



Brighter outcomes.

Annual Report 2014





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Images in this Report feature Slater and Gordon Sydney office staff.

Brighter outcomes

represents our endeavour
to put our clients at the
centre of everything we do.

We believe that by understanding our clients' needs and providing high quality legal services affordably and conveniently, we can guide our clients to brighter outcomes and deliver sustainable returns for our shareholders.

Highlights

Revenue (up by 40.4%)

FY14	\$418.5m
FY13	\$298.0m
FY12	\$217.7m
FY11	\$182.3m
FY10	\$124.7m

Normalised EBITDA (up by 38.3%)

FY14	\$100.8m
FY13	\$72.9m
FY12	\$57.6m
FY11	\$49.9m
FY10	\$31.5m

Normalised NPAT (up by 51.0%)

FY14	\$63.0m
FY13	\$41.8m
FY12	\$33.4m
FY11	\$28.9m
FY10	\$19.8m

Normalised Basic EPS (up by 29.9%)

FY14	31.3¢
FY13	24.1¢
FY12	21.7¢
FY11	19.1¢
FY10	17.9¢

Normalised data is adjusted for the write-down of the Vioxx class action in FY12, acquisition costs in FY13 and a WIP adjustment relating to the Fenton's acquisition, an onerous lease provision and acquisition costs in FY14.

Slater and Gordon Overview

Who We Are

Slater and Gordon is a leading consumer law firm in Australia and the United Kingdom (UK). We employ 1,200 people in 70 locations across Australia and 1,300 people in 13 locations in the UK.

Our Mission

To give people easier access to world class legal services.

Our Values

- Do it right.
- Work well with others.
- Take the lead.

Our Clients

Our clients are people throughout Australia and the UK who are in need of a broad range of personal legal services. They want lawyers who are accessible and able to provide expert advice on their legal matters affordably.

Our Services

- **Personal Injury Law (PIL) practice**
PIL provides specialist legal services in a range of personal injury areas including motor vehicle accidents, workers compensation and civil liability.
- **General Law (GL) practice**
GL is made up of Personal Legal Services (PLS) and Business and Specialised Litigation Services (B&SLS). PLS comprises family law, conveyancing, wills, estate planning and probate practices. B&SLS includes commercial, estate, employment and professional negligence litigation, class or group actions and criminal defence work.

Employees

2,500



Brands

**Slater
Gordon**
Lawyers

claims.direct
No Win No Fee Personal Injury Specialists

Shareholders

5,000+



Locations

80+



FY14 Revenue A\$418.5 million



- AUS PIL **46%**
- AUS GL **10%**
- UK PIL **34%**
- UK GL **10%**

Our Strategy

Outcome

Satisfied clients, engaged staff, sustainable shareholder returns

Growth Strategy

**Leading
consolidation
of the UK consumer
legal services market**

**Delivering strong growth from
the Australian Personal Injury Law practice**

**Building on the established platform in General Law
consumer legal services**

Key Drivers

Client Experience

Striving to put
clients at the centre
of everything
we do

Brand and Marketing

Leveraging the
power of the Slater
and Gordon brand

People and Culture

Building an aligned,
skilled and engaged
labour force

Operations

End-to-end mergers
and acquisitions
capability

Innovation in our
service offering,
delivery modes and
the management
of the organisation

Growing our UK presence.

We have now achieved the scale required to compete effectively in the UK consumer law market.

Over the next few years we will exploit this scale and continue to grow market share both organically and through acquisitions.



Chair's Report

Dear Shareholder,

I am pleased to present the Slater and Gordon Limited (Slater and Gordon) Annual Report for the 2014 financial year.

The past year has been an extremely busy time at Slater and Gordon, as we continued with our acquisition program to establish scale in the United Kingdom (UK). We also delivered strong revenue growth from the Australian Personal Injury Law (PIL) practices and continued to invest in key areas of General Law (GL) such as family law and conveyancing.

Importantly, while executing all of these activities, we have been able to continue our track record of delivering strong financial results for our shareholders.

Total Group revenue was up 40.4% to A\$418.5 million and net profit after tax (NPAT) increased 47.2% to A\$61.1 million. Earnings per share increased 26.8% to 30.3 cents per share. The cash flow from operations was A\$54.4 million or 89.1% of NPAT. The total dividend was 8.0 cents per share fully franked, an increase of 21.2% on the prior year. Whilst dividend policy is reviewed regularly by the Board, we expect the payout ratio to be in the range of 25–30% of NPAT during what we expect to be a continued period of growth in FY15.

Slater and Gordon is now a leading consumer law firm in the UK, with the number one or two market share position in most consumer law practice areas. The acquisitions during the past year have added an estimated annual revenue base of £72.5 million bringing UK revenues to just under half of the expected total revenue for the Group in FY15. Slater and Gordon now has 1,300 employees in the UK, up from 425 when we made our initial acquisition of Russell Jones & Walker in 2012. We have now successfully achieved the scale we wanted to compete effectively in the UK market and expect to exploit this and continue to grow market share both organically and by acquisitions in the next few years.

A Board meeting was held in London in May to provide Directors with an opportunity to increase our knowledge of the UK operations and growth opportunities. The time was extremely productive and a key takeaway for me, from the meetings, was the similarity between the UK and Australia in terms of the operating environment and challenges. There is a huge opportunity to share knowledge and resources and in particular the systems that have been developed, and successfully utilised for many years in Australia.

In Australia, the PIL practices continue to deliver results despite the disruption caused by legislative change in Queensland. Previous investment in diversification and scale have created a business that is able to adapt to change and keep growing despite increasing competitor activity. The Australian GL practices are continuing to build scale and provide exciting opportunities for further growth in a market double the size of the PIL market.

The solid results for 2014 are testament to the high quality management teams we have in place both in Australia and the UK. I would like to thank Andrew Grech and his Executive team for their tremendous effort this financial year and the 2,500 employees across Australia and the UK whose commitment to providing quality service to their clients is unwavering.

To encourage staff retention and further align employee and shareholder interests, the Board recently announced the proposed introduction of a new Equity Incentive Scheme, to be presented to shareholders for approval at the Annual General Meeting in October.

We consider equity participation a fundamental component of an effective Executive and Employee Rewards Strategy and believe a refreshed share scheme is warranted to meet the needs of an international, and now much larger, Slater and Gordon Group. We look forward to your supporting vote.



"Slater and Gordon is now a leading consumer law firm in the UK, with the number one or two market share position in most consumer law practice areas."

On behalf of the Board of Directors I would like to thank you for your ongoing support of Slater and Gordon.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'John Skippen', written in a cursive style.

John Skippen
Chairman

Group Managing Director's Report

Dear Shareholder,

Welcome to Slater and Gordon's Annual Report for the 2014 financial year.

I am pleased to be able to deliver another great set of financial results for our shareholders by providing high quality legal services to more clients than ever before across Australia and the United Kingdom (UK).

The past year has been satisfying on many fronts. Our underlying practices remained strong and delivered their financial and operational targets despite the impact of legislative change in Australia and the significant acquisition program undertaken in the UK. Key initiatives implemented to improve operational performance have delivered immediate results and we continued to see high quality growth opportunities emerge in both the Australian and UK consumer law markets.

The Australian Personal Injury Law (PIL) practice continues to grow in an increasingly competitive market that was negatively impacted by legislative change in Queensland. Both of which we will continue to contend with in FY15. Our capacity to keep growing, despite these circumstances, is a testament to the quality and scale of our PIL practice.

Operational efficiency is vital to our ongoing success in Australian PIL and we have undertaken several initiatives during the year focused on improving the client intake process and enhancing client satisfaction. The results have been very pleasing with improvements in key operational metrics such as calls answered, wait times and increased client satisfaction. According to independent research, total client satisfaction for Slater and Gordon increased from a score of 54 in 2012 to 67 in 2014. Our scores are now higher than the benchmark for both global consulting services and healthcare services in Australia.

In the UK, the five firms acquired during the year all met or exceeded their performance targets and their integration into the Slater and Gordon UK business is well progressed and on track for completion by March 2015. We have now established a stable base in the UK and have the people and initiatives in place to make the best of the opportunities that are available in that market.

Investment in the Slater and Gordon brand in both Australia and the UK is delivering results with steady growth in new file numbers during the year. While we will continue to use the Claims Direct brand to compete with claims management companies in the UK market, all other acquired practices will operate under the Slater and Gordon brand by March 2015.

We made great progress during the year with firm wide initiatives aimed at making Slater and Gordon a stronger and more effective business.

A refreshed brand identity was created and recently launched. The evolved brand aims to better represent the contemporary Slater and Gordon as a trusted advisor which navigates clients through the legal process, and guides them to a brighter outcome.

The firm's values were also refreshed last year, in consultation with staff across the UK and Australia. The values aim to align us all in our understanding of what Slater and Gordon represents as an entity, how we treat each other and how we service our clients.

I am confident that all of the progress made across the Group in the past financial year means that we enter FY15 better equipped than ever before to exploit the substantial opportunities available to us to continue to ensure more people get easier access to world class legal services.



"We made great progress during the year with firm wide initiatives aimed at making Slater and Gordon a stronger and more effective business."

I would like to thank our clients for trusting us to guide them through to brighter outcomes and our staff for their exceptional effort during the past year. I look forward to your continued support as a Slater and Gordon shareholder.

Yours sincerely,

A handwritten signature in black ink, which appears to read 'Andrew Grech'.

Andrew Grech
Group Managing Director

A woman with short blonde hair, smiling, stands against a teal background. She is wearing a black blazer over a yellow top, a black skirt, and black high heels. She has a necklace with various beads and a ring on her finger. Her right hand is on her hip, and her left leg is crossed over her right.

Personal Injury Law.

Our Personal Injury Law practice continues to underpin the performance of the Group and again demonstrated its strength and resilience.



General Law.

We have now established a strong platform in General Law with clarity around service offering to clients.

Business Review

Australian Operations

Personal Injury Law

Overview

The Australian Personal Injury Law (PIL) practice provides specialist legal services to people in a range of areas including motor vehicle accidents, workers compensation and civil liability law. Most of this work is performed on a No Win – No Fee™ basis where legal fees are paid on the successful conclusion of a client's matter. Slater and Gordon is the market leader in personal injury litigation in Australia with an estimated 25% market share.

FY14 Highlights

- PIL practice continued to grow on a strong and stable EBITDA margin;
- improvement in client intake process and client satisfaction scores; and
- continued opportunities for acquisitions.

FY15 Priorities

- Move to a single business in Queensland, migrating the Trilby Misso brand to the Slater and Gordon platform;
- business improvement initiatives; and
- continue to build market share.

General Law

Overview

The General Law (GL) practice is made up of Personal Legal Services (PLS) and Business and Specialised Litigation Services (B&SLS). PLS comprises family and relationship law, conveyancing, wills and estate planning and probate practices. Work is predominantly performed on a fixed fee basis. Slater and Gordon has now developed, what we understand to be, the largest family law and conveyancing practices in Australia.

B&SLS includes commercial, estate, employment and professional negligence litigation, class or group actions and criminal defence work. Class actions are now largely funded by third parties.

FY14 Highlights

- Good progress in family law and conveyancing;
- class action pipeline replenished; and
- specialised litigation practices (estate, professional negligence and criminal defence) clearly defined with good growth opportunities.

FY15 Priorities

- Further investment to build scale;
- broadening the brand to attract new clients; and
- progressing the pipeline of funded litigation matters.

Business Review

UK Operations

Personal Injury Law

Overview

The United Kingdom (UK) PIL practice provides specialist legal services to claimants in a range of areas including motor vehicle accidents, employers liability, industrial disease, clinical negligence and serious injury claims. Most of this work is performed on a No Win – No Fee™ basis where legal fees are paid on the successful conclusion of a client's matter.

We also now conduct a substantial Court of Protection practice which ensures that people without the personal capacity to make decisions for themselves are protected. This trustee service is an important adjunct to our PIL practice and is complemented by a small financial planning service known as Adroit Financial Services.

Slater and Gordon entered the UK market in 2012 and after a series of acquisitions is now a leading personal injury litigation firm with an estimated 5% market share including work sourced from the Slater and Gordon owned Claims Direct brand.

FY14 Highlights

- Core business underlying revenue growth of 8% as targeted;
- investment in Slater and Gordon brand delivering steady growth in call volumes and case intake; and
- regulatory environment stabilising and providing opportunity to accelerate consolidation.

