
Interest on deferred consideration payable to vendors on acquisitions		1,005	1,972
Interest on obligations under hire purchases		444	437
		<u>6,847</u>	<u>6,066</u>
 Depreciation and amortisation of non-current assets			
Plant and equipment		2,336	1,748
Software development		848	587
Client lists		500	408
		<u>3,684</u>	<u>2,743</u>
 Bad and doubtful debts		3,738	3,967
Share based payments expense	18(b)	987	1,131
Write off of work in progress and disbursements on Rolah McCabe proceedings		-	611
Write off work in progress and disbursements on the Vioxx Proceedings (includes bad and doubtful debts expense of \$4,434,000)		10,539	-

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6: INCOME TAX	Note	2012	2011
		\$'000	\$'000
Income tax expense			
Current tax		500	-
Deferred tax		11,019	13,386
Adjustment for current tax of prior periods		(17)	249
		<u>11,502</u>	<u>13,635</u>
Income tax recognised in other comprehensive income			
Deferred tax credit arising on cash flow hedges		180	(37)
		<u>180</u>	<u>(37)</u>
Income tax recognised directly in equity			
Deferred tax credit recognised directly in equity		19	548
		<u>19</u>	<u>548</u>
Deferred income tax expense included in income tax			
(Increase)/decrease in deferred tax assets		2,201	(13,686)
Deferred income tax relating to items charged or credited to other comprehensive income		180	(37)
Deferred income tax relating to items charged or credited directly to equity		19	548
Increase/(decrease) in deferred tax liabilities		14,326	24,187
Net deferred taxes arising from business combinations		(5,707)	2,374
		<u>11,019</u>	<u>13,386</u>
The prima facie tax payable on profit differs from the			
Total profit before income tax expense		36,494	41,543
At the statutory income tax rate of 30% (2011 - 30%)		10,948	12,463
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
- other non-allowable items		439	1,421
		<u>11,387</u>	<u>13,884</u>
Adjustments in respect to prior periods		(17)	(249)
Difference in overseas tax rate		(160)	-
Deferred tax assets not recognised		292	-
Income tax expense		<u>11,502</u>	<u>13,635</u>
Current tax asset/(liability):			
Balance at the beginning of the year		391	(2,154)
Current income tax (expense)/credit		(500)	-
Tax paid/(refunded)		(157)	2,539

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6: INCOME TAX (Continued)

	2012	2011
	\$'000	\$'000
Current tax asset arising from business combinations	-	255
Adjustments in respect to prior periods	(5)	(249)
Exchange differences	7	-
Balance at the end of the year	<u>(264)</u>	<u>391</u>
Deferred tax assets		
Provision for impairment	2,867	1,677
Employee benefits	4,524	3,719
Provision for legal costs	290	210
Accruals	2,099	1,730
Undeducted business related costs	364	9
Acquisition related costs	-	529
Fair value of cash flow hedges	285	105
Unbilled acquired WIP and disbursements	1,886	5,243
Other	36	109
Revenue losses carried forward	5,937	7,158
	<u>18,288</u>	<u>20,489</u>
Deferred tax liabilities		
Prepayments	929	713
Work in Progress	69,427	55,995
Unrendered disbursements	14,989	13,470
Unrendered WIP and disbursements not yet deducted	(838)	(208)
Plant and equipment	70	448
Other	155	(12)
	<u>84,732</u>	<u>70,406</u>
Balance after set off of deferred tax assets and (liabilities)	<u>(66,444)</u>	<u>(49,917)</u>

NOTE 7: DIVIDENDS

Dividends paid during the year

Dividends on ordinary shares

Interim franked dividend at the tax rate of 30% for 2012: 2.5 cents per share

(2011 – 2.2 cents per share)

3,793 3,285

Final franked dividend at the tax rate of 30% for 2011: 3.3 cents per share

(2010 – 3.0 cents per share)

4,993 4,412

Total dividends paid during the year

8,786 **7,697**

Dividends proposed and not recognised as a liability

Dividends on ordinary shares final franked dividend at the tax rate of 30% for the year ended 30 June 2012: 3.5 cents per share (2011 – 3.3 cents per share)

5,898 4,923

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 7: DIVIDENDS (Continued)

	Note	2012	2011
		\$'000	\$'000
Franking credit balance			
Balance of franking account at year-end adjusted for franking credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends:		1,383	3,383
Impact on franking account of dividend recommended by the directors since the year end but not recognised as a liability at year end:		2,528	2,110

NOTE 8: CASH AND CASH EQUIVALENTS

	Note		
Cash at bank	22(a)	4,373	4,032

NOTE 9: RECEIVABLES

Current

Trade debtors		77,121	50,533
Impairment of trade debtors		(4,794)	(2,942)
		<u>72,327</u>	<u>47,591</u>
Disbursements		63,407	51,182
Impairment of disbursements		(9,614)	(4,931)
		<u>53,793</u>	<u>46,251</u>
Receivable from associate - Andrew Grech trading as Slater & Gordon Lawyers in South Australia	28	1,611	1,311
Other receivables		217	251
		<u>127,948</u>	<u>95,404</u>

NOTE 10: WORK IN PROGRESS

Current

Non-personal injury		8,471	1,914
Personal injury		234,884	174,867
Project litigation		2,851	2,825
		<u>246,206</u>	<u>179,606</u>

Non-current

Project litigation		1,937	7,045
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NOTE 11: OTHER ASSETS

Current

Prepayments		6,895	4,316
Other current assets		540	520
		<u>7,435</u>	<u>4,836</u>

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 12: PLANT AND EQUIPMENT

	Note	2012	2011
		\$'000	\$'000
Plant and equipment at cost		30,585	15,816
Less accumulated depreciation		(16,541)	(6,835)
	12 (a)	<u>14,044</u>	<u>8,981</u>
Low value asset pool at cost		1,396	1,066
Less accumulated depreciation		(844)	(628)
	12 (b)	<u>552</u>	<u>438</u>
Total plant and equipment		<u>14,596</u>	<u>9,419</u>

Movements in carrying amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year

(a) Plant and equipment

Balance at the beginning of the year	8,981	6,653
Additions	3,115	1,523
Additions through acquisition of entities	4,146	2,405
Exchange differences	(159)	-
Depreciation expense	(2,039)	(1,600)
Carrying amount at end of year	<u>14,044</u>	<u>8,981</u>

(b) Low value asset pool

Balance at the beginning of the year	438	290
Additions	380	296
Additions through acquisition of entities	31	-
Depreciation expense	(297)	(148)
Carrying amount at end of year	<u>552</u>	<u>438</u>

NOTE 13: INTANGIBLE ASSETS

Goodwill – at cost		96,580	44,280
Accumulated impairment loss		-	-
Net carrying amount	13(a)	<u>96,580</u>	<u>44,280</u>
Software development – at cost		6,371	5,496
Accumulated amortisation		(1,995)	(1,165)
Net carrying amount	13(b)	<u>4,376</u>	<u>4,331</u>
Trademarks – at cost		5,659	5,659
Accumulated impairment loss		-	-
Net carrying amount	13(c)	<u>5,659</u>	<u>5,659</u>
Customer relationships – at cost		1,397	1,397
Accumulated amortisation		(908)	(408)
Net carrying amount	13(d)	<u>489</u>	<u>989</u>
Total intangible assets		<u>107,104</u>	<u>55,259</u>

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 13: INTANGIBLE ASSETS (Continued)

Note

2012

2011

\$'000

\$'000

Movements in carrying amount

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year

(a) Goodwill

Opening net book amount		44,280	22,073
Additions in respect to current period acquisitions	30	52,814	22,207
Exchange differences		(514)	-
Impairment expense – goodwill		-	-
Closing net book value		<u>96,580</u>	<u>44,280</u>

(b) Software development

Opening net book amount		4,331	3,893
Additions		778	1,025
Addition in respect to current period acquisitions		115	-
Amortisation expense		(848)	(587)
Closing net book value		<u>4,376</u>	<u>4,331</u>

(c) Trademarks

Opening net book amount		5,659	-
Additions		-	5,659
Closing net book value		<u>5,659</u>	<u>5,659</u>

(d) Customer relationships

Opening net book amount		989	-
Additions		-	1,397
Amortisation expense		(500)	(408)
Closing net book value		<u>489</u>	<u>989</u>

Goodwill acquired through business combinations has been allocated to individual cash generating units ("CGUs") for the purposes of impairment testing being the operations in the states of New South Wales, Queensland (excluding TML), Victoria and Western Australia and the operations in the Australian Capital Territory. In addition, the operating segment of TML and the UK are considered to be individual CGUs.