FY15 Priorities

- Successful integration of FY14 acquisitions;
- continue to build awareness of the Slater and Gordon brand; and
- increase the proportion of high-margin or multi-track PIL work and improve the scale and efficiency of low-margin or fast-track PIL practices.

General Law

Overview

The UK GL practice comprises Business and Specialised Litigation Services, Real Estate, Crime and Regulation, Personal Legal Services and Employment, Reputation and Professional Discipline. Slater and Gordon has the largest family law practice in the UK.

FY14 Highlights

- Integration and consolidation of practices to achieve greater efficiency;
- developing targeted marketing and business development activities to drive enquiries; and
- launching new services and pricing structures to increase client conversion.

FY15 Priorities

- Development of workflow systems;
- scale up smaller practices and optimise profitability levels; and
- broaden range and depth of competence across major regional centres.

Business Review

Group Activities

We continue to invest in the following key drivers of our business. They are critical to our long-term success.

Client Experience

It is important for the firm to focus on continuously improving the experience of its clients with the goal of improving client satisfaction, lifting conversion rates and promoting advocacy.

Several initiatives were undertaken during FY14 focused on improving the client intake process and enhancing client satisfaction. The results have been very pleasing with improvement in key operational metrics such as calls answered and wait times. Independent research measured total client satisfaction for Slater and Gordon increasing from a score of 54 in 2012 to 67 in 2014. We will continue to implement further client-focused initiatives across the Group in FY15.

Brand and Marketing

Slater and Gordon is one of Australia's best known brands and is actively building its brand awareness within the UK. Protecting and nourishing our brands is vital to delivering growth across the firm.

The business currently consists of the following brands: Slater and Gordon (Australia and UK); Claims Direct (UK); Trilby Misso Lawyers (QLD); Conveyancing Works (QLD); Fentons Solicitors (part of Slater and Gordon) (UK); and Pannone (part of Slater and Gordon) (UK). The UK brands, with the exception of Claims Direct, are being transitioned to Slater and Gordon in FY15. The Australian brands will be transitioned to Slater and Gordon as part of the brand refresh.

Investment in our brand in both Australia and the UK in FY14 has delivered results.

In the UK, by drawing on our experience of brand development in Australia we have seen significant expansion of the Slater and Gordon brand across the UK market. Launch of the Slater and Gordon brand through a multifaceted approach which combined advertising, digital marketing, media/PR, sponsorship and business development campaigns delivered 11% prompted and unprompted brand awareness nationally. This result sets us amongst the three best-known law firms in the UK and positions us well in our goal to become the leading consumer brand across the UK.

In Australia, Slater and Gordon brand awareness remains strong with prompted awareness nationally at 75%. The focus of marketing activity now is on positioning the Slater and Gordon brand in a way that communicates the breadth of our service offering, the quality of our services and our focus on getting the best possible outcomes for our clients. These key messages will be continually reinforced across all of our advertising as well as in the daily interactions with our clients and prospective clients.

People and Culture

Our ultimate goal is to build an aligned, skilled and engaged labour force.

The rapid growth in staff numbers, with a larger proportion of staff now located in the UK, made it a busy year for the Human Resources team. Along with integrating people from the newly acquired practices, several initiatives were implemented during the year.

The firm wide values were refreshed and relaunched to better reflect the larger and international Slater and Gordon Group and how we work today. A new integrated performance, learning and talent management system 'S&G & Me' was introduced and an Equity Incentive Scheme was announced to encourage staff retention and drive achievement of performance objectives.

Operations

Our highly developed work process design and technology expertise provides us with a unique competitive advantage. Business improvement initiatives are being implemented to make sure we are working effectively across the firm after a period of rapid growth.

In the UK, a new practice management and client management system was selected and we commenced the establishment of the standard core applications platform to which Slater and Gordon UK and all other subsidiaries will migrate. In Australia we invested in people with project management, change management and digital capabilities to enhance our ability to deliver whole of firm improvements.

Corporate Social Responsibility

Slater and Gordon strives for the highest standards of social and environmental performance. We embrace programs which connect our staff to clients and their communities and continually look to extend our contribution, beyond the already enormous role we play in providing access to the legal system, through the provision of pro bono legal services, philanthropic grants, fundraising and staff volunteering activities.

Pro Bono Legal Services

During FY14 Slater and Gordon again worked towards contributing to greater social equity by assisting a number of individual and community groups on a pro bono basis.

FY14 Highlights

- Introduced a new uniform Pro Bono Policy to encourage and support staff, across all of our practices who perform pro bono work, delivering on our commitment to increase the level of pro bono work performed each year; and
- increased our provision of pro bono legal work by 7%, assisting a number of individuals and community groups, and through our lawyers volunteering at community legal centres.

Connecting with the Community

In FY14 we expanded our strong foundation of supporting local communities by significantly increasing financial grants and fundraising activities.

FY14 Highlights

- The Community Fund provided nearly \$100,000 worth of grants to community groups for projects and initiatives to support those with disease or disability or experiencing disadvantage. This was the first time that funds of this scale have been distributed since the fund was established in 2001 and more than doubled the total grants for last year.
- Membership of our Staff Giving Program in Australia increased 34%, which greatly increased our ability to assist community groups with grants from the Slater and Gordon Community Fund.
- The Health Projects and Research Fund was launched in Australia and the United Kingdom (UK). The initiative aims to improve the lives of people in the community with serious illness or those who live with significant disability. The fund will provide \$1 million by 2020 for Australian eligible projects and £500,000 in the UK. The new Fund will continue and expand on the work of the Asbestos Research Fund which has provided over \$1.4 million since 2004 for education, medical research and projects to improve treatment of asbestos-related illness.
- We had over 420 registrations for the Mother's Day Classic, gaining the largest corporate team award at the Melbourne event. In addition, staff raised about \$21,000 for breast cancer research.
- In the UK, we supported the National Cycling Charity for their Road Justice campaign.

Addressing our Environmental Impacts

We acknowledge that our business activities have an environmental impact and we are committed to reducing that impact. Over the next three years we are implementing initiatives to significantly reduce our use of resources in four key impact areas: paper, energy, waste and travel.

FY14 Highlights

- Introduced default double-sided printing across the Australian firm to reduce paper use;
- in the UK, 89% of all stationery product purchases are sustainable;
- the firm continues its contribution through its membership of the Legal Sector Alliance (UK) and the Australian Legal Sector Alliance; and
- introducing state-of-the-art video conferencing facilities to reduce our travel.

Corporate Governance Statement

Introduction

The Board of the Company recognises that a genuine commitment to sound principles of corporate governance is fundamental to the sustainability of the Company and its performance.

Accessing Slater and Gordon's Corporate Governance Policies

The Board has adopted a number of corporate governance policies that are referred to throughout this Statement. These corporate governance policies are available at:

www.slatergordon.com.au/the-firm/governance

Board Responsibility

The Board has the following responsibilities for the Slater and Gordon Group:

- reviewing and approving the strategy of the Group and holding management to account to deliver the strategy and reviewing performance against agreed corporate key performance indicators;
- selection, monitoring, evaluation and remuneration settings of the Managing Director and other key management personnel;
- selecting future Directors and assessing the Board and individual Director performance;
- monitoring Slater and Gordon Group financial and business performance and financial reporting;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions;
- overseeing risk management policies, practice and performance;
- implementing high-level policy framework and ratifying specific policies within that framework;
- overseeing compliance and governance policies and practices and ensuring the Slater and Gordon Group's business is conducted legally, ethically and responsibly; and
- reporting to shareholders.

The responsibilities of the Board are set out in further detail in the Corporate Governance Policy.

Board Composition and Diversity

The Company's Constitution specifies a minimum of three Directors (and must include at least one Legal Practitioner Director). The Board has supplemented this requirement in the Corporate Governance Policy, which specifies that the Board shall comprise of at least five Directors. As at 30 June 2014, the Board consists of six Directors: four independent Non-Executive Directors and two Executive Directors who are also legal practitioners. The Board has an independent Chair and a majority of independent Directors.

The Nomination and Remuneration Committee of the Board ensures that the Board consists of an appropriate number of Directors and that the Directors have an appropriate mix of skills and experience to meet the Board's responsibilities and objectives. The Board has adopted a skills matrix to assist with determining the required mix of skills and experience, identifying any gaps in the collective skills of the Board and to inform Director professional development, recruitment and succession planning. The Committee reviews the Board's composition and succession planning against the skills matrix annually and otherwise as Board vacancies arise. Recruitment and succession planning is targeted to achieve a balance of the required skills and experience on the Board and to recruit Directors from diverse backgrounds.

The existing Board members have been drawn from Executive and Non-Executive roles in a range of industries, including government, health, industrial relations, financial services, legal, retail, education, mergers and acquisitions, advertising and property. The current Directors have also been selected to achieve a balance of collective complementary skill-sets based on the core competencies identified in the skills matrix, including:

Governance Skills

- Board experience – listed and non-listed environments; and
- Executive experience reporting to external/independent boards.

Business/Industry Skills

- Business management experience and qualifications;
- Mergers and acquisitions experience, including due diligence and integration;
- legal experience and qualifications;
- financial experience and qualifications;
- risk management;
- professional marketing;
- overseas experience;
- information technology and online/digital platforms;
- people management strategy; and
- project management/change management.

The Board has adopted a target that 50% of the Directors are women. As at 30 June 2014, 30% of Directors and 50% of independent Directors are women. The Nomination and Remuneration Committee reviews performance against this target annually.

A profile of each of the Directors and a table reporting Directors' attendance at Board meetings is provided in the Directors' Report.

The Board's policy and process in relation to Board composition and diversity are set out in more detail in the Corporate Governance Policy.

Corporate Governance Statement continued

Board Independence

Directors are considered to be independent if they are not a member of management and are free from any business or other relationship that could materially interfere with, or reasonably be seen to materially interfere with, the independent exercise of their judgment.

The Board considers the independence of relationships on a case-by-case basis and any payment to a Director or corporate entity associated with a Director for services outside their engagement as a Director or key management personnel requires approval by the Audit, Compliance and Risk Management Committee.

The independence of Directors is assessed at each Board meeting. Directors are required to disclose the full extent and nature of their interests as well as any potential or actual conflicts of interest as and when they change and to comply with the constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the Corporations Law and the Corporate Governance Policy.

Directors are considered independent if they:

1. have not been employed in an Executive capacity by the Slater and Gordon Group for at least three years;
2. have not been a partner, substantial shareholder, Director or senior employee of a professional adviser or consultant to Slater and Gordon or any of its related entities within the last three years;
3. do not have material relationships as a supplier or customer of the Slater and Gordon Group (nor had any for the last three years);
4. are not a substantial shareholder of Slater and Gordon or an associate or officer of a substantial shareholder of Slater and Gordon;
5. have no material contract or relationship with the Slater and Gordon Group other than as a Director;

6. do not have close family ties with any person who falls within any of the categories described above; and
7. have not served on the Board for such a period that his or her independence may be compromised.

It is the Board's view that its Non-Executive Directors Ian Court, Erica Lane, John Skippen and Rhonda O'Donnell are independent and the Board currently consists of a majority of independent Directors.

The Board has also adopted a number of additional measures to ensure that independent judgment is achieved and maintained in its decision-making processes, including:

- the Chair is an independent Director;
- the Chair of each Board Committee is an independent Director;
- the Audit, Compliance and Risk Management Committee and the Nomination and Remuneration Committee are composed of independent Directors only;
- Directors are entitled to seek independent professional advice at the Company's expense with prior notification to the Chair; and
- Directors having a conflict of interest must absent themselves from discussion on a matter unless the Board decides otherwise.

The policies and procedures relating to Board independence are set out in the Corporate Governance Policy.

Board Tenure

Directors have served the following terms on the Board of Slater and Gordon Ltd:

Director	Independent	Date of appointment	Term
Andrew Grech	No	June 2001	13 years
Ken Fowlie	No	July 2003	11 years
Ian Court	Yes	March 2007	7 years
Erica Lane	Yes	December 2008	5 years
John Skippen	Yes	May 2010	4 years
Rhonda O'Donnell	Yes	March 2013	1 year

Chair of the Board

Mr John Skippen is the Chair and is an independent Director. The Chair is selected by the Board from the Non-Executive Directors.

Board Committees

The Board uses the following Committees to support it in matters which require more intensive review. Each Committee has a written Charter, approved by the Board, defining its duties, reporting procedures and authority. Committees report back to the Board at each Board meeting. Copies of the Committee Charters are available at:

www.slatergordon.com.au/the-firm/governance

(i) Nomination and Remuneration Committee

The Nomination and Remuneration Committee reviews and makes recommendations to the Board in relation to the following functions for the Group:

- performance review and remuneration policies;
- Director and Senior Executive remuneration;
- performance reviews of the Board, Directors and Senior Executives;
- recruitment of Directors and Senior Executives;
- Director induction and continuing professional education;
- Board composition reviews and succession planning for Directors and Senior Executives;
- the Group's recruitment, development, retention and remuneration policies;
- equity incentive schemes and other forms of employee incentives;
- superannuation arrangements; and
- Diversity Policy settings and monitoring performance against diversity targets.

The Nomination and Remuneration Committee is comprised of four independent, Non-Executive Directors: Erica Lane (Chair), Ian Court, Rhonda O'Donnell and John Skippen. Ian Court was recently appointed as a member of this Committee, and attended his first meeting during the financial year on 1 May 2014.

Executive Director and Head of Australia, Ken Fowlie and the General Manager, Human Resources for each of Australia and the United Kingdom (UK) routinely attend meetings of the Committee to report directly. No Executive is involved in decisions on their own remuneration. A profile of the members of the Nomination and Remuneration Committee and a table reporting attendance at Committee meetings is provided in the Directors' Report.

(ii) Audit, Compliance and Risk Management Committee

The Audit, Compliance and Risk Management Committee reviews and makes recommendations to the Board in relation to the following functions for the Group:

- legal compliance;
- implementation of legal practice management systems;
- financial reporting;
- internal control structure and internal audit;
- external audit;
- trust account audit;
- risk management; and
- treasury management.

In discharging its role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The Audit, Compliance and Risk Management Committee is comprised of four independent, Non-Executive Directors: Ian Court (Chair), Erica Lane, John Skippen and Rhonda O'Donnell. The Executive Directors, Chief Financial Officer and Company Secretary and external auditor also routinely attend the Committee meetings. A profile of the members of the committee and a table reporting attendance at the Committee meetings is provided in the Directors' Report.

Removal and Rotation of Directors

The Company's Constitution specifies that one-third of the Board, excluding the Managing Director, must retire from office and stand for re-election at each Annual General Meeting. Further, each Director, excluding the Managing Director, must stand for re-election at least every three years. Directors may be appointed by the Board during the year. Directors appointed by the Board are required to submit themselves for re-election at the next Annual General Meeting.

The processes and policies for the removal, appointment and re-appointment of Directors are set out in the Corporate Governance Policy.

Review of Board Performance

The Board reviews the performance of the Board and the Board Committees annually. The objective of the evaluation is to contribute to the ongoing development of the Board, the Committees, individual Directors and the overall corporate governance framework.

Performance evaluation is conducted using a combination of internally and externally facilitated review as deemed appropriate by the Chair to meet the Board's commitment to high standards of corporate governance.

Review of Performance and Remuneration for Key Management Personnel

Key management personnel participate in the annual performance review process which applies to all Slater and Gordon employees. This process involves the establishment of annual performance targets and review of achievement of prior year targets. The process also involves assessment of remuneration. The Nomination and Remuneration Committee reviews the performance evaluation process and remuneration of the key management personnel of the Slater and Gordon Group and reports to the Board.

The performance of the Managing Director is reviewed annually by the Board. The Managing Director is assessed on achievement of the Slater and Gordon Group's Strategic Plan applicable to the year in review. The remuneration of the Managing Director is reviewed annually and is tied to the Company achieving its stated financial goals and other goals.

During the reporting period, an annual performance review of key management personnel and the Managing Director was conducted in accordance with the performance review process described above.

Corporate Governance Statement continued

Executive remuneration is made up of a balance between fixed and performance-based pay. The Board applies the following principles in reviewing key management personnel remuneration:

- fixed remuneration is based on what is considered by the Board to be reasonable and fair compensation taking into account the core performance requirements of the role and business and market conditions;
- performance-based remuneration is linked to clear performance targets that are a balance of individual and Company performance targets linked to achievement of the Strategic Plan;
- in prior financial years, equity-based remuneration has been considered for key management personnel under the Employee Ownership Plan (EOP). No new allocations were made under this plan during the financial year and no key management personnel had rights under the EOP linked to performance of FY14 targets. A new Equity Incentive Scheme will be put to shareholders for approval at the 2014 Annual General Meeting and it is anticipated that performance rights will be offered to key management personnel dependent on performance against FY15 performance targets based on the Company achieving its stated financial goals;
- Directors and employees are in general not permitted to enter into hedging arrangements in relation to equity granted under equity incentive schemes. The Board does retain discretion to allow this to occur in limited circumstances to protect the financial position of an employee who has a full recourse loan owing to the Company for the issue price of shares under the EOP. These loans are all due and payable by 2018; and
- Executives are not provided with any contractual termination payments other than reasonable notice periods for termination, recognising seniority and length of tenure.

Non-Executive Director remuneration is based on fixed Director fees and superannuation contributions. Non-Executive Directors are paid additional fees for chairing committees and membership of a second committee. Non-Executive Directors do not receive any equity-based remuneration, nor any other performance-based remuneration or retirement benefits other than superannuation.

Further details about the policies and procedures for the remuneration of Directors and other key management personnel are set out in the Remuneration Report and the Corporate Governance Policy.

Succession Planning

The Board plans succession of the Board, the Managing Director and other key management personnel in conjunction with the Nomination and Remuneration Committee. Succession planning for key management personnel was reviewed during the reporting period as part of the organisational planning for the Strategic Plan reviewed at the Board Retreat in May 2014.

Relationship with Management

Ultimate responsibility for the management and control of the Company is vested in the Directors, who may then delegate their powers to management.

Broadly, the Board reserves to itself the following decisions:

- appointment, performance management, remuneration and succession planning of Managing Director and other key management personnel;
- appointment and remuneration of Non-Executive Directors and Board composition and Board succession planning;
- approval of strategy and budget for the Slater and Gordon Group;
- approval of material capital expenditure and acquisitions;

- approval of the publication of reports and statements to shareholders;
- issuing securities; and
- approval of corporate policies, management systems and material settings within policy frameworks.

The Legal Practitioner Directors retain responsibility under the Australian legal professional regulatory framework for maintaining appropriate management systems for a legal practice.

Beyond the matters identified above, the Board delegates to the Managing Director all authority to achieve the corporate objectives as set out in the Strategic Plan. The Managing Director then delegates the achievement of specific corporate objectives and strategies to members of the Senior Executive Management team. In exercising this delegated authority, the Managing Director and other Senior Executives are bound, like all employees of Slater and Gordon, by the Code of Conduct which demands professionalism and integrity in conduct and decision-making. The functions and authority delegated by the Board to the Managing Director are set out in the Corporate Governance Policy.

Independent Advice

Directors have the right to seek independent professional advice in connection with their duties and responsibilities, at the Company's expense. Directors also have access to any employees, Company advisers, records and information they may require to carry out their duties.

Conflicts of Interest

Directors, key management personnel and Senior Executives are required to disclose to the Board any matters in which they may have a personal interest or a potential conflict of interest with the Company.

All Directors have entered into written undertakings to supply the Company with all information necessary for the Company to disclose details of Directors' interests in the Company's securities in accordance with the Listing Rules of the ASX. Directors are required to review their interests at each Board meeting.

Further details about the policies and procedures attached to conflicts of interest are set out in the Corporate Governance Policy.

External Auditor

The Company's auditor is appointed by the Board, based upon a recommendation from the Audit, Compliance and Risk Management Committee. The Committee monitors and reviews the activities of the Company's auditor, including scope and quality of the audit and independence. The Company's auditor, Pitcher Partners (PP) has committed to assist the Audit, Compliance and Risk Management Committee to review the quality of its work and its independence. To this end:

- PP provides a half-yearly declaration of independence for review by the Audit, Compliance and Risk Management Committee;
- The PP independence letter outlines the services to be performed. This enables the Audit, Compliance and Risk Management Committee to provide written approval for any non-audit services to the Board; and
- The Audit, Compliance and Risk Management Committee regularly reports to the Board on these matters.

In accordance with the Corporations Law the audit signing partner will rotate after no more than five years.

Audit Partner Matthew Pringle completed his fifth audit year at the end of the 2014 financial year and rotates off the audit from 1 July 2014.

The external auditor attends and will be available at the Annual General Meeting to answer questions relevant to the conduct of the audit and preparation of the Audit Report and received in writing by the Company five days prior to the meeting.

Internal Audit

Internal audit activity is conducted routinely in relation to compliance with internal Slater and Gordon practice standards and the effectiveness of internal financial controls.

Routine internal audit of compliance with Slater and Gordon practice standards is coordinated by the Professional Standards and Risk team and conducted by senior lawyers in each of the practice areas. This involves an audit of a material file sample across the business and reporting to the Audit Compliance and Risk Management Committee. Practice improvement plans are developed and implemented by the management team based on these audit results. Practice standards internal audits have been conducted annually from 2009–12. During 2013, the Professional Standards and Risk team revised the program and prepared the foundation for the future Group internal audit function and the next practice standards internal audit will be conducted in October 2014.

Consultants, Protiviti were engaged during FY14 to assist management to conduct internal reviews of key internal financial controls, information technology controls and the Corporate Governance structure and policy framework.

Share Trading Policy

In addition to restrictions prescribed in the Corporations Law, the Company has a Share Trading Policy which:

- prohibits Directors from trading at any time in the Company's securities without first notifying the Chair and Company Secretary;

- prohibits Directors and other designated persons at Slater and Gordon from trading in the Company's securities within closed and prohibited periods and only permits trade within the following windows:

- within the six-week periods commencing 24 hours after the Company has released its half-year and full-year results.
- within the period commencing 24 hours after the Company lodges its Annual Report with the ASX through to one month after the Company's AGM.

Directors and employees are in general not permitted to enter into hedging arrangements in relation to equity granted under equity incentive schemes. The Board does retain discretion to allow this to occur in limited circumstances to protect the financial position of an employee who has a full recourse loan owing to the Company for the issue price of shares under the Employee Ownership Plan. These loans are all due and payable by 2018.

The Share Trading Policy is available at: www.slatergordon.com.au/the-firm/governance

Continuous Disclosure and Market Communications

The Company has established a written policy designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a Senior Executive level for that compliance.

The Company is committed to providing effective communication to its shareholders. The Company publishes presentations by the Managing Director to institutional investors and market analysts through the ASX Announcements Platform and on the Company website, contemporaneously with the scheduled presentation. These presentations to institutional investors and market analysts are routinely

Corporate Governance Statement continued

held immediately after the release of the Company's half- and full-year financial results and at various other opportunities throughout the year.

The Company's Disclosure and Market Communications Policy is available at:

www.slatergordon.com.au/the-firm/governance

Ethical Standards

All Directors, Senior Executives and employees are bound by the Slater and Gordon Code of Conduct, which is available at:

www.slatergordon.com.au/the-firm/governance

This sets out the standards of ethical behaviour required. The Code of Conduct also contains the Company's Whistleblower Policy which actively encourages employees to bring any problems to the attention of designated persons if that person suspects or becomes aware of unethical, improper or unlawful conduct.

The Company also has in place policies covering equal employment opportunity, discrimination, harassment, confidentiality, privacy and employee health and safety.

Diversity

The Board has adopted the following measurable objectives for achieving gender diversity and reports against these targets for FY14 as follows:

Category	Target	Performance 30 June 2014
% women on the Board	50%	33%
% women Non-Executive Directors	50%	50%
% women on Group Executive	50%	20%
% women on Australian Executive	50%	44%
% women on UK Executive	50%	37%
% women employees	Nil target set	72%

From 1 July 2014, the percentage of women on the Group Executive is 44% due to an expansion in the membership of that Group.

Further details of diversity objectives and initiatives are set out in the Slater and Gordon Diversity Policy available at:

www.slatergordon.com.au/the-firm/governance

Board Education and Continuing Professional Development

The Board is committed to ensuring new Directors are adequately educated on the Company's operations. New Directors are provided with an induction program and briefing pack upon commencement which provides a comprehensive introduction to Slater and Gordon's business, industry, regulatory context and governance structures.

Slater and Gordon encourages Directors to undertake Continuing Professional Development (CPD) of 10 hours per year and makes available an annual financial contribution to external CPD activities.

Risk Management

The Company has established a process for the identification and management of material business risks. Under the Risk Management Policy responsibility is allocated to the Board, the Audit,

Compliance and Risk Management Committee, the Managing Director and the broader management team to monitor the key business risks and implement agreed risk management controls and strategies.