The recoverable amount of goodwill allocated to each of the CGUs has been determined based on a value in use calculation as required by AASB 136 Impairment of Assets. This uses financial budgets and cash flow projections approved by senior management covering a five year period.

The value in use is compared to the net carrying amount of goodwill recognised in the accounts. If the calculated recoverable amount exceeds the net carrying amount, no impairment loss is recorded.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 13: INTANGIBLE ASSETS (Continued)

				CGU				
	NSW	QLD	VIC	WA	ACT	TML	UK ⁽¹⁾	
2012								
Goodwill recognised (\$'000)	24,414	11,255	4,824	684	226	12,102	43,075	

The assumptions used by management in determining the value in use for all CGU's include:

Growth in fees	5.0%
Risk free discount rate	3.3%
Assumed debt ratio	18.1%
Equity risk premium	6.0%
Weighted average cost of capital	10.5%

2011

Goodwill recognised (\$'000)	22,821	3,623	4,824	684	226	12,102	-	
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The assumptions used by management in determining the value in use for all CGU's include:

Growth in fees until 30 June 2016	6.5%
Growth in fees subsequent to 30 June 2016	5.0%
Risk free discount rate	5.3%
Assumed debt ratio	12.0%
Equity risk premium	6.1%
Weighted average cost of capital	11.1%

⁽¹⁾At 30 June 2012 the Group has recognised \$43,075,000 as provisional goodwill with respect to the acquisition of RJW and its subsidiaries in the UK. The transaction was completed on 30 April 2012. Nothing has come to the attention of management of the Group post the completion of the acquisition that indicates that the RJW business will not meet its earnings expectations. As such, and given that the goodwill has been determined provisionally, it is management's opinion that as at 30 June 2012 no impairment of the acquired goodwill of the RJW business has occurred.

NOTE 14: OTHER NON-CURRENT ASSETS

	Note	2012	2011
		\$'000	\$'000
VCR loans to employees	26	15,426	18,401
		<u>15,426</u>	<u>18,401</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15: PAYABLES

	Note	2012	2011
		\$'000	\$'000
Current			
<i>Unsecured liabilities</i>			
Trade creditors		3,467	2,497
Legal creditors and accruals		65,805	43,143
Vendor liabilities – acquisitions		12,054	16,489
		<u>81,326</u>	<u>62,129</u>
Non-current			
<i>Unsecured liabilities</i>			
Vendor liabilities – acquisitions		9,762	5,765
		<u>9,762</u>	<u>5,765</u>

NOTE 16: BORROWINGS

Current

Secured

Bank overdraft	22(a)	425	-
Cash advances	31	9,073	6,000
Hire purchase liability		2,986	1,165
		<u>12,484</u>	<u>7,165</u>

Non-current

Secured

Cash advances	31	89,361	36,672
Hire purchase liability		6,731	3,882
		<u>96,092</u>	<u>40,554</u>

(a) Terms and conditions relating to the above financial instruments:

The bank overdraft and cash advance facility are part of a syndicated facility provided by Westpac Banking Corporation (“Westpac”) and National Australia Bank (“NAB”). They are secured by a fixed and floating charge over the assets and uncalled capital of the Company.

Interest on the bank overdraft is charged at BBSY plus an agreed margin.

(b) A portion of the bills of exchange are the subject of an interest rate swap to hedge the risk of an adverse interest rate movement Note 31 (iv).

NOTE 17: PROVISIONS

Current

Employee benefits	11,546	10,764
Solicitor liability claims	485	700
	<u>12,031</u>	<u>11,464</u>

Non-current

Employee benefits	2,368	1,633
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(a) Aggregate employee benefits liability	13,914	12,397
(b) Number of employees at year end	1,648	1,125

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18: CONTRIBUTED EQUITY	Note	2012	2012	2011	2011
		Shares	\$'000	Shares	\$'000
Ordinary shares fully paid	18(a)	168,536,445	137,099	149,178,605	103,994
VCR shares	18(b)	4,819,998	5,082	5,569,044	5,815
Balance at end of the year		173,356,443	142,181	154,747,649	109,809
(a) Movement in ordinary share capital					
Balance at the beginning of the year		149,178,605	103,994	112,040,776	51,612
<i>Shares issued as consideration for acquisitions:</i>					
- 13 August 2010		-	-	3,403,927	5,276
- 3 September 2010		-	-	912,714	1,450
- 11 January 2011		-	-	2,083,340	3,700
- 7 March 2011		-	-	117,944	183
- 30 June 2011		-	-	19,152	30
- 28 November 2011		424,442	764	-	-
- 1 May 2012		16,681,138	28,691	-	-
- 4 May 2012		187,500	338	-	-
		17,293,080	29,793	6,537,077	10,639
<i>Conversion of vested VCR shares to ordinary share capital:</i>					
- 3 September 2010		-	-	2,560,834	3,683
- 12 January 2011		-	-	53,572	36
- 31 August 2011		2,129,046	3,389	-	-
		2,129,046	3,389	2,614,406	3,719
<i>Share capital issued by share placement:</i>					
- 1 July 2010		-	-	16,806,116	23,529
- 13 August 2010		-	-	10,336,741	14,471
		-	-	27,142,857	38,000
<i>Share capital issued under share purchase plan:</i>					
- 13 August 2010		-	-	1,004,204	1,406
<i>Employee share scheme buy-back:</i>					
- 31 May 2011		-	-	(160,715)	(102)
- 29 June 2012		(64,286)	(41)	-	-
		(64,286)	(41)	(160,715)	(102)
Less capital raising costs, net of tax		-	(36)	-	(1,280)
Balance at end of the year		168,536,445	137,099	149,178,605	103,994

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18: CONTRIBUTED EQUITY (Continued)

	2012	2012	2011	2011
	Shares	\$'000	Shares	\$'000
(b) Movement in VCR share capital				
Balance at the beginning of the year	5,569,044	5,815	8,232,022	7,050
<i>Conversion of vested VCR shares to ordinary shares:</i>				
- 3 September 2010	-	-	(2,560,834)	(3,683)
- 12 January 2011	-	-	(53,572)	(36)
- 31 August 2011	(2,129,046)	(3,389)	-	-
	<u>(2,129,046)</u>	<u>(3,389)</u>	<u>(2,614,406)</u>	<u>(3,719)</u>
<i>Share capital issued under Employee Ownership Plan:</i>				
- 22 February 2011	-	-	1,830,000	2,379
- 30 December 2011	2,390,000	2,679	-	-
	<u>2,390,000</u>	<u>2,679</u>	<u>1,830,000</u>	<u>2,379</u>
<i>Employee share scheme buy-back:</i>				
- 31 May 2011	-	-	(1,878,572)	(1,009)
- 29 June 2012	(1,010,000)	(1,001)	-	-
	<u>(1,010,000)</u>	<u>(1,001)</u>	<u>(1,878,572)</u>	<u>(1,009)</u>
Share based payments expense	-	987	-	1,131
Less capital raising costs, net of tax	-	(9)	-	(17)
Balance at end of the year	<u>4,819,998</u>	<u>5,082</u>	<u>5,569,044</u>	<u>5,815</u>

(c) Movement in Unallotted Share Capital

Balance at the beginning of the year	-	-	-	22,520
Transfer to ordinary share capital upon issue of shares on 1 July 2010	-	-	-	(23,529)
Capital raising costs transferred to ordinary share capital				1,009
Balance at end of the year	-	-	-	-

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

VCR shares

Please refer to Note 26 for detailed discussion on the rights attached to VCR shares.