The reporting and review under this framework is as follows:

- The Board requires the Head of Professional Standards and Risk to report annually to the Board on the implementation of risk management controls and strategies;
- The Audit, Compliance and Risk Management Committee reviews the Company's risk profile quarterly, checks that management is effectively implementing the agreed controls and strategies and recommends any changes or issues warranting further action to the Board; and
- The Board considers the material business risks faced by the Company and the Risk Management Framework annually as part of the review of the Strategic Plan.

By the processes outlined above, the Board satisfies itself that management has developed and implemented a sound system of risk management and internal control.

The Board has also received separate assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with Section 295A of the Corporations Act (which states that the financial records have been appropriately maintained, the financial statements comply with the accounting standards and that the financial statements provide a true and fair view of the financial performance of the Company) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Risk Management Policy is available at:

www.slatergordon.com.au/the-firm/governance

ASX Corporate Governance Council Recommendations

A table setting out the Company's compliance with the ASX Corporate Governance Principles and Recommendations (ASX CGPR) (2nd edition) is set out below.

From June 2014, the Board commenced a process of reviewing all corporate governance policies to prepare for reporting in FY15 against the third edition of the ASX CGPR and all required policies are in place to enable the Company to comply with ASX CGPR (3rd edition) for reporting in FY15.

ASX Principle		Compliance/comment
Principle 1	Lay solid foundations for management and oversight	
1.1	Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions.	Complies
1.2	Companies should disclose the process of evaluating the performance of Senior Executives.	Complies
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies
Principle 2	Structure the Board to add value	
2.1	A majority of the Board should be independent Directors.	Complies
2.2	The Chair should be an independent Director.	Complies
2.3	The roles of Chair and Executive Officer should not be exercised by the same individual.	Complies
2.4	The Board should establish a Nomination Committee.	Complies
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	Complies
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies
Principle 3	Promote ethical and responsible decision-making	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Complies
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Complies
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the Diversity Policy and progress towards achieving them.	Complies
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in Senior Executive positions and women on the Board.	Complies
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Complies

Corporate Governance Statement continued

ASX Principle		Compliance/comment
Principle 4	Safeguard integrity in financial reporting	
4.1	The Board should establish an Audit Committee.	Complies
4.2	The Audit Committee should be structured so that it: • consists only of Non-Executive Directors; • consists of a majority of independent Directors; • is chaired by an independent Chair who is not Chair of the Board; and • has at least three members.	Complies
4.3	The Audit Committee should have a formal charter.	Complies
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Complies
Principle 5	Make timely and balanced disclosure	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at Senior Executive level for that compliance and disclose those policies or a summary of those policies.	Complies
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Complies
Principle 6	Respect the rights of shareholders	
6.1	Companies should design a Communications Policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complies
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies
Principle 7	Recognise and manage risk	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complies
Principle 8	Remunerate fairly and responsibly	
8.1	The Board should establish a Remuneration Committee.	Complies
8.2	The Remuneration Committee should be structured so that it: • consists of a majority of independent Directors; • is chaired by an independent Chair; and • has at least three members.	Complies
8.3	Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.	Complies
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complies

Board of Directors and Company Secretary



John Skippen
Chair, Non-Executive Director
ACA

Experience

John has been on the Board since 2010 and has been Chair of the Board since 2012.

John has over 30 years' experience as a chartered accountant and was the former Executive Finance Director of Harvey Norman Holdings Ltd. John brings to the Board extensive financial, public company and retail experience and skills in financial management, general management, mergers and acquisitions, taxation, advertising, property and strategy.

Other Current Directorships

Non-Executive Director of Flexigroup Limited (appointed November 2006).

Non-Executive Director of Super Retail Group Ltd (appointed September 2008).

Non-Executive Director of Emerging Leaders Investment Ltd (appointed October 2010).

Former Directorships

Non-Executive Director of Briscoe Group Limited (NZ) (2004-2011).

Non-Executive Director of Mint Wireless Limited (2007-2008).



Andrew Grech
Group Managing Director
LLB MAICD

Experience

Andrew was appointed Director of the Company in June 2001.

Andrew joined Slater and Gordon in 1994 and has worked as a lawyer in most areas of its litigation practice. As Managing Director Andrew has been at the forefront of the successful acquisition and integration of more than 30 law firms in Australia. Since the acquisition of Russell Jones & Walker in the United Kingdom (UK) in April 2012, Andrew has been integral to Slater and Gordon's UK expansion.

Other Current Directorships

Member of the Board of the Youth Junction Inc.

Other Positions

Previous founding chair of the Youth Junction Inc, a not for profit youth charity operating in Sunshine, Victoria.

Member of the Advisory Council of the Melbourne Law School.



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

Experience

Erica joined the Board of the Company in 2008.

Erica has extensive experience as a senior executive and non-executive director in international and local industries. She has deep and varied commercial expertise with a strong bias towards strategy, financial performance and change management in complex environments. In addition to Board appointments, Erica consults in the public and private sectors at CEO and Board level on a range of strategic and business performance issues. Specific industry experience includes banking, insurance, capital markets, funds management, professional services and healthcare in public and private sectors. Prior to her business career, Erica practised as a medical microbiologist and immunologist.

Other Current Directorships

Wilsons Investment Management HTM (ASX: WIG).

Former Directorships

Non-executive director and Chair of Nomination and Remuneration.

Committee of Victorian Funds Management Corporation.

Non-executive director and Chair of IT Committee of Eastern Health.

Non-executive director of Ilhan Food Allergy Foundation.

Other Positions

Previously held several senior executive roles with ANZ Bank in Group finance and as GM Insurance and Trustees.

Other previous executive roles include Booz Allen & Hamilton, Arthur Andersen, Unisys and Royal Children's Hospital.

Special Responsibilities

Chair – Nomination and Remuneration Committee.

Board of Directors and Company Secretary continued



Ian Court
Non-Executive Director
FAICD

Experience

Ian has extensive experience as a senior executive and non-executive director in a diverse range of companies and industry sectors, including financial services, unlisted infrastructure, private equity and the property sector. Ian brings to the Board expertise and skills in finance, financial markets, business strategy, human resources, risk management and corporate governance. 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).

Other Current Directorships

Non-Executive Director of AssetCo Management Pty Ltd as PPP management company for SSSR Holdings Pty Ltd (Southern Cross Station), Praeco Pty Ltd (HQ Joint Operations Command), Western Liberty Group Holdings Pty Ltd (Perth District Court Complex). He also holds pro-bono positions as Chair of ACTU Member Connect Pty Ltd and Chair of Renewable Energy Development Trust.

Former Directorships

Non-Executive Director of 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 and ISPT Pty Ltd.

Other Positions

Chair of the IFM Investors Investor Advisory Board.

Special Responsibilities

Chair – Audit, Compliance and Risk Management.



Ken Fowlie
Executive Director
and Head of Australia
LLB BCom (NSW) MSc (with
distinction) (LBS) MAICD

Experience

Ken was appointed a Director of the Company in 2003.

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 brings to the Board a unique operational perspective in several of the Group's key strategic areas. As a legal practitioner with close to 20 years' experience and qualifications and a strong interest in economics and business management, Ken contributes skills in legal practice, legal practice management, risk management, financial analysis, financial reporting and mergers and acquisitions. Ken was appointed Head of Australia in July 2013, and is responsible for the overall management of the Slater and Gordon Australian operations.



Rhonda O'Donnell
Non-Executive Director
M App Sc, MBA (Melbourne)

Experience

Rhonda joined the Board of the Company in 2013.

Rhonda has extensive experience in international and local industries including telecommunications, information technology, education, government and utilities. Rhonda has been a successful executive and board member in both the private and public sectors. Rhonda has received several industry achievements including the award for the Victorian Telstra Business Woman of the Year in 1999.

Other Current Directorships

Non-executive director, RMIT Vietnam.
Non-executive director, RMIT Training.

Former Directorships

Managing Director, Cambridge Technology Partners.

Managing Director, Global Customer Solutions (GCS) (a subsidiary of TXU (now TRU)).

Other Positions

Current Member, RMIT Council.
Current Member, Advisory Board DB Results.
Current Chairman, Insync Surveys.
Previous Chairman and President, Novell Asia Pacific.
Previous Chairman, Victorian Government Purchasing Board.



Wayne Brown

Chief Financial Officer and Joint
Company Secretary
*BCom (Hons), M Int Bus (Melbourne),
CA MAICD*

Experience

Wayne commenced as Chief Financial Officer and Company Secretary of Slater and Gordon in 2004. Prior to joining Slater and Gordon, Wayne was the financial controller of Grand Hotel Group (an ASX listed property trust) and prior to that, Wayne worked at Arthur Andersen for ten years where he specialised in corporate recovery, insolvency and restructuring. Wayne contributes skills in corporate governance, financial management, analysis and reporting.



Kirsten Morrison

General Counsel and Joint Company
Secretary
BA/LLB (Hons)

Experience

Kirsten commenced as a commercial litigator with Slater and Gordon in 2006 and then as General Counsel and Company Secretary in 2008. Prior to joining Slater and 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.

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

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 2014 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 – Chair
- Andrew Grech – Managing Director
- Ian Court
- Ken Fowlie
- Erica Lane
- Rhonda O'Donnell

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 \$61.1 million (2013: \$41.5 million).

Review of operations

The Group continued to deliver strong financial results in the year ending 30 June 2014, at the same time making solid progress against key strategic priorities in particular the expansion of its UK operations.

The Group ended the year with total revenue of \$418.5 million (2013: \$298.0 million) and net profit after tax of \$61.1 million (2013: \$41.5 million). The full year dividend was up 21.2% over the prior year to 8.0 cents per share fully franked (2013: 6.6 cents). The cash profile of the Group improved during the current year with cash flow from operations of \$54.4 million, representing 89.1% of net profit after tax.

A new multi-currency funding agreement has been entered into with the Group's financiers to provide future funding flexibility for continued growth of the Group. The expansion into the UK continued to progress well during the year with the acquisition of Goodmans Law, the personal injury ("PI") practice of Taylor Vinters LLP, Fentons Solicitors LLP, John Pickering & Partners LLP, the PI practice of Chadwick Lawrence LLP and the consumer law business of Pannone Solicitors LLP. The UK ended the financial period with total revenue of \$182.5 million (2013: \$70.5 million) and net profit after tax of \$27.5 million (2013: \$7.2 million).

Significant changes in the state of affairs

Other than the UK acquisitions during the course of the year (refer to Note 31), there have been no significant changes in the state of affairs of the Group that require disclosure in this report.

Events subsequent to reporting date

Subsequent to the reporting date, the Group announced its intention to purchase the following businesses:

- Schultz Toomey O'Brien, a consumer law firm based in Queensland, with an indicative completion date in November 2014.
- Nowicki Carbone, a specialist personal injuries practice in Victoria, with an indicative completion date in November 2014.

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

Dividends paid, recommended and declared

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

	2014	2013
	\$'000	\$'000
<i>Dividends on ordinary shares</i>		
Interim franked dividend at the tax rate of 30% for 2014: 3.00 cents per share (2013: 2.75 cents per share)	6,115	4,681
Final franked dividend at the tax rate of 30% for 2013: 3.85 cents per share (2012: 3.50 cents per share)	7,655	5,966
	13,770	10,647

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 \$10,217,000 (5.0 cents per share) to be paid on 24 October 2014 out of retained earnings at 30 June 2014.

Dividend reinvestment plan

On 27 February 2013, the Company announced the introduction of a Dividend Reinvestment Plan ("DRP") to allow eligible shareholders to reinvest their dividends in further Company shares. The DRP was active for the final dividend declared for the financial year ending on 30 June 2013 and the interim dividend declared for the financial year ending on 30 June 2014. Under the DRP 428,725 shares were issued for the 2013 final dividend at \$3.70 per share and 517,083 shares were issued for the 2014 interim dividend at \$4.40 per share.

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 \$55,000 (2013: \$42,500) 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.

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

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

Experience

John has been on the Board since 2010 and has been Chair of the Board since 2012.

John has over 30 years' experience as a chartered accountant and was the former Executive Finance Director of Harvey Norman Holdings Ltd. John brings to the Board extensive financial, public company and retail experience and skills in financial management, general management, mergers and acquisitions, taxation, advertising, property and strategy.

Other current directorships

Non-Executive Director of Flexigroup Limited (appointed November 2006)
Non-Executive Director of Super Retail Group Ltd (appointed September 2008)
Non-Executive Director of Emerging Leaders Investment Ltd (appointed October 2010)

Former directorships

Non-Executive Director of Briscoe Group Limited (NZ) (2004-2011)
Non-Executive Director of Mint Wireless Limited (2007-2008)

Andrew Grech
LLB MAICD
Managing Director

Experience

Andrew was appointed Director of the Company in June 2001.

Andrew joined Slater & Gordon in 1994 and has worked as a lawyer in most areas of its litigation practice. As Managing Director Andrew has been at the forefront of the successful acquisition and integration of more than 30 law firms in Australia. Since the acquisition of Russell Jones & Walker in the United Kingdom in April 2012, Andrew has been integral to Slater & Gordon's UK expansion.

Other current directorships

Member of the Board of the Youth Junction Inc

Former directorships

None

Other positions

Previous founding chair of the Youth Junction Inc, a not for profit youth charity operating in Sunshine, Victoria
Member of the Advisory Council of the Melbourne Law School

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

Ken Fowlie
 LLB BCom (NSW) MSc (with
 distinction) (LBS)
 MAICD
 Executive Director

Experience

Ken was appointed a Director of the Company in 2003.

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 brings to the Board a unique operational perspective in several of the Group's key strategic areas. As a legal practitioner with close to 20 years' experience and qualifications and a strong interest in economics and business management, Ken contributes skills in legal practice, legal practice management, risk management, financial analysis, financial reporting and mergers and acquisitions. Ken was appointed Head of Australia in July 2013, and is responsible for the overall management of the Slater & Gordon Australian operation.

Other current directorships

None

Former directorships

None

Ian Court
 FAICD
 Non-executive Director

Experience

Ian has extensive experience as a senior executive and non-executive director in a diverse range of companies and industry sectors, including financial services, unlisted infrastructure, private equity and the property sector. Ian brings to the Board expertise and skills in finance, financial markets, business strategy, human resources, risk management and corporate governance. 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).

Other current directorships

Non-Executive Director of AssetCo Management Pty Ltd as PPP management company for SSSR Holdings Pty Ltd (Southern Cross Station), Praeco Pty Ltd (HQ Joint Operations Command), Western Liberty Group Holdings Pty Ltd (Perth District Court Complex). He also holds pro-bono positions as Chair of ACTU Member Connect Pty Ltd and Chair of Renewable Energy Development Trust

Former directorships

Non-Executive Director of 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 and ISPT Pty Ltd

Other positions

Chair of the IFM Investors Investor Advisory Board

Special responsibilities

Chair – Audit, Compliance and Risk Management

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

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

Experience

Erica joined the Board of the Company in 2008.

Erica has extensive experience as a senior executive and non-executive director in international and local industries. She has deep and varied commercial expertise with a strong bias towards strategy, financial performance and change management in complex environments. In addition to Board appointments, Erica consults in the public and private sectors at CEO and Board level on a range of strategic and business performance issues. Specific industry experience includes banking, insurance, capital markets, funds management, professional services and healthcare in public and private sectors. Prior to her business career, Erica practised as a medical microbiologist and immunologist.

Other current directorships

Wilsons Investment Management HTM (ASX: WIG)

Former directorships

Non-executive director and Chair of Nomination and Remuneration

Committee of Victorian Funds Management Corporation

Non-executive director and Chair of IT Committee of Eastern Health

Non-executive director of Ilhan Food Allergy Foundation

Other positions

Previously held several senior executive roles with ANZ Bank in Group finance and as GM Insurance and Trustees.

Other previous executive roles include Booz Allen & Hamilton, Arthur Andersen, Unisys and Royal Children's Hospital

Special responsibilities

Chair – Nomination and Remuneration Committee

Rhonda O'Donnell
 M App Sc, MBA (Melbourne)
 Non-executive Director

Experience

Rhonda joined the Board of the Company in 2013.

Rhonda has extensive experience in international and local industries including telecommunications, information technology, education, government and utilities. Rhonda has been a successful executive and board member in both the private and public sectors. Rhonda has received several industry achievements including the award for the Victorian Telstra Business Woman of the Year in 1999.

Other current directorships

Non- executive director, RMIT Vietnam

Non-executive director, RMIT Training

Former directorships

Managing Director, Cambridge Technology Partners

Managing Director, Global Customer Solutions (GCS) (a subsidiary of TXU (now TRU))

Other positions

Current Member, RMIT Council

Current Member, Advisory Board DB Results

Current Chairman, Insync Surveys

Previous Chairman and President, Novell Asia Pacific

Previous Chairman, Victorian Government Purchasing Board

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Wayne Brown
BCom (Hons), M Int Bus
(Melbourne), CA MAICD
Chief Financial Officer and Joint
Company Secretary

Experience

Wayne commenced as Chief Financial Officer and Company Secretary of Slater & Gordon in 2004. Prior to joining Slater & Gordon, Wayne was the financial controller of Grand Hotel Group (an ASX listed property trust) and prior to that, Wayne worked at Arthur Andersen for ten years where he specialised in corporate recovery, insolvency and restructuring. Wayne contributes skills in corporate governance, financial management, analysis and reporting.

Kirsten Morrison
BA/LLB (Hons)
General Counsel and Joint
Company Secretary

Experience

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.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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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 and Risk Management Committee		Nomination and Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
A Grech	9	9	-	-	-	-
I Court	9	9	5	5	1	1
K Fowlie	9	9	-	-	-	-
E Lane	9	8	5	4	5	5
J Skippen	9	9	5	5	5	5
R O'Donnell	9	8	5	5	5	5

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	5,395,495
I Court	29,882
K Fowlie	5,096,221
E Lane	150,000
J Skippen	-
R O'Donnell	-

Directors' interests in contracts

Directors' interests in contracts are disclosed in Note 29 to the financial statements.

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:

	2014 \$'000	2013 \$'000
Due diligence investigations		
- Pitcher Partners	16	28
Total remuneration for due diligence investigations	16	28
IT review		
- Pitcher Partners	5	29
Total remuneration for IT review	5	29
Total remuneration for non-audit services	21	57

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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AUDITED 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.

Directors and key management personnel disclosed in this report

<i>Non-executive Directors</i>	
John Skippen	Chair, Non-Executive Director
Ian Court	Chair, Audit, Compliance and Risk Management Committee, Non-Executive Director
Erica Lane	Chair, Nomination and Remuneration Committee, Non-Executive Director
Rhonda O'Donnell	Non-Executive Director
<i>Executive Directors</i>	
Andrew Grech	Managing Director
Ken Fowle	Head of Australia and Executive Director
<i>Other Key Management Personnel</i>	
Wayne Brown	Group Chief Financial Officer
Neil Kinsella	Head of United Kingdom
Hayden Stephens	Chief Executive Officer of Personal Injury, Australia
Cath Evans	Chief Executive Officer, United Kingdom

For the purposes of this Report the term “executive” means the Executive Directors, the Group Chief Financial Officer, the Head of United Kingdom, the Chief Executive Officer of Personal Injury Australia and the Chief Executive Officer of United Kingdom.

Role of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the board on:

- Non-executive director fees;
- Remuneration levels of executive directors and other key management personnel;
- The executive remuneration policy including short-term and long-term incentive programs;
- Setting performance conditions for key management personnel; and
- Evaluating performance and assessing grants and entitlements under incentive programs for key management personnel.

The Committee performs this role consistent with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality, high performing Board and executive team.

The Committee consults with external remuneration consultants as required to ensure that executive remuneration and rewards are market competitive and that the executive reward strategy and structure reflects contemporary practice.

Overview of remuneration strategy and policy

The Board is committed to achieving sustainable long-term growth and returns for investors. Achieving this objective depends on attracting, motivating, developing and retaining highly skilled directors and executives and aligning their interests with those of the shareholders.

The Board ensures that key management personnel remuneration is:

- Competitive and reasonable;
- Aligned to shareholder interests;
- A strong driver of executive performance;
- Transparent; and
- Sustainable.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Non-executive directors

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

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 \$650,000. 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 remuneration paid to non-executive directors of comparable companies is also taken into account when undertaking the annual review process.

During the year ended 30 June 2014, the remuneration of non-executive directors was set for the position of Chair of the Board at \$150,000 and for a director at \$85,000. An additional fee of \$10,000 was paid for any director who acts as Chair of a Board sub-committee. An additional fee of \$5,000 per sub-committee was paid for any director who acts as a member of a second Board sub-committee. These additional fees do not apply to the Chair. The payment of the additional fees for being the Chair or a member of a second 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.

Non-executive director remuneration

2014	Salary/Fees	Superannuation	Total	Non-monetary benefit	Total remuneration
John Skippen	\$137,324	\$12,702	\$150,026	-	\$150,026
Ian Court	\$72,442	\$23,976	\$96,418	-	\$96,418
Erica Lane	\$91,549	\$8,468	\$100,017	-	\$100,017
Rhonda O'Donnell	\$82,465	\$7,628	\$90,093	-	\$90,093
	\$383,780	\$52,774	\$436,554	-	\$436,554

2013

	Salary/Fees	Superannuation	Total	Non-monetary benefit	Total remuneration
John Skippen	\$139,120	\$12,521	\$151,641	-	\$151,641
Ian Court	\$85,066	\$10,372	\$95,438	-	\$95,438
Erica Lane	\$92,234	\$8,301	\$100,535	-	\$100,535
Rhonda O'Donnell ⁽¹⁾	\$26,094	\$2,348	\$28,442	-	\$28,442
	\$342,514	\$33,542	\$376,056	-	\$376,056

⁽¹⁾ Rhonda O'Donnell was appointed as a director on 7 March 2013

Executive remuneration

The executive remuneration framework:

- Provides fair and competitive rewards to attract high calibre executives;
- Rewards capability and experience;
- Provides recognition for contribution;
- Links executive rewards to the creation of sustainable shareholder value;
- Makes a material portion of executive remuneration 'at risk';
- Establishes appropriate, demanding performance hurdles for variable executive remuneration that drive performance and are aligned to shareholder interests;
- Provides long term incentives and rewards for performance through the Employee Ownership Plan ("EOP"); and
- Provides a clear structure for earning rewards.

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Executive remuneration (continued)

Structure

Executive remuneration is structured in the following three categories:

ELEMENT	POLICY	SHAREHOLDER INTERESTS
Fixed remuneration	Fixed remuneration and superannuation contributions as specified in an executive's contract of employment. 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. 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.	Market positioned.
Variable- Short-term Incentive ("STI")	Included in contracts for executives. A Balanced Scorecard approach to 'at risk' remuneration is adopted. The Scorecard of objectives for each KMP is developed from the Company's strategic and operational objectives. The Scorecard is divided into three performance based elements: 1. Financial and Operational performance. Financial performance for KMP is based on Group/Australia/United Kingdom financial performance (including Earnings before interest, tax, depreciation and amortisation ("EBITDA"), EBITDA margin, Cashflow from operations, fee and cost budgets). Operational performance is based on the delivery of key elements of the strategy of the Group/Australia/United Kingdom; 2. People and Culture. These objectives typically relate to organisational planning and people development for the Group/Australia/United Kingdom; 3. Clients and Development. These objectives typically relate to new business generation and business improvement initiatives within the Group/Australia/United Kingdom. The achievement of objectives and the weightings across the categories results in a performance rating. The performance rating and the extent of the achievement of Group/Australia/United Kingdom financial performance determines the payment of STI at target levels which range from 20% to 100%. Maximum STI is paid in circumstances where objectives are significantly exceeded. For senior executives the target for at risk remuneration is 35% of total remuneration. 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. Policies defining setting and payment of variable STI for KMP are reviewed and approved by the Nomination and Remuneration Committee.	Incentive to achieve high Group and individual performance. Objectives align with shareholder interests.