NOTE 19: RESERVES

	Note	2012	2011
		\$'000	\$'000
Cash flow hedging	19(a)	(664)	(245)
Foreign currency translation	19(b)	(332)	-
		<u>(996)</u>	<u>(245)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 19: RESERVES (Continued)

Note	2012	2011
	\$'000	\$'000

Movements in carrying amount

Movement in the carrying amounts for each class of reserve between the beginning and the end of the current financial year

(a) Cash flow hedging

Balance at the beginning of the year	(245)	(331)
Gain/(loss) recognised on interest rate hedge, net of tax	(419)	86
Balance at the end of the year	<u>(664)</u>	<u>(245)</u>

(b) Foreign currency translation

Balance at the beginning of the year	-	-
Currency translation differences arising during the year	(332)	-
Balance at the end of the year	<u>(332)</u>	<u>-</u>

Nature and purpose of other reserves

Cash flow hedging

The cash flow hedging reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred, net of tax.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

NOTE 20: RETAINED PROFITS

Retained earnings	20(a)	<u>102,050</u>	<u>85,853</u>
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(a) Retained earnings

Balance at the beginning of year		85,853	65,642
Net profit attributable to ordinary equity holders		24,983	27,908
Total available for appropriation		110,836	93,550
Dividends paid	7	(8,786)	(7,697)
Balance at end of year		<u>102,050</u>	<u>85,853</u>

NOTE 21: NON-CONTROLLING INTERESTS

Interest in:

Share capital		-	-
Reserves		62	-
Retained earnings		9	-
Balance at end of year	21(a)	<u>71</u>	<u>-</u>

(a) Non-controlling interests

Balance at the beginning of the year		-	-
Capital contributions from non-controlling interests		62	-
Non-controlling interest share in net profit after tax		9	-
Balance at the end of the year		<u>71</u>	<u>-</u>

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22: CASH FLOW INFORMATION

Note 2012 2011

(a) Reconciliation of cash **\$'000 \$'000**

For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

Cash at the end of the financial year as shown in the Statement of Consolidated Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash on hand	8	4,373	4,032
Bank overdraft	16	(425)	-
		<u>3,948</u>	<u>4,032</u>

(b) Reconciliation of cash flow from operations with profit after income tax

Profit after income tax		24,992	27,908
<i>Non-cash flows in profit from ordinary activities</i>			
Notional interest on VCR share loans	4	(993)	(1,324)
Depreciation and amortisation	5	3,684	2,743
Share based payments expenses	5	987	1,131
Costs associated with acquisition		1,414	1,444
Notional interest on deferred consideration	5	1,005	1,261
<i>Changes in assets and liabilities</i>			
Increase in receivables		(1,815)	(5,701)
(Increase)/decrease in other assets		(234)	224
Increase in work in progress		(26,078)	(21,569)
Decrease in payables		(384)	(405)
Increase/(decrease) in income tax payable		482	(2,290)
Increase in deferred taxes		11,263	15,054
Increase in provisions		1,636	1,563
Cash flows from operations		<u>15,959</u>	<u>20,039</u>

NOTE 23: COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Non-cancellable operating leases (including rental of office space) contracted but not capitalised in the consolidated financial statements:

Within one year	14,184	11,053
One year or later and not later than five years	37,871	32,830
Greater than five years	17,163	19,567
	<u>69,218</u>	<u>63,450</u>
Bank guarantees in respect of rental properties and acquisitions	<u>7,955</u>	<u>3,654</u>

Other commitments and contingencies

The Group has entered into an agreement with ASK Funding Limited ("ASK") to provide financial guarantees to ASK with respect to disbursement funding borrowings to the Group's clients. The nature of this agreement is that ASK will fund disbursements in respect of individual matters and will be reimbursed out of any settlement proceeds on the matter. The Group has provided a financial guarantee for the repayment of the clients' obligations to ASK. The total amount funded by ASK to the Group's clients at 30 June 2012 is \$6,700,697 (2011: \$9,289,925). The maximum exposure of the Group at 30 June 2012 is \$6,700,697 (2011: \$9,289,925) if the individual client matters are not recovered from any other party.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 23: COMMITMENTS AND CONTINGENCIES (Continued)

During FY12 ASK funding ceased to offer a disbursement funding facility and is in an orderly run-off of its disbursement funding book. Slater and Gordon reached agreement with Equal Access Funding ("EAF") post year end to provide an alternate arrangement on substantially the same terms and conditions as the ASK product.

NOTE 24: EARNINGS PER SHARE

	2012	2011
	\$'000	\$'000
The following reflects the income and share data used in the calculations of basic and diluted earnings per share		
Net profit after tax attributable to ordinary equity holders	24,983	27,908
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	24,983	27,908
Weighted average number of ordinary shares used in calculating basic earnings per share ('000's)	154,014	145,744
<i>Effect of dilutive securities:</i>		
VCR shares	4,991	6,575
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share ('000's)	159,005	152,319

VCR shares

VCR shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Refer to Note 26 for a detailed explanation of VCR shares.

NOTE 25: KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

Directors

John Skippen	Director – Non-Executive – Appointed Acting Chair from 16 March 2012 and Chair from 23 August 2012
Andrew Grech	Managing Director
Ian Court	Director – Non-Executive
Ken Fowlie	Executive Director
Erica Lane	Director – Non-Executive
Anna Booth	Resigned as Non-Executive Director and Chair on 16 March 2012

Executives

Wayne Brown	Chief Financial Officer
Cath Evans	General Manager – Client Experience
Janine Gregory	General Manager – Personal Injuries Victoria
James Higgins	General Manager – Commercial & Project Litigation
Hayden Stephens	General Manager – Personal Injuries North

With effect from 1 July 2011, and due to a consolidation of reporting accountabilities,

- Rod Cunich and Christ Prast ceased to meet the definition of "Key Management Personnel", and
- Janine Gregory and James Higgins met the definition of "Key Management Personnel"

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25: KEY MANAGEMENT PERSONNEL (Continued)

(b) Shareholdings of Key Management Personnel

Shares held in Slater & Gordon Limited (number)

Net movement in share capital 2012

Key Management Personnel^(a)	Ordinary shares balance at beginning of year	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares balance at end of year
John Skippen	-	-	-	-
Andrew Grech	8,022,356	94,257	-	8,116,613
Ian Court	35,000	9,000	-	44,000
Ken Fowlie	6,086,221	-	-	6,086,221
Erica Lane	150,000	-	-	150,000
Wayne Brown	386,477	109,523	-	496,000
Cath Evans	6,050,476	-	-	6,050,476
Janine Gregory	692,858	50,000	(100,000)	642,858
James Higgins	2,000,000	607,118	(1,930,646)	676,472
Hayden Stephens	5,205,115	-	-	5,205,115
Total	28,628,503	869,898	(2,030,646)	27,467,755

Key Management Personnel^(a)	VCR shares balance at beginning of year	VCR shares issued	VCR shares vested as Ordinary shares 30 December 2011	VCR shares balance at end of year
Wayne Brown	159,523	-	(109,523)	50,000
Janine Gregory	100,000	225,000	(50,000)	275,000
Total	259,523	225,000	(159,523)	325,000