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Executive remuneration (continued)

ELEMENT	POLICY	SHAREHOLDER INTERESTS
	In addition, the Committee reviews the setting and payment of STI at an individual level for selected senior executives. The KMP who may be eligible to a cash performance bonus with a combined total of up to \$842,855 (2013: \$464,608) in respect of the year ended 30 June 2014 are Andrew Grech, Ken Fowlie, Wayne Brown, Cath Evans, Neil Kinsella and Hayden Stephens. The estimated bonuses due to KMP for the year ended 30 June 2014 is \$598,570 (2013: \$357,304). The entitlement to these bonuses has been based on the performance assessment of the KMP in accordance with the balanced scorecard for the financial year.	
Variable Long-term incentive ("LTI")	The existing Employee Ownership Plan ("EOP") provided an opportunity for senior employees to build a shareholding in the Company over time. The EOP served as an incentive and reward for longer term performance and a retention strategy for key employees. The EOP provided for the issue of Vesting Convertible Redeemable Ordinary Shares ("VCR shares") to participants in a number of tranches and for the Company to make a loan to participants equal to the total amount subscribed. The EOP provided for KMP to be offered from one to several allocations of VCR shares over their career with the Group. Further details of the EOP are set out in Note 27 to the financial statements. During the reporting period the decision was taken to make no further issues under the EOP, pending the consideration by shareholders at the 2014 Annual General Meeting of the introduction of a new Equity Incentive Scheme. No KMP had shares under the EOP subject to performance criteria in respect of the year ending 30 June 2014. If the new Equity Incentive Scheme is approved by shareholders, performance rights will be allocated to KMP during the financial year ending 30 June 2015.	Measure that aligns executive interests with returns to shareholders. Linked to long-term strategy. Promotes retention.

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Executives' remuneration:

2014	Position	Short term		Post employment	Other long term benefits ⁽³⁾	Share based payments	Other benefits	Total	Total performance related			Total performance related %		
		Salary/ Fees ⁽¹⁾	Cash Bonus ⁽²⁾	Non-monetary	Super				Cash Bonus	Non-Monetary	Share based payments	Cash Bonus	Non-Monetary	Share based payments
A Grech	Managing Director	\$ 502,586	\$ 125,000	\$ 9,574	\$ 22,744	\$ 38,606	\$ -	\$ 698,510	\$ 125,000	\$ -	\$ -	\$ 17.9%	%	%
K Fowlie	Head of Australia	431,772	50,000	-	24,359	13,396	-	519,527	50,000	-	-	9.6%	-	-
W Brown	Chief Financial Officer	337,494	60,000	20,526	17,775	18,554	40,666 ⁽⁴⁾	506,760	60,000	-	11,745	11.8%	-	2.3%
H Stephens	Chief Executive Officer - PI	348,016	50,000	13,867	17,775	6,936	-	436,594	50,000	-	-	11.5%	-	-
N Kinsella	Head of UK	442,850	88,570	-	-	-	-	531,420	88,570	-	-	16.7%	-	-
C Evans	Chief Executive Officer - UK	401,402	225,000	-	25,351	8,141	200,000 ⁽⁵⁾	859,894	225,000	-	-	26.2%	-	-
		2,464,120	598,570	43,967	108,004	85,633	240,666	3,552,705	598,570	-	11,745	16.8%	-	0.3%
2013														
A Grech	Managing Director	\$ 422,230	\$ 112,500	\$ 9,056	\$ 33,380	\$ 21,337	\$ -	\$ 598,503	\$ 112,500	\$ -	\$ -	\$ 18.8%	%	%
K Fowlie	Head of Australia	240,059	- ⁽⁶⁾	-	19,069	5,078	-	264,206	-	-	-	-	-	-
W Brown	Chief Financial Officer	312,546	37,500	19,582	15,863	18,446	40,666 ⁽⁴⁾	465,501	37,500	-	20,898	8.1%	-	4.5%
H Stephens	Chief Executive Officer - PI	357,245	50,000	14,558	16,470	5,778	-	444,051	50,000	-	-	11.3%	-	-
N Kinsella	Head of UK	382,025	57,304	-	-	-	-	439,329	57,304	-	-	13.0%	-	-
C Evans	Chief Executive Officer - UK	396,764	100,000	-	16,470	2,964	195,897 ⁽⁵⁾	712,095	100,000	-	-	14.0%	-	-
		2,110,869	357,304	43,196	101,252	53,603	236,563	2,923,685	357,304	-	20,898	12.2%	-	1.0%

(1) Salary/Fees include salaries paid/payable and movements in annual leave provision.

(2) 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.

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

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

(5) Includes living away from home allowance.

(6) K Fowlie was not eligible to receive a bonus in 2013.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Executive 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 \$550,254 per annum (inclusive of superannuation);
- Mr Grech is also eligible to receive a bonus of up to \$150,000 (2013: \$125,000) for the year ended 30 June 2014, inclusive of superannuation, at the discretion of the board, based on the achievement of certain key performance indicators. The key performance indicators are consistent with the Company's approved business plan and are aligned to delivering sustainable value to shareholders. The indicators are based on the Balanced Scorecard methodology and cover Group operational and financial results and the successful implementation of Group strategic and people development initiatives. A cash bonus of \$112,500 was paid during the year ending 30 June 2014 in respect to the year ended 30 June 2013. For the year ended 30 June 2014 a cash bonus of \$125,000 has been provisionally determined.

Mr Ken Fowlie, an executive director and Head of Australia, 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 \$435,030 per annum (inclusive of superannuation);
- Mr Fowlie is also eligible to receive a bonus of up to \$125,000 (2013: nil) for the year ended 30 June 2014, inclusive of superannuation, based on the achievement of certain key performance indicators. The key performance indicators are consistent with the Company's approved business plan and are aligned to delivering sustainable value to shareholders. The indicators are based on the Balanced Scorecard methodology and cover the operational and financial results of Australia and the successful implementation of Australian strategic and people development initiatives. For the year ended 30 June 2014 a cash bonus of \$50,000 has been provisionally determined.

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);
- 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.

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.
- 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.
- 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).

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Relationship of remuneration to company performance

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

The performance of the group and remuneration paid to KMP over the last five years is summarised in the following table.

	2010	2011	2012	2013	2014	5yr Growth
	\$'000	\$'000	\$'000	\$'000	\$'000	%
Company performance						
Revenue	124,730	182,309	217,704	297,963	418,466	235.5%
Profit before tax	28,854	41,543	36,494	61,341	84,449	192.7%
Profit after tax	19,800	27,908	24,992	41,521	61,105	208.6%
Basic earnings per share (cents)	17.9	19.1	16.2	23.9	30.3	69.3%
Diluted earnings per share (cents)	16.7	18.3	15.7	23.3	29.8	78.4%
Dividends per share - paid during financial year (cents)	5.3	5.2	5.8	6.3	6.9	30.5%
Total dividends paid during financial year	5,778	7,697	8,786	10,647	13,770	138.3%
Share price at 30 June (cents)	1.53	2.30	1.85	2.78	5.16	237.3%
Remuneration paid to Key Management Personnel						
Base salary package	1,475	1,404	1,180	1,493	1,874	27.1%
Short term incentive	68	249	95	150	235	245.6%
Long term incentive	46	86	71	62	52	13.0%
Total	1,589	1,739	1,346	1,705	2,161	36.0%
Total as a % Profit after tax	8.0%	6.2%	5.4%	4.1%	3.5%	(55.9%)

Given that there has been significant change in the definition and composition of "Key Management Personnel" over the five years presented above, the KMP have been defined as the Board (including the Managing Director) plus the Chief Financial Officer in order to have a comparable base line.

Since 2010, earnings per share have increased by 69.3% and the share price has increased by 237.3%.

During the same period, total remuneration paid to specific KMP has grown by 36.0%, whilst base salary has increased by 27.1%.

Remuneration as a percentage of Profit after tax has reduced by 55.9%.

Shareholdings of Key Management Personnel

Shares held in Slater & Gordon Limited (number)

Net movement in share capital 2014

Key Management Personnel ^(a)	Ordinary shares balance at beginning of year	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares balance at end of year
Andrew Grech	5,122,495	173,000	-	5,295,495
Ian Court	29,882	-	-	29,882
Ken Fowlie	5,096,221	-	-	5,096,221
Erica Lane	150,000	-	-	150,000
Wayne Brown	333,674	-	(28,571)	305,103
Neil Kinsella	1,006,339	42,578	(408,249)	640,668
Cath Evans	4,410,476	-	(300,000)	4,110,476
Hayden Stephens	4,705,115	-	(450,000)	4,255,115
Total	20,854,202	215,578	(1,186,820)	19,882,960

There are no key management personnel with unvested VCR shares as at 30 June 2014.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Shareholdings of Key Management Personnel (continued)

Net movement in share capital 2013

Key Management Personnel ^(a)	Ordinary shares balance at beginning of year	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares balance at end of year
Andrew Grech	8,116,613	5,882	(3,000,000)	5,122,495
Ian Court	44,000	5,882	(20,000)	29,882
Ken Fowlie	6,086,221	-	(990,000)	5,096,221
Erica Lane	150,000	-	-	150,000
Wayne Brown	496,000	51,960	(214,286)	333,674
Neil Kinsella	1,011,639	-	(5,300)	1,006,339
Cath Evans	6,050,476	-	(1,640,000)	4,410,476
Hayden Stephens	5,205,115	-	(500,000)	4,705,115
Total	27,160,064	63,724	(6,369,586)	20,854,202

Key Management Personnel ^(a)	VCR shares balance at beginning of year	VCR shares issued	VCR shares vested as Ordinary shares 30 December 2012	VCR shares balance at end of year
Wayne Brown	50,000	-	(50,000)	-
Total	50,000	-	(50,000)	-

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

Balances to Key Management Personnel

Details of aggregate loan 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
	\$	\$	
2014	478,428	244,500	1
2013	478,428	478,428	1

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

30 June 2014	Balance at beginning of year	Balance at end of year	Highest balance during the year
	\$	\$	\$
Wayne Brown	478,428	244,500	478,428
30 June 2013	Balance at beginning of year	Balance at end of year	Highest balance during the year
	\$	\$	\$
Wayne Brown	478,428	478,428	478,428

Terms and Conditions of balances to Key Management Personnel:

The balance at the end of the year due to the Company by Wayne Brown is pursuant to the EOP, the terms and conditions of which are disclosed in Note 27. Notional interest of \$40,666 (2013: \$40,666) for Wayne Brown was not charged on this loan balance.

End of Remuneration Report.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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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
27 August 2014



Andrew Grech
Managing Director

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

In relation to the independent audit for the year ended 30 June 2014, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.



M W PRINGLE
Partner

27 August 2014



PITCHER PARTNERS
Melbourne

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$'000	2013 \$'000
Revenue			
Fee revenue	4	411,813	294,210
Other income	4	6,653	3,753
Total revenue and other income		418,466	297,963
Less Expenses			
Salaries and employee benefit expense		(200,270)	(145,517)
Rental expense		(22,005)	(14,095)
Advertising and marketing expense		(32,786)	(23,775)
Administration and office expense		(36,391)	(25,018)
Consultant fees		(4,928)	(2,580)
Finance costs	5	(8,412)	(7,653)
Bad and doubtful debts	5	(6,904)	(4,531)
Depreciation and amortisation expense	5	(6,955)	(4,973)
Costs associated with acquisitions		(4,054)	(282)
Other expenses		(11,312)	(8,198)
Profit before income tax expense		84,449	61,341
Income tax expense	6	(23,344)	(19,820)
Profit for the year		61,105	41,521
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations	20(b)	5,695	4,519
Changes in fair value of cash flow hedges, net of tax	20(a)	(308)	191
Total items that may be reclassified subsequently to profit or loss		5,387	4,710
Other comprehensive income for the year, net of tax		5,387	4,710
Total comprehensive income for the year		66,492	46,231
Profit for the year attributed to:			
Owners of the Company	21(a)	60,946	41,486
Non-controlling interests	22(a)	159	35
		61,105	41,521
Total comprehensive income for the year attributed to:			
Owners of the Company		66,326	46,192
Non-controlling interests		166	39
		66,492	46,231
Basic earnings per share (cents)	25	30.3 cents	23.9 cents
Diluted earnings per share (cents)	25	29.8 cents	23.3 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 2014

	Note	2014 \$'000	2013 \$'000
Current assets			
Cash and cash equivalents	8	25,270	20,056
Receivables	9	229,368	130,499
Work in progress	10	470,609	299,859
Other current assets	11	12,403	9,554
Total current assets		737,650	459,968
Non-current assets			
Plant and equipment	12	12,964	12,219
Work in progress	10	2,730	2,337
Intangible assets	13	130,190	108,296
Other non-current assets	14	11,844	16,108
Total non-current assets		157,728	138,960
Total assets		895,378	598,928
Current liabilities			
Payables	15	194,850	92,003
Short term borrowings	16	9,467	20,103
Current tax liabilities	6	1,960	3,941
Other current liabilities	17	10,103	-
Provisions	18	16,468	13,883
Total current liabilities		232,848	129,930
Non-current liabilities			
Payables	15	19,187	6,238
Long term borrowings	16	116,864	32,032
Deferred tax liabilities	6	97,619	78,015
Derivative financial instruments		1,020	656
Provisions	18	4,760	2,850
Total non-current liabilities		239,450	119,791
Total liabilities		472,298	249,721
Net assets		423,080	349,207
Equity			
Contributed equity	19	233,638	212,373
Reserves	20	9,090	3,710
Retained profits	21	180,139	132,963
Total equity attributable to equity holders in the Company		422,867	349,046
Non-controlling interest	22	213	161
Total equity		423,080	349,207