Net movement in share capital 2011

Key Management Personnel^(a)	Ordinary shares balance at beginning of year	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares balance at end of year
John Skippen	-	-	-	-
Andrew Grech	9,211,642	10,714	(1,200,000)	8,022,356
Ian Court	15,000	20,000	-	35,000
Ken Fowlie	6,386,221	-	(300,000)	6,086,221
Erica Lane	-	150,000	-	150,000
Wayne Brown	383,953	109,524	(107,000)	386,477
Cath Evans	6,550,476	-	(500,000)	6,050,476
Hayden Stephens	5,705,115	-	(500,000)	5,205,115
Anna Booth	50,000	10,714	-	60,714
Chris Prast	642,858	50,000	(428,572)	264,286
Rod Cunich	-	75,000	-	75,000
Total	28,945,265	425,952	(3,035,572)	26,335,645

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25: KEY MANAGEMENT PERSONNEL (Continued)

Key Management Personnel^(a)	VCR shares balance at beginning of year	VCR shares issued	VCR shares vested as Ordinary shares 3 September 2010	VCR shares balance at end of year
Wayne Brown	269,047	-	(109,524)	159,523
Chris Prast	150,000	-	(50,000)	100,000
Rod Cunich	225,000	-	(75,000)	150,000
Total	644,047	-	(234,524)	409,523

^(a) Includes Key Management Personnel and their related entities/parties

(c) Balances to Key Management Personnel ("KMP")

Details of aggregates of balances with KMP are as follows:

Negative amounts represent a payable of the Group to KMP. Positive amounts represent a receivable due to the Company by KMP.

	Balance at beginning of year \$	Balance at end of year \$	Number in Group
2012	2,939,009	1,125,678	3
2011	1,232,486	1,034,145	3

Details of KMP with balances above \$100,000 in the reporting period are as follows:

30 June 2012	Balance at beginning of year	Balance at end of year	Highest balance during the year
Wayne Brown	614,428	478,428	614,428
Janine Gregory	1,055,250	647,250	1,055,250
James Higgins	1,269,331	-	1,269,331

30 June 2011	Balance at beginning of year	Balance at end of year	Highest balance during the year
Wayne Brown	682,428	614,428	682,428
Chris Prast	510,904	309,867	510,904
Rod Cunich	239,670	260,931	260,931

Terms and Conditions of balances to Key Management Personnel:

The balances at the end of the period due to the Company by Wayne Brown, Janine Gregory and James Higgins are pursuant to the EOP. The terms and conditions of which are disclosed in Note 26. Notional interest of \$52,226 for Wayne Brown (2011: \$38,523), \$89,696 for Janine Gregory and \$107,893 for James Higgins was not charged on these loan balances.

Additional disclosures relating to Key Management Personnel:

Please refer to the remuneration report for further disclosures required under AASB 124 Related Party Disclosures.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26: EMPLOYEE OWNERSHIP PLAN (“EOP”)

The EOP provides employees of the Group with an opportunity to participate in the ownership of the Company.

Invitation and Eligibility

The Board has the authority to invite employees to participate in the EOP and subscribe for VCR shares. VCR shares are vesting, converting, and redeemable shares in the capital of the Company.

Plan

The EOP provides for the issue of VCR shares to participants in a number of tranches and for the Company to make a loan to participants equal to the total amount that is to be subscribed.

When making an offer to an employee to subscribe for VCR shares, the Board has the power to specify:

- The number of VCR shares which may be subscribed for by a particular employee;
- The issue price. The Board sets the issue price at the fair value of a share as at the date of the issue;
- The number of tranches into which the VCR shares will be divided and the vesting date for each tranche;
- The period for which an absolute restriction on disposal will apply (this period may not exceed 3 years from vesting);
- Any conditions to be placed on vesting;
- Any events which would result in the forfeiture of the VCR shares; and
- The period for which the Company will be able to buy back or require the forfeiture of the converted shares.

The EOP provides for a full recourse loan from the Company to the employee to facilitate the employee's subscription for VCR shares. The loan is secured by the VCR shares or the converted VCR shares. The offer made by the Board must specify the date by which the loan must be repaid. This date may not be later than 5 years after vesting.

Vesting, redemptions and conversion

VCR shares do not carry rights to participate in issues by the Company or to receive any dividends paid by the Company and cannot be transferred or otherwise disposed of without the prior written consent of the Board. VCR shares will not confer a right to notices of general meetings, a right to attend or speak at general meetings nor a right to vote at general meetings except as may be required by law.

Vesting conditions are set by the Board and relate to the performance of the participant and the performance of the Company. Cessation of employment with the Group results in the forfeiture of that participant's VCR shares. The Board has the power to specify other forfeiture events.

Where vesting conditions are not met or a forfeiture event occurs, the Company has the power to redeem the relevant tranche (or tranches) of VCR shares for an amount equal to the relevant proportion of the subscribed amount (this amount may be offset against any loan made to the participant).

If all vesting conditions are satisfied, and no forfeiture event has occurred, each tranche of VCR shares vests, and then automatically converts to ordinary shares on a one for one basis, on the relevant vesting date.

After conversion

After conversion the shares rank in all respects *pari passu* with all other shares on issue. However those shares will be subject to disposal restrictions.

If the participant ceases employment with the Group, their converted VCR shares can be forfeited or bought back by the Company and set off against any outstanding loan. The participant may be deemed liable for any shortfall between the value of the shares forfeited or brought back by the Company and the loan amount.

At the cessation of the Buyback Period, each participant is required to enter into a Binding Commitment with the Company in respect of their converted VCR shares. Under the Binding Commitment the participants in the EOP will be under the following restrictions:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26: EMPLOYEE OWNERSHIP PLAN ("EOP") (Continued)

They will be required to maintain a minimum level of shareholding for as long as they remain an employee of the Group. The minimum holding is calculated based on the lower of 5 times the:

- employee's annual salary and 20% of the aggregate VCR shares issued to that employee which have vested and been converted to ordinary shares.
- If they cease to be employed by the Group, they may forfeit or be required to dispose of some or all of their shares upon such termination. The ramifications of a departure from employment are linked to the circumstances surrounding that departure.

Transfer

VCR shares may not be transferred. During the Buyback Period, converted VCR shares may not be transferred, however, an exception applies for a takeover or scheme of arrangement relating to the Company that meets certain conditions set out in the EOP.

Profile of vesting, conversion and redemption of VCR shares to ordinary shares

The profile of the vesting of VCR shares into ordinary shares, conversion into ordinary shares (subject to disposal restrictions) or scheduled for redemption as VCR shares based on the shares issued under the EOP as at 30 June 2012.

	Vested '000	1 year or less '000	1 to 5 years '000	More than 5 years '000	Total '000
VCR shares which have (or may) vest as ordinary shares	11,448	3,097	3,573	-	18,118
VCR shares which may convert to ordinary shares but are subject to disposal restrictions	5,266	1,812	11,212	-	18,290
VCR shares to be redeemed	-	100	-	-	100

Recognition in the Accounts

The VCR Share loan receivable is valued at its fair value and is ascertained with reference to the effective interest method under AASB 139 Financial Instruments: Recognition and Measurement. The profit and loss impact is taken as the difference between the expected repayment period and the expected present value of the loan amount at the reporting date and is recognised as interest income.

The key assumptions used in the present value calculation are:

Date VCR shares issued	19 February 2008	17 November 2008	21 December 2009	22 February 2011	31 December 2011
Shares issued	2,625,000	3,721,427	2,880,000	1,830,000	2,390,000
Issue price	\$1.75	\$1.31	\$1.63	\$2.05	\$1.79
Effective interest rate	8.5%	8.5%	8.5%	8.5%	8.5%
Final repayment date	1 July 2011 to 1 July 2013	1 July 2012 to 1 July 2014	1 July 2013 to 1 July 2015	1 July 2014 to 1 July 2016	1 July 2015 to 1 July 2017

The interest income recognised on VCR Share loans to employees has been disclosed in Note 4.