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 2014

2014:	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 1 July 2013		212,373	132,963	(473)	4,183	349,046	161	349,207
Net Profit after tax for the year		-	60,946	-	-	60,946	159	61,105
Total other comprehensive income for the year	20,22(a)	-	-	(308)	5,688	5,380	7	5,387
Total comprehensive income for the year		-	60,946	(308)	5,688	66,326	166	66,492
Transactions with owners in their capacity as owners								
Ordinary and VCR shares issued (net)	19	21,385	-	-	-	21,385	-	21,385
Dividends paid	7	-	(13,770)	-	-	(13,770)	-	(13,770)
Costs of equity raising	19	(120)	-	-	-	(120)	-	(120)
Equity contribution by non-controlling interest	22(a)	-	-	-	-	-	(114)	(114)
Total transactions with owners in their capacity as owners		21,265	(13,770)	-	-	7,495	(114)	7,381
Balance as at 30 June 2014		233,638	180,139	(781)	9,871	422,867	213	423,080

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 2014

2013:	Note	Contributed Equity \$'000	Retained Earnings \$'000	Hedging Reserve \$'000	Translation Reserve \$'000	Total \$'000	Non- controlling interest \$'000	Total Equity \$'000
Balance as at 1 July 2012		142,181	102,124	(664)	(332)	243,309	71	243,380
Net Profit after tax for the year		-	41,486	-	-	41,486	35	41,521
Total other comprehensive income for the year	20,22(a)	-	-	191	4,515	4,706	4	4,710
Total comprehensive income for the year		-	41,486	191	4,515	46,192	39	46,231
Transactions with owners in their capacity as owners								
Ordinary and VCR shares issued (net)	19	72,253	-	-	-	72,253	-	72,253
Share buy-back	19	(615)	-	-	-	(615)	-	(615)
Dividends paid	7	-	(10,647)	-	-	(10,647)	-	(10,647)
Costs of equity raising	19	(1,446)	-	-	-	(1,446)	-	(1,446)
Equity contribution by non-controlling interest	22(a)	-	-	-	-	-	51	51
Total transactions with owners in their capacity as owners		70,192	(10,647)	-	-	59,545	51	59,596
Balance as at 30 June 2013		212,373	132,963	(473)	4,183	349,046	161	349,207

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 2014

	Note	2014 \$'000	2013 \$'000
Cash flow from operating activities			
Receipts from customers		442,609	324,279
Payments to suppliers and employees		(375,225)	(285,148)
Interest received	4(a)	401	281
Borrowing costs		(5,344)	(6,158)
Income tax paid	6	(8,006)	(537)
Net cash provided by operating activities	23(b)	54,435	32,717
Cash flow from investing activities			
Payment for software development		(1,485)	(1,253)
Payment for plant and equipment		(3,284)	(1,058)
Costs associated with acquisition of businesses		(4,054)	(282)
Payment for acquisition of businesses, net of cash in subsidiaries		(98,464)	(4,876)
Payment for acquisition of businesses - deferred consideration		(18,309)	(11,309)
Net cash used in investing activities		(125,596)	(18,778)
Cash flow from financing activities			
Proceeds from share issue	19	-	66,680
Proceeds from non-controlling interests	22(a)	-	51
Costs of raising equity		(120)	(2,066)
Proceeds from related parties and employees		5,247	4,336
Proceeds from borrowings		154,770	34,439
Repayment of borrowings		(73,695)	(91,835)
Dividends paid		(9,907)	(9,580)
Net cash provided by financing activities		76,295	2,025
Net increase in cash held		5,134	15,964
Effect of exchange rate fluctuations on cash held		80	132
Cash at beginning of financial year		20,056	3,960
Cash at end of financial year	23(a)	25,270	20,056

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 2014

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 Company is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements of the Company as at and for the year ended 30 June 2014 comprise the Company and its controlled entities referred to in Note 30, 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

The consolidated financial report of Slater & Gordon Limited also complies 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) Adoption of new and amended accounting standards

Restatement of comparative amounts

Comparatives have been restated for the adoption of AASB 10 *Consolidated Financial Statements* (effective for financial years commencing on or after 1 January 2013).

The consolidated financial statements are those of the consolidated entity ("the Group"), comprising the financial statements of the parent entity and of all entities the parent controls.

Under AASB 10, the Group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entity to affect the amount of its returns.

The Group has applied AASB 10 retrospectively in accordance with the transition provisions. This has resulted in the inclusion of 'Andrew Grech trading as Slater & Gordon Lawyers' into the consolidated Group for the year ending 30 June 2014. Andrew Grech trading as Slater & Gordon Lawyers is not material to the Group and bringing this entity into the consolidated Group has had the following effect on the comparative results:

	\$'000
Net profit after tax – year ending 30 June 2013	(389)
Net assets – as at 30 June 2013	(314)
Earnings per share (cents) – year ending 30 June 2013	(0.3)

Amendments with no financial impact

Initial application of AASB 11 *Joint Arrangements* and AASB 13 *Fair Value Measurements* have had no financial impact on the Group.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION (Continued)

(c) 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 owners of the Company.

(d) 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 segment 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.

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.

(e) 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.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION (Continued)

(e) Foreign currency translation (continued)

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 a separate component of equity.

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.

(f) 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 ("GST") or UK equivalent value added tax ("VAT").

(g) Taxation

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 for unused tax losses.

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.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION (Continued)

(g) Taxation (continued)

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.

Goods and services tax ("GST") and Value Added Tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of GST/VAT, except where the GST/VAT incurred is not recoverable from the Australian Taxation Office ("ATO") or UK HMRC, 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/VAT.

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

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"), Conveyancing Works (Qld) Pty Limited ("CWQ") and Slater & Gordon Lawyers NSW Pty Limited ("S&G NSW") formed part of the consolidated tax group throughout the financial year. 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.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(h) 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.

(i) 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.

(j) 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.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION (Continued)

(j) Work in progress (continued)

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.

(k) 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.

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	5.00 – 66.67%	Straight Line and 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 sheet 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.

(l) 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.

(m) 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 5-8 years.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION (Continued)

(m) Intangibles (continued)

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.

(n) 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).

(o) 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.

(p) 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.

(q) 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.

(r) Employee benefits

Service benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance sheet 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.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION (Continued)

(r) Employee benefits (continued)

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. Per the policy, the loan has been recorded as a financial instrument as described 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 27.
- 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.

(s) 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.

(t) Financial instruments

Loans and receivables

VCR share loan receivables 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 27 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 is 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 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. 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 that the Group is subject to.

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.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: BASIS OF PREPARATION (Continued)

(t) Financial instruments (continued)

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.

(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 outstanding during the year.

(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) Comparatives

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

(x) 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 may have an impact on the financial statements of the Group are detailed below:

- AASB 9 Financial Instruments

The directors' assessment of the impact of this standard is set out below:

(i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure* and AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* (effective for financial years commencing on or after 1 January 2017)

AASB 9 *Financial Instruments* improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The standard is not applicable until 1 January 2017 but is available for early adoption.

When adopted, the standard may change the classification and measurement of financial assets however the directors have determined it will not have a material impact on the consolidated entity.

The consolidated entity does not have any financial liabilities that are designated at fair value through profit or loss. The new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. Therefore, there will be no impact on the consolidated entity's accounting for financial liabilities.

In December 2013, new general hedge accounting requirements were incorporated into AASB 9. The new model aligns hedge accounting more closely with risk management, and will be easier to apply and reduce the costs of implementation. However, the new model requires extended disclosure. The standard is not applicable until 1 January 2017 but is available for early adoption. The Group has yet to assess the impact of the new general hedge accounting model on its hedge arrangements.

The directors have decided not to early adopt AASB 9 at 30 June 2014.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 and indefinite life intangibles

Goodwill and indefinite life intangibles are 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.

(e) Determination and fair value of intangibles in a business combination

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method ('MEEM') whilst the fair value of trademarks acquired in a business combination is based on a relief from royalties approach. These methods require estimates by management of future income streams, applicable royalty rates and discount rates.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3: SEGMENT REPORTING

The group has two 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 Australia ("AUS")** - includes the parent company Slater & Gordon Limited and its subsidiaries in Australia. This segment conducts a range of legal services within the geographical area of Australia. This segment also includes investments in the Group's other segment, and borrowings and capital raising activities to finance investment and operations of the combined Group. There is a recharge of ongoing management support to the other segment in the Group.
- **Slater & Gordon UK ("UK")** – includes the Group's operations, conducting a range of legal services in the United Kingdom.

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

2014	AUS \$'000	UK \$'000	Total \$'000
Total segment revenue	241,487	182,446	423,933
Inter-segment revenue	(5,467)	-	(5,467)
Revenue from external customers	236,020	182,446	418,466
Earnings before interest tax depreciation and amortisation	56,914	41,073	97,987
Interest revenue	1,584	245	1,829
Interest expense	(5,142)	(3,270)	(8,412)
Depreciation and amortisation	(3,450)	(3,505)	(6,955)
Income tax expense	(16,253)	(7,091)	(23,344)
Net profit after income tax	33,653	27,452	61,105
Segment assets			
Total segment assets*	604,377	417,014	1,021,391
Inter-segment assets	(126,013)	-	(126,013)
Total assets per the balance sheet	478,364	417,014	895,378
Segment liabilities			
Total segment liabilities	221,224	377,087	598,311
Inter-segment liabilities	-	(126,013)	(126,013)
Total liabilities per the balance sheet	221,224	251,074	472,298
*Additions to non-current assets			
Plant and equipment	763	4,238	5,001
Intangibles, including goodwill	2,558	18,626	21,184
Total additions to non-current assets	3,321	22,864	26,185

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3: SEGMENT REPORTING (Continued)

2013	AUS \$'000	UK \$'000	Total \$'000
Total segment revenue	228,503	70,528	299,031
Inter-segment revenue	(1,068)	-	(1,068)
Revenue from external customers	227,435	70,528	297,963
Earnings before interest tax depreciation and amortisation	58,127	14,454	72,581
Interest revenue	1,356	30	1,386
Interest expense	(5,595)	(2,058)	(7,653)
Depreciation and amortisation	(3,344)	(1,629)	(4,973)
Income tax expense	(16,249)	(3,571)	(19,820)
Net profit after income tax	34,295	7,226	41,521
Segment assets			
Total segment assets*	528,924	131,985	660,909
Inter-segment assets	(61,981)	-	(61,981)
Total assets per the balance sheet	466,943	131,985	598,928
Segment liabilities			
Total segment liabilities	191,672	120,030	311,702
Inter-segment liabilities	-	(61,981)	(61,981)
Total liabilities per the balance sheet	191,672	58,049	249,721
*Additions to non-current assets			
Plant and equipment	433	625	1,058
Intangibles, including goodwill	2,352	7,220	9,572
Total additions to non-current assets	2,785	7,845	10,630

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 4: REVENUE	Note	2014	2013
		\$'000	\$'000
Fee revenue			
Rendering of services		411,813	294,210
Other income			
Interest	4(a)	1,829	1,386
Other		4,824	2,367
		<u>6,653</u>	<u>3,753</u>
<i>(a) Interest from</i>			
Other persons		401	281
VCR share loans to employees		1,428	1,105
		<u>1,829</u>	<u>1,386</u>
 NOTE 5: PROFIT FROM CONTINUING ACTIVITIES			
Finance costs expense			
Interest on bank overdraft and loans		4,807	5,573
Interest on deferred consideration payable to vendors on acquisitions		3,068	1,495
Interest on obligations under hire purchases		537	585
		<u>8,412</u>	<u>7,653</u>
 Depreciation and amortisation of non-current assets			
Plant and equipment		4,352	3,623
Software development		1,141	919
Trademarks		1,404	-
Client lists		58	431
		<u>6,955</u>	<u>4,973</u>
 Bad and doubtful debts		6,904	4,531
Share based payments expense		1,180	1,377