The benefit provided to the employee is required to be recognised in the accounts under AASB2 Share-based Payments. The benefit is assessed as the difference between the fair value of the VCR shares, at the issue date and the present value discounted over the vesting period. The benefit is expensed with reference to the effective interest rate method over the vesting period.

The share based payments expense has been disclosed in Note 5.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 27: AUDITOR'S REMUNERATION

	2012	2011
	\$'000	\$'000
Amounts received or due and receivable by Pitcher Partners:		
An audit of the financial report of the Group and review of statutory accounts	205	226
The half year review of the financial report of the Group	81	72
Due diligence investigations	170	232
General controls and IT conversion review	-	7
	<u>456</u>	<u>537</u>
Amounts received or due and receivable by network firms of Pitcher Partners:		
An audit of the financial report of the Group and review of statutory accounts	54	-
Due diligence investigations	365	-
	<u>419</u>	<u>-</u>
Total auditors remuneration	<u>875</u>	<u>537</u>

NOTE 28: RELATED PARTY DISCLOSURES

The following provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Transactions with Key Management Personnel ("KMP") of the entity or its parent and their personally-related entities

- As outlined in the replacement Prospectus ("the Prospectus") dated 13 April 2007 and Financial Report for the year ended 30 June 2008 the South Australian practice was operated by Andrew Grech as a sole practitioner trading as Slater & Gordon Lawyers under a Service and Licence Agreement between Andrew Grech and the Company. In 2012 the Service and Licence Fee totalled \$840,000 (2011 - \$800,000);
- Anna Booth is a director of Members Equity Bank for which the Group provided legal services in the ordinary course of business;

The shareholdings of related parties are disclosed in Note 25 and remuneration of KMP are disclosed in the Directors' Report.

Outstanding receivables, if any, between related parties are disclosed in Note 9. Outstanding payables, if any, are disclosed in Note 15.

NOTE 29: GROUP ENTITIES

		2012	2011
	Country of incorporation	Ownership Interest (%)	Ownership Interest (%)
<i>Controlled entities</i>			
Trilby Misso Lawyers Limited	Australia	100	100
Slater & Gordon Lawyers NSW Pty Limited	Australia	100	100
Conveyancing Works (Qld) Pty Limited	Australia	100	-
Slater & Gordon (UK) 1 Limited	United Kingdom	100	-
New Claims Direct Limited	United Kingdom	100	-
4 Legal Limited	United Kingdom	100	-
4 Legal Solutions Limited	United Kingdom	100	-
Slater & Gordon (UK) LLP	United Kingdom	100	-

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS

2012

Acquisition of the legal practice – Russell Jones & Walker (“RJW”)

On 30 April 2012, the Group entered into a partnership, Slater & Gordon (UK) LLP (of which the Group owns 100% of capital rights). This partnership acquired certain assets and liabilities of RJW, a leading provider of legal services in the UK. The Group also acquired RJW’s subsidiary companies New Claims Direct Limited, 4 Legal Limited & 4 Legal Solutions Limited.

The strategic rationale for this business combination is to:

- deliver geographic expansion and diversification in a market 4 to 5 times that of Australia’s with a similar legal jurisdiction;
- provide a new platform for growth beyond the current 2015 horizon with strong organic growth expected to continue;
- provide a first mover opportunity to Slater & Gordon under the recent UK legal regulatory change and to capitalise on the Company’s experience as the world’s first listed law firm; and
- enter the UK market via a well aligned, established and investment ready partner.

At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of RJW. In particular, the fair values of the assets and liabilities disclosed have only been determined provisionally as valuations have not been finalised.

The provisional value of the assets and liabilities assumed at the date of acquisition are as follows:

	\$’000
Consideration	
Cash	40,953
Equity issued (16,681,138 shares at \$1.72 per share on 1 May 2012)	28,692
Fair value of deferred consideration (cash)	12,847
Net present value of total consideration	82,492

	Fair Value
Net assets acquired	
Assets	
- Cash and cash equivalents	39
- Trade and other receivables	32,587
- Work in progress	33,791
- Plant and equipment	4,025
- Intangible assets	114
Total assets acquired	70,556
Liabilities	
- Payables	22,390
- Provisions	765
- Borrowings	2,698
- Deferred tax liability	5,800
Total liabilities acquired	31,653
Net assets acquired	38,903
Goodwill on acquisition	43,589

A portion of goodwill arising in relation to this acquisition is tax deductible.

The key items that gave rise to the goodwill above are:

- the existing business which will be used as a platform for geographic expansion and diversification in a market 4 to 5 times that of Australia’s with a similar legal jurisdiction;
- the platform for growth beyond the current 2015 horizon with strong organic growth expected to continue;

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (Continued)

Since the acquisition date, RJW has contributed a profit after tax of \$480,000 which is included within the consolidated profit. Had the combination been effected at 1 July 2011, net profit after tax for the consolidated entity would have been \$31,513,000 and revenue would have been \$278,064,000. The directors of the Group consider these numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Contingent Consideration

The Group has agreed to pay cash consideration of up to GBP 2,780,000 subject to an agreed aggregate revenue target being met during the year ending 30 June 2013. This payment represents a net present fair value of GBP 2,351,808 (\$3,560,637) at the date of acquisition. Deferred consideration payments will also be adjusted if net transaction assets are above or below an agreed amount.

Acquisition-related costs for this purchase amounting to \$997,000 have been excluded from the total consideration and have been recognised as an expense in the period ended 30 June 2012, within the 'costs associated with acquisitions' line item in the Statement of Comprehensive Income.

Acquisition of subsidiary – Conveyancing Works (Queensland) Pty Ltd ("CWQ")

On 25 November 2011, the Company acquired a 100% shareholding in CWQ, the leading provider of conveyancing services in Queensland.

The strategic rationale for this business combination is to:

- continue to diversify outside the personal injury legal market;
- underpin strategic growth for the domestic conveyancing practice in Queensland; and
- provide a platform for further expansion of the conveyancing practice into New South Wales, Victoria and Western Australia.

The provisional value of the assets and liabilities assumed at the date of acquisition are as follows:

	\$'000
Consideration	
Cash	2,679
Equity issued (424,442 shares at \$1.80 per share on 28 November 2011)	764
Fair value of deferred contingent consideration (cash)	4,487
Net present value of total consideration	7,930
Net assets acquired	Fair Value
Assets	
- Trade and other receivables	226
- Work in progress	840
- Plant and equipment	151
- Deferred taxation	65
- Other	333
Total assets acquired	1,615
Liabilities	
- Short term borrowings	258
- Payables	832
- Provisions	227
Total liabilities acquired	1,317
Net assets acquired	298
Goodwill on acquisition	7,632

No goodwill arising in relation to this acquisition is tax deductible.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (Continued)

The key items that gave rise to the goodwill above are:

- the platform for further expansion of the conveyancing practice into New South Wales, Victoria and Western Australia. ; and
- the existing business to underpin strategic growth for the domestic Conveyancing practice in Queensland.

Since the acquisition date, CWQ has contributed a loss after tax of \$468,000 which is included within the consolidated profit. This profit contribution includes set up costs incurred in relation to the rollout of the business nationally. Had the combination been effected at 1 July 2011, net profit after tax for the consolidated entity would have been \$24,895,000 and revenue would have been \$222,078,000. The directors of the Group consider these numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition-related costs for this purchase amounting to \$149,000 have been excluded from the total consideration and have been recognised as an expense in the period ended 30 June 2012, within the 'costs associated with acquisitions' line item in the Statement of Comprehensive Income.

Contingent Consideration

The Group has agreed to pay cash consideration of up to \$1,500,000 subject to an agreed target EBIT excluding movement in WIP being met over calendar years 2012 and 2013. The Group has also agreed to pay additional cash consideration for file growth in the Group's conveyancing business outside CWQ's current operations to 31 December 2014. The total of the contingent consideration is not to exceed \$5,000,000. These payments represent a fair value of \$3,957,000 at the date of acquisition.

Acquisition of business – Bussolletti Lawyers

On 17 February 2012, the Group acquired the business of Bussolletti Lawyers, a personal injuries law firm based in Wollongong, New South Wales, for a total consideration of \$1,887,000. Included in this amount was goodwill of \$1,345,000.

Acquisition of business – David Nagle

On 15 December 2011, the Group acquired the business of David Nagle Lawyers, a personal injuries law firm based in Wollongong, New South Wales, for a total consideration of \$575,000. Included in this amount was goodwill of \$248,000.

2011

Acquisition of subsidiary – Trilby Misso Lawyers Limited ("TML")

On 13 August 2010, the Company acquired a 100% shareholding in TML, a leading Queensland personal injury law firm, for a total consideration of \$57,613,000.

The strategic rationale for this business combination is to:

- diversify earnings through expansion of geographic coverage;
- build scale in one of the fastest growing regions in Australia;
- provide a strategic growth platform in the Queensland market;
- acquire a legal practice led by experienced and committed management team and staff; and
- establish a greater South East Queensland presence with a head office in Brisbane and client service centres in Morayfield, Robina, North Lakes, Ipswich and Logan.

Acquisition-related costs for this purchase amounting to \$194,000 have been excluded from the total consideration and have been recognised as an expense in the year ended 30 June 2011, within the 'costs associated with acquisitions' line item in the Consolidated Statement of Comprehensive Income.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (continued)

The assets and liabilities assumed at the date of acquisition are as follows:

	\$'000
Consideration	
- Cash	40,337
- Deferred cash consideration	12,000
Total cash consideration	52,337
Equity issued as consideration	5,276
Total consideration at face value	57,613
Notional interest on deferred consideration	(1,061)
Net present value of total consideration	56,552
 Net assets acquired	
Assets	
- Cash and cash equivalent	1,047
- Trade and other receivables	9,620
- Work in progress	27,296
- Plant and equipment	2,068
- Intangible assets	7,047
- Deferred taxation	1,335
- Other	861
Total assets acquired	49,274
 Liabilities	
- Short term borrowings	976
- Payables	2,865
- Provisions	983
Total liabilities acquired	4,824
Net assets acquired	44,450
Goodwill on acquisition	12,102

The key items that flowed from the acquisition that gave rise to the goodwill above are:

- Synergies expected to be achieved as a result of combining the acquired business with the Company;
- Access to geographic locations not previously served by the Company; and
- Access to referral networks not previously available to the Company.

Since the acquisition date, TML has contributed a profit after tax of \$6,651,000 which is included within the consolidated profit. Had the combination been effected at 1 July 2010, net profit after tax for the consolidated entity would have been \$28,459,000 and revenue would have been \$186,036,000. The Directors of the Company consider these numbers to represent an approximate measure of the performance of the combined Group on an annualised basis and to provide a reference point for comparison in future periods.

A part of the consideration to the vendors of TML were paid by way of the issue of \$5,276,000 in Company ordinary shares at the volume weighted average price at which shares traded during the period from 26 May 2010 to 23 June 2010 (equating to 3,403,927 ordinary shares).

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (continued)

Finalisation of provisional accounting for acquisition of Slater & Gordon Lawyers NSW Pty Limited (formerly Keddies The Insurance Law Specialists Pty Limited)

On 26 October 2010, the Group announced that it had agreed to acquire a 100% shareholding in Keddies The Insurance Law Specialists Pty Limited, a leading New South Wales personal injury law firm, for a total consideration of \$27,843,000. This transaction was settled on 11 January 2011.

Subsequent to acquisition, the company has been renamed Slater & Gordon Lawyers NSW Pty Limited.

The strategic rationale for this business combination is:

- diversification of earnings through expansion of geographic coverage;
- building scale in NSW and Western Sydney in particular, one of the fastest growing regions in Australia and;
- to provide a strategic growth platform in the NSW market.

The initial accounting for the acquisition had been provisionally determined at the date of signing the 30 June 2011 financial statements. The necessary fair valuation of consideration and net assets acquired have now been finalised and are reflected in the amounts detailed below. This revaluation has resulted in a \$3,093,000 decrease in the goodwill recognised on this transaction. Comparative Statement of Financial Position balances as at 30 June 2011 have been restated to reflect the finalisation of provisionally determined fair values of assets and liabilities acquired in relation to this acquisition.

The assets and liabilities assumed at the date of acquisition are as follows:

	\$'000
Consideration	
Cash	16,800
Deferred cash consideration	7,750
Total cash consideration	24,550
Equity issued as consideration	3,700
Total consideration at face value	28,250
Notional interest on deferred consideration	(774)
Stamp duty on acquisition	186
Net present value of total consideration	27,662
Net assets acquired	Fair Value
Assets	
- Trade and other receivables	13,809
- Less: provisions	(2,351)
- Work in progress	18,613
- Plant and equipment	332
- Deferred taxation	2,948
- Other	387
Total assets acquired	33,738
Liabilities	
- Bank overdraft	3,210
- Short term borrowings	684
- Payables	11,455
- Provisions	648
Total liabilities acquired	15,997
Net assets acquired	17,741
Goodwill on acquisition	9,921

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (Continued)

No goodwill arising in relation to this acquisition is tax deductible.

The key items that flowed from the acquisition that gave rise to the goodwill above are to:

- diversify earnings through expansion of geographic coverage;
- build scale in NSW and Western Sydney in particular, one of the fastest growing regions in Australia; and
- provide a strategic growth platform in the NSW market.

Acquisition of business – Rob Powe Lawyers

On 17 August 2010, the Group acquired the business of Rob Powe Lawyers, a firm based in Maitland, New South Wales, specialising in Family Law for a total cash payment of \$250,000. Included in this amount was goodwill of \$184,000.

NOTE 31: FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks comprising:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Fair values
- (iv) Interest rate risk
- (v) Foreign exchange risk

(i) Credit risk exposures

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main exposure to credit risk in the Group is represented by the receivables (debtors and disbursements) owing to the Group.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions against those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Concentrations of credit risk

The Group's real credit risk is associated with the management of work in progress, particularly when client matters are undertaken on a "no win no fee" basis. To mitigate this risk, the Group has strong screening processes for new client enquiries and then further review by experienced lawyers who are assigned to new client matters. The Group minimises the concentration of this credit risk by undertaking transactions with a large number of clients.

There is also credit risk associated with unrendered disbursements and trade receivables. Once client matters are billed, a significant portion of receivables related to the personal injuries business are considered low risk. This is because these receivables are collected directly from settlements paid by insurers into trust funds held on behalf of the Group's clients. As at 30 June 2012, approximately 72% of trade receivables relate to the personal injuries business.

For the non-personal injuries business, the Group is exposed to the credit risk associated with the client's ability to meet their obligations under the fee and retainer agreement. The Group minimises the concentration of this credit risk by undertaking transactions with a large number of clients.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

Management of credit risk

The Group actively manages its credit risk by:

- Assessing the capability of a client to meet its obligations under the fee and retainer agreement;
- Periodically reviewing the reasons for bad debt write offs in order to improve the future decision making process;
- Maintaining an adequate provision against the future recovery of debtors and disbursements;
- Including in each practitioner's Key Performance Indicators ("KPI's") measurements in respect of both debtor levels, recovery and investment in disbursements;
- Providing ongoing training to staff in the management of their personal and practice group debtor portfolios; and
- Where necessary, pursuing the recovery of debts owed to the Group through external mercantile agents and the courts.

(ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Management of liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. Refer to the Statement of Cash Flows and Note 22: Cash Flow Information, for further information on the historical cash flows and the current borrowing facilities below.

The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs.

	2012	2011
	\$'000	\$'000
Total banking facility		
Banking overdrafts	5,000	5,000
Cash advance facility	138,931	84,000
Other sundry facilities	10,210	-
Total credit facility	154,141	89,000
 Amount utilised	 (105,680)	 (47,719)
Unused bank facility	48,461	41,281

Banking Overdrafts

Bank overdraft facilities are arranged with Westpac with the general terms and conditions being set and agreed to annually. The current facility is \$5,000,000 (2011: \$5,000,000). Interest rates are variable and subject to adjustment.

Cash Advance & Equipment Finance Facility

On 27 April 2012, the Group entered into a syndicated bank facility in the amount of AUD \$108,000,000 and GBP £39,000,000, allocated as follows:

- an AUD \$24,000,000 term loan facility and two revolving interest only facilities totalling AUD \$58,000,000. These loans mature in three years and interest is charged on the loans at BBSY plus an agreed margin;
- a GBP £39,000,000 term loan facility. This loan matures in three years and interest is charged on the loan at LIBOR plus an agreed margin; and
- bilateral facilities totalling AUD \$26,000,000.

The proceeds of this facility will be used to fund core debt, acquisition activities, working capital requirements, short term funding requirements, the leasing of equipment and any performance guarantees, as required.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

The Group's existing bank facility was repaid upon settlement of this new facility.

As at 30 June 2011, the Group had a \$84,000,000 variable interest rate facility provided by Westpac, expiring no later than 3 years. Included in the facility is an equipment finance lease facility of \$7,000,000 expiring no later than 9 years.

(iii) Fair values

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the Statement of Financial Position and Notes to the Financial Statements. The main exposure to fair value risk is contained in the balance of Work in Progress ("WIP").

Management of fair value risk in WIP

The Group actively manages the fair value risk by:

- Using strict file acceptance criteria on new client enquiries, as required under the Legal Profession Act in each jurisdiction, to only undertake claims that have a viable and sustainable cause of action to be pursued;
- Performing ongoing file reviews of all active files;
- Actively reviewing file loads and outcomes by individual Legal Practitioner; and
- Diversifying the areas of practice (in both areas of law and geographic location) to reduce the potential of legislative change to impact the business.

Management of fair value risk in interest rate swaps

The Group measures its interest rate swaps at fair value. These fair values are based on level 2 fair value measurements, as defined in the fair value hierarchy in AASB 7, with reference to market data which can be used to estimate future cash flows and discount them to present value. Management's aim is to use and source this data consistently from period to period.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

(iv) Interest rate risk

The Group's exposure to interest rate risks and the effective interest rates of non-derivative financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Weighted average interest rate		Non interest bearing		Variable interest rate		Fixed interest rate		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>(i) Financial assets</i>										
Cash	0.32%	3.19%	-	-	4,373	4,032	-	-	4,373	4,032
Trade debtors			72,327	47,591	-	-	-	-	72,327	47,591
Disbursements			53,793	46,251	-	-	-	-	53,793	46,251
Receivables from related parties			1,611	1,311	-	-	-	-	1,611	1,311
Other receivables			217	251	-	-	-	-	217	251
VCR share loans receivable			15,426	18,401	-	-	-	-	15,426	18,401
Total financial assets			143,374	113,805	4,373	4,032	-	-	147,747	117,837
<i>(ii) Financial liabilities</i>										
Bank overdraft			-	-	425	-	-	-	425	-
Trade creditors			3,467	2,497	-	-	-	-	3,467	2,497
Legal creditors and accruals			65,805	43,143	-	-	-	-	65,805	43,143
Interest bearing vendor liabilities – acquisitions	4.00%	4.61%	-	-	-	-	2,859	20,096	2,859	20,096
Non-interest bearing vendor liabilities - acquisitions			18,957	2,158	-	-	-	-	18,957	2,158
Provisions			14,399	13,097	-	-	-	-	14,399	13,097
Hire purchase liability	7.27%	9.25%	-	-	-	-	9,717	5,047	9,717	5,047
Bills of exchange – fixed rate	4.13%	5.99%	-	-	-	-	27,683	15,000	27,683	15,000
Bills of exchange – variable rate	4.41%	6.79%	-	-	70,751	27,672	-	-	70,751	27,672
Total financial liabilities			102,628	60,895	71,176	27,672	40,259	40,143	214,063	128,710

Interest rate swaps

Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The Group uses swap contracts to maintain a designated proportion of fixed to floating debt.

The notional principal amounts of the swap contracts approximate 25% to 50% of the Group's outstanding borrowings on the cash advance facility (excluding the working capital facility). The net interest payments or receipt settlements of the swap contracts occur every 30 days. The net settlement amounts are brought into account as an adjustment to interest expense.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

At balance date, the details of outstanding contracts, all of which are to receive floating/pay-fixed interest rate swaps, are as follows:

Maturity of notional amounts	Effective average fixed interest rate payable		Notional principal value	
	2012	2011	2012	2011
			\$'000	\$'000
2 to 5 years	4.13%	5.99%	27,683	15,000
			<u>27,683</u>	<u>15,000</u>

The net effective variable interest rate borrowings (ie. unhedged debt) expose the Group to interest rate risk which will impact future cash flows and interest charges and are indicated by the following interest rate financial liabilities:

	Note	2012 \$'000	2011 \$'000
Floating rate instruments			
Bank overdrafts	16	425	-
Unhedged cash advances/bills of exchange		70,751	27,672
		<u>71,176</u>	<u>27,672</u>

Interest rate swaps are measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as the profit or loss associated with the hedged risk is recognised in the Consolidated Statement of Comprehensive Income. Given the matching of the hedge settlements with the payment of interest expense on the hedged borrows, the balance in the reserve attributable to interest rate swaps is generally minimal.

(v) Foreign exchange risk

During the year the Group entered into agreement to acquire the business of RJW for a total consideration of GBP 52,953,000. The identified currency risk on this transaction was hedged using forward exchange contracts. These contracts were designated as cash flow hedges.

The Group is exposed to ongoing foreign exchange risk arising from its investment in its UK operating segment. This risk is hedged by a secured bank loan denominated in GBP, which mitigates the currency risk arising from the U.K operating segment's net assets. The loan is designated as a net investment hedge.

The Group has no other significant exposures to currency risk.

NOTE 32: SUBSEQUENT EVENTS

There are no subsequent events.

NOTE 33: DEED OF CROSS GUARANTEE

Slater & Gordon Limited, Trilby Misso Lawyers Limited and Slater & Gordon Lawyers NSW Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

A consolidated Statement of Comprehensive Income and Statement of Financial Position, comprising the Company and controlled entities subject to the deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is set out as follows:

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE: 33 DEED OF CROSS GUARANTEE (Continued)

	2012	2011
	\$'000	\$'000
Statement of Comprehensive Income		
Revenue	202,967	182,309
Expenses	(166,596)	(140,766)
Profit before income tax expense	36,371	41,543
Income tax expense	(11,391)	(13,635)
Profit for the period	24,980	27,908
Changes in fair value of cash flow hedges, net of tax	(419)	-
Total comprehensive income for the period	24,561	27,908
Statement of Financial Position		
Current assets		
Cash and cash equivalents	2,366	4,032
Receivables	121,055	95,404
Work in progress	210,423	179,606
Current tax asset	229	391
Other current assets	5,216	4,836
Total current assets	339,289	284,269
Non-current assets		
Plant and equipment	10,773	9,419
Work in progress	1,926	7,045
Intangible assets	56,320	55,259
Investment in subsidiary	13,554	-
Other non-current assets	15,426	18,401
Total non-current assets	97,999	90,124
Total assets	437,288	374,393
Current liabilities		
Payables	47,009	62,129
Short term borrowings	9,320	7,165
Current tax liabilities	-	-
Provisions	12,520	11,464
Total current liabilities	68,849	80,758
Non-current liabilities		
Payables	9,762	5,765
Long term borrowings	51,140	40,554
Deferred tax liabilities	60,734	49,917
Derivative financial instruments	948	349
Provisions	2,290	1,633
Total non-current liabilities	124,874	98,218
Total liabilities	193,723	178,976
Net assets	243,565	195,417
Equity		
Contributed equity	142,181	109,809
Reserves	(664)	(245)
Retained profits	102,048	85,853
Total equity	243,565	195,417

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 34: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2012 the parent entity of the Group was Slater & Gordon Limited.

	2012	2011
	\$'000	\$'000
Results of parent entity		
Profit for the period	17,511	18,308
Other comprehensive income	(419)	245
Total comprehensive income for the period	<u>17,092*</u>	<u>18,553*</u>
Financial position for the parent entity at year end		
Current assets	252,643	209,688
Total assets	390,469	341,586
Current liabilities	56,043	68,024
Total liabilities	163,979	155,770
Total equity of the parent company comprising of		
Contributed equity	142,181	109,808
Reserves	(664)	(245)
Retained profits	84,973	76,253
Total Equity	<u>226,490</u>	<u>185,816</u>

* There has been limited recharge by the parent entity of marketing and advertising, interest expense and associated management services to the subsidiary entities. Profit of the parent entity for the year ended 30 June 2012 includes the impact of the write off of work in progress and disbursements on the Vioxx proceedings totalling \$10,539,000.

Other commitments and contingencies

The Company has entered into an agreement with ASK Funding Limited ("ASK") to provide financial guarantees to ASK with respect to disbursement funding borrowings to the Company's clients. The nature of this agreement is that ASK will fund disbursements in respect of individual matters and will be reimbursed out of any settlement proceeds on the matter. The Company has provided a financial guarantee for the repayment of the clients' obligations to ASK. The total amount funded by ASK to the Company's clients at 30 June 2012 is \$1,504,670 (2011: \$1,037,060). The maximum exposure of the Company at 30 June 2012 is \$1,504,670 (2011: \$1,037,060) if the individual client matters are not recovered from any other party.

During FY12 ASK funding ceased to offer a disbursement funding facility and is in an orderly run-off of its disbursement funding book. Slater and Gordon reached agreement with Equal Access Funding ("EAF") post year end to provide an alternate arrangement on substantially the same terms and conditions as the ASK product.

Operating lease commitments

Non-cancellable operating leases (including rental of office space) contracted but not capitalised in the consolidated financial statements:

Within one year	7,474	7,433
One year or later and not later than five years	25,050	23,544
Greater than five years	15,151	16,655
	<u>47,675</u>	<u>47,632</u>

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

SLATER & GORDON LIMITED

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 18 to 63 and the directors' report are in accordance with the Corporations Act 2001 and:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b) As stated in Note 1, the financial statements also comply with International Financial Reporting Standards;
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2012 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that

- Slater & Gordon Limited will be able to pay its debts as and when they become due and payable.
- the Company and the group entities identified in Note 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration is made in accordance with a resolution of the directors.



John Skippen
Acting Chair



Andrew Grech
Managing Director

Melbourne
7 September 2012



SLATER AND GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

AND CONTROLLED ENTITIES

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SLATER AND GORDON LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Slater and Gordon Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



SLATER AND GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400
AND CONTROLLED ENTITIES
INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SLATER AND GORDON LIMITED AND CONTROLLED ENTITIES

Opinion

In our opinion:

- (a) the financial report of Slater and Gordon Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Slater and Gordon Limited and controlled entities for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.



M W PRINGLE

Partner

7 September 2012



PITCHER PARTNERS

Melbourne

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

In accordance with the Australian Stock Exchange Limited Listing Rules, the Directors provide the following information as at 5 September 2012.

(a) Distribution of shareholders and option holders.

Holding	Number of Ordinary Shareholders
1 - 1,000	407
1,001 - 5,000	564
5,001 - 10,000	221
10,001 - 100,000	246
100,001 - Over	90
	<u>1,528</u>

There are 105 shareholders holding less than a marketable parcel (i.e. less than \$500 per parcel of shares).

(b) Twenty largest shareholders

Shareholder	Number of Shares Held	% Held
1 HSBC Custody Nominees (Australia) Limited	33,651,393	19.96
2 J P Morgan Nominees Australia Limited	25,625,203	15.20
3 National Nominees Limited	25,519,895	15.14
4 BNP Paribas Noms Pty Ltd	8,385,943	4.97
5 Andrew Grech	8,022,356	4.76
6 RBC Dexia Investor Services Australia Nominees Pty Limited (PI Pooled A/C)	7,678,165	4.55
7 Ken Fowlie	6,086,221	3.61
8 Cath Evans	6,050,476	3.59
9 Hayden Stephens	5,205,115	3.09
10 Peter Gordon	2,666,165	1.58
11 Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	1,418,203	0.84
12 Pershing Australia Nominees Pty Ltd	1,077,500	0.64
13 Edward Cooper	1,049,129	0.62
14 Amanda McAlister	1,049,129	0.62
15 Alexander Whitehead	1,049,129	0.62
16 Marcus Clayton	962,896	0.57
17 Mike Feehan	900,000	0.53
18 Craig Lee (Lee Super Fund A/C)	866,608	0.51
19 Ian Fletcher	848,706	0.50
20 Paul Daniels	753,592	0.45
	<u>138,865,824</u>	<u>82.36</u>

(c) Substantial shareholders

A substantial shareholder is one who has a relevant interest in 5 per cent or more of the total issued shares in the Company. Following are the substantial shareholders in the Company based on notifications provided to the Company under the Corporations Act 2001:

Shareholder	Ordinary Shares	
	Number	% *
Mawer Investment Management Limited	18,119,416	11.94
National Australia Bank Limited and its Associated Companies	17,261,523	10.24
Perpetual Limited and subsidiaries	8,787,713	5.04

* Percentage of shares held based on total issued capital of the Company at the time a substantial shareholder notice was provided to the Company.

(d) VCR shares

Total number of VCR shares on issue is 18,289,937 held by 90 employee shareholders.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400

Company Particulars

Directors

John Skippen, Chair
Andrew Grech, Managing Director
Ian Court
Ken Fowlie
Erica Lane

Auditors

Pitcher Partners
Level 19
15 William Street
Melbourne Victoria 3000

Share/Security Registers

The Registrar
Computershare Investor
Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

Company Secretaries

Wayne Brown
Kirsten Morrison

Bankers

Westpac Banking
Corporation
Level 7
360 Collins Street
Melbourne Victoria 3000

National Australia Bank
Level 30
500 Bourke Street
Melbourne Victoria 3000

GPO Box 2975
Melbourne Victoria 3001

Telephone
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(Australia)
+61 3 9415 4000
(Overseas)

Investor Centre Website:
www.computershare.com.au

Email:
web.queries@computershare.com.au

**Registered Office and
Corporate Office**

Level 12
485 La Trobe Street
Melbourne Victoria 3000
Telephone: (03) 9602 6888
Facsimile: (03) 9600 0290

Solicitors

Arnold Bloch Leibler
Level 21
333 Collins Street
Melbourne Victoria 3000

Company Website

www.slatergordon.com.au

Company Numbers

ACN 097 297 400

ABN 93 097 297 400

Stock Exchange Listing

Slater & Gordon Limited
shares are listed on the
Australian Stock
Exchange Limited. The
Home Exchange is
Melbourne.
ASX Code: SGH