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 6: INCOME TAX	Note	2014	2013
		\$'000	\$'000
Income tax expense			
Current tax		6,314	3,352
Deferred tax		17,361	16,557
Adjustment for current tax of prior periods		(331)	(89)
		<u>23,344</u>	<u>19,820</u>
Income tax recognised in other comprehensive income			
Deferred tax charge/(credit) arising on cash flow hedges		48	(105)
Current tax (credit)/charge arising on foreign exchange gain		(2,085)	964
		<u>(2,037)</u>	<u>859</u>
Income tax recognised directly in equity			
Deferred tax charge recognised directly in equity		-	620
		<u>-</u>	<u>620</u>
Deferred income tax expense included in income tax expense			
(Increase)/decrease in deferred tax assets		(2,277)	828
Deferred income tax relating to items charged to other comprehensive income		(2,037)	(105)
Deferred income tax relating to items charged directly to equity		-	620
Increase in deferred tax liabilities		21,881	16,370
Recoup prior year tax losses and over/under on prior year losses		-	89
Exchange differences		(315)	(294)
Net deferred taxes arising from business combinations		109	(951)
		<u>17,361</u>	<u>16,557</u>
The prima facie tax payable on profit differs from the			
Total profit before income tax expense		<u>84,449</u>	<u>61,341</u>
At the Australian statutory income tax rate of 30% (2013: 30%)		25,335	18,402
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
- other non-allowable items		1,220	620
Other assessable items		(996)	964
		<u>25,559</u>	<u>19,986</u>
Adjustments in respect to prior periods		(48)	382
Difference in overseas tax rate		(2,176)	(648)
Deferred tax assets not recognised		120	217
Deferred tax assets now recognised		(111)	(117)
Income tax expense		<u>23,344</u>	<u>19,820</u>
Net current tax (liability)/asset:			
Balance at the beginning of the year		(3,941)	(101)
Current income tax expense		(6,314)	(3,352)
Foreign withholding tax credit		282	-
Tax paid		8,006	537
Adjustments in respect to prior periods		127	(916)
Exchange differences		(120)	(109)
Balance at the end of the year		<u>(1,960)</u>	<u>(3,941)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 6: INCOME TAX (Continued)	Note	2014	2013
		\$'000	\$'000
Deferred tax assets			
Provision for impairment		1,276	1,311
Employee benefits		5,755	5,011
Provision for legal costs		275	169
Accruals		2,609	2,332
Non-deducted business related costs		451	708
Fair value of cash flow hedges		228	179
Unbilled acquired WIP and disbursements		985	795
Unrendered WIP and disbursements not yet deducted		-	1,681
Plant and equipment		171	509
Other		172	286
Revenue losses carried forward		3,329	6,026
Goodwill		11,734	5,701
		<u>26,985</u>	<u>24,708</u>
Deferred tax liabilities			
Prepayments		(808)	(709)
Work in progress		(106,791)	(83,972)
Unrendered disbursements		(14,184)	(14,670)
Intangibles		(697)	(1,066)
Foreign Currency Reserve		(2,085)	-
Other		(39)	(2,306)
		<u>(124,604)</u>	<u>(102,723)</u>
Balance after set off of deferred tax assets and (liabilities)		<u>(97,619)</u>	<u>(78,015)</u>

NOTE 7: DIVIDENDS

Dividends paid during the year

Dividends on ordinary shares

Interim franked dividend at the tax rate of 30% for 2014: 3.00 cents per share (2013: 2.75 cents per share)	6,115	4,681
Final franked dividend at the tax rate of 30% for 2013: 3.85 cents per share (2012: 3.50 cents per share)	7,655	5,966
Total dividends paid during the year	<u>13,770</u>	<u>10,647</u>

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 2014: 5.0 cents per share (2013: 3.85 cents per share)	10,217	7,655

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:	(3,082)	(623)
Impact on franking account of dividend recommended by the directors since the year end but not recognised as a liability at year end:	4,379	3,252

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 8: CASH AND CASH EQUIVALENTS

	Note	2014	2013
		\$'000	\$'000
Cash at bank	23(a)	<u>25,270</u>	<u>20,056</u>

NOTE 9: RECEIVABLES

Current

Trade debtors	111,549	75,808
Impairment of trade debtors	<u>(8,690)</u>	<u>(5,951)</u>
	102,859	69,857

Disbursements	133,927	65,903
Impairment of disbursements	<u>(7,717)</u>	<u>(5,335)</u>
	126,210	60,568

Other receivables	299	74
	<u>229,368</u>	<u>130,499</u>

Impairment of receivables

Balance at beginning of the year	(11,286)	(14,422)
Receivables written off as uncollectible	1,680	4,557
Provision for impairment recognised	<u>(6,801)</u>	<u>(1,421)</u>
Balance at end of the year	<u>(16,407)</u>	<u>(11,286)</u>

NOTE 10: WORK IN PROGRESS

Current

Non-personal injury	16,412	7,300
Personal injury	453,091	289,769
Project litigation	<u>1,106</u>	<u>2,790</u>
	470,609	299,859

Non-current

Project litigation	<u>2,730</u>	<u>2,337</u>
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NOTE 11: OTHER ASSETS

Current

Prepayments	10,337	6,878
Other current assets	<u>2,066</u>	<u>2,676</u>
	12,403	9,554

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 12: PLANT AND EQUIPMENT

	Note	2014	2013
		\$'000	\$'000
Plant and equipment at cost		35,328	29,877
Less accumulated depreciation		(22,878)	(18,198)
	12(a)	<u>12,450</u>	<u>11,679</u>
Low value asset pool at cost		1,825	1,618
Less accumulated depreciation		(1,311)	(1,078)
	12(b)	<u>514</u>	<u>540</u>
Total plant and equipment		<u>12,964</u>	<u>12,219</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	11,679	14,044
Additions	3,131	825
Additions through acquisition of entities	1,839	-
Exchange differences	221	188
Depreciation expense	(4,111)	(3,378)
Disposals	(309)	-
Carrying amount at end of year	<u>12,450</u>	<u>11,679</u>

(b) Low value asset pool

Balance at the beginning of the year	540	552
Additions	199	233
Additions through acquisition of entities	18	-
Depreciation expense	(241)	(245)
Disposals	(2)	-
Carrying amount at end of year	<u>514</u>	<u>540</u>

NOTE 13: INTANGIBLE ASSETS

Goodwill – at cost	116,108	93,504
Accumulated impairment loss	-	-
Net carrying amount	13(a)	<u>116,108</u>
Software development – at cost	9,661	8,144
Accumulated amortisation	(4,556)	(3,430)
Net carrying amount	13(b)	<u>5,105</u>
Trademarks – at cost	10,407	10,020
Accumulated impairment loss	(1,430)	-
Net carrying amount	13(c)	<u>8,977</u>
Customer relationships – at cost	1,397	1,397
Accumulated amortisation	(1,397)	(1,339)
Net carrying amount	13(d)	<u>-</u>
Total intangible assets		<u>130,190</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 13: INTANGIBLE ASSETS (Continued)	Note	2014	2013
		\$'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		93,504	88,123
Additions in respect to current period acquisitions	31	19,670	2,403
Exchange differences		2,934	2,978
Closing net book value		<u>116,108</u>	<u>93,504</u>

(b) Software development

Opening net book amount		4,714	4,376
Additions		1,495	1,253
Addition in respect to current period acquisitions		25	-
Exchange differences		12	4
Amortisation expense		<u>(1,141)</u>	<u>(919)</u>
Closing net book value		<u>5,105</u>	<u>4,714</u>

(c) Trademarks

Opening net book amount		10,020	9,703
Additions in respect to current period acquisitions		-	-
Exchange differences		361	317
Amortisation expense		<u>(1,404)</u>	<u>-</u>
Closing net book value		<u>8,977</u>	<u>10,020</u>

(d) Customer relationships

Opening net book amount		58	489
Amortisation expense		<u>(58)</u>	<u>(431)</u>
Closing net book value		<u>-</u>	<u>58</u>

Goodwill and indefinite life intangibles acquired through business combinations have been allocated to individual cash generating units ("CGUs") in the Australian business for the purposes of impairment testing being the Personal Injuries ("PI") division and the General Law ("GL") division. In addition, the operating segment of the UK is considered to be an individual CGU.

The recoverable amount of goodwill and indefinite life intangibles 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 the CGU. If the calculated value in use exceeds the net carrying amount, no impairment loss is recorded.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 13: INTANGIBLE ASSETS (Continued)

	PI	CGU GL	UK
2014			
Goodwill recognised (\$'000)	44,766	11,575	59,767
Indefinite life intangibles (\$'000)	5,659	-	1,719

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

Growth in fees (real)	5.0% – 8.0%
Discount rate (Australia)	9.1%
Discount rate (UK)	8.8%
Terminal value growth rate (nominal)	3.0%

	PI	CGU GL	UK
2013			
Goodwill recognised (\$'000)	43,130	11,575	38,799
Indefinite life intangibles (\$'000)	5,659	-	4,361

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

Growth in fees (real)	5.0%
Discount rate (Australia)	10.2%
Discount rate (UK)	9.4%
Terminal value growth rate (nominal)	3.0%

A reasonable change in the assumptions would not result in an impairment of the goodwill or indefinite life intangibles.

NOTE 14: OTHER NON-CURRENT ASSETS

	Note	2014 \$'000	2013 \$'000
VCR share loans to employees	27	11,844	16,108
		<u>11,844</u>	<u>16,108</u>

NOTE 15: PAYABLES

Current

Unsecured liabilities		
Trade creditors	11,914	4,072
Legal creditors and accruals	164,432	76,800
Vendor liabilities – acquisitions	18,503	11,131
	<u>194,850</u>	<u>92,003</u>

Non-current

Unsecured liabilities		
Vendor liabilities – acquisitions	19,187	6,238

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 16: BORROWINGS

	Note	2014 \$'000	2013 \$'000
Current			
<i>Secured</i>			
Cash advances	32	7,215	17,379
Hire purchase liability		2,252	2,724
		<u>9,467</u>	<u>20,103</u>
Non-current			
<i>Secured</i>			
Cash advances	32	112,698	26,885
Hire purchase liability		4,166	5,147
		<u>116,864</u>	<u>32,032</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 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. Refer to Note 32 (iv).

NOTE 17: OTHER CURRENT LIABILITIES

	2014 \$'000	2013 \$'000
Current		
<i>Unsecured</i>		
LLP member capital contributions	10,103	-
	<u>10,103</u>	<u>-</u>

NOTE 18: PROVISIONS

Current			
Employee benefits	18(a)	15,550	13,398
Solicitor liability claims		918	485
		<u>16,468</u>	<u>13,883</u>
Non-current			
Employee benefits	18(a)	3,164	2,850
Other non-current provisions		1,596	-
		<u>4,760</u>	<u>2,850</u>

(a) Aggregate employee benefits liability	18,714	16,248
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SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 19: CONTRIBUTED EQUITY	Note	2014	2014	2013	2013
		Shares	\$'000	Shares	\$'000
Ordinary shares fully paid	19(a)	204,338,625	231,103	196,809,265	206,506
VCR shares	19(b)	2,629,333	2,535	5,111,334	5,867
Balance at end of the year		206,967,958	233,638	201,920,599	212,373

(a) Movement in ordinary share capital

Balance at the beginning of the year	196,809,265	206,506	168,536,445	137,099
<i>Shares issued as consideration for acquisitions:</i>				
- 29 November 2012	-	-	92,106	175
- 31 October 2013	2,911,498	10,058	-	-
- 2 December 2013	211,835	870	-	-
- 17 February 2014	1,339,886	5,918	-	-
	4,463,219	16,846	92,106	175
<i>Conversion of vested VCR shares to ordinary share capital:</i>				
- 24 September 2012	-	-	1,908,664	3,431
- 26 September 2013	2,037,333	3,851	-	-
- 2 December 2013	83,000	157	-	-
	2,120,333	4,008	1,908,664	3,431
<i>Share capital issued by share placement and SSP:</i>				
- 13 May 2013	-	-	23,113,186	58,939
- 18 June 2013	-	-	3,035,357	7,741
	-	-	26,148,543	66,680
<i>Share capital issued under dividend reinvestment plan:</i>				
- 29 April 2013	-	-	423,507	1,067
- 14 November 2013	428,725	1,586	-	-
- 24 April 2014	517,083	2,277	-	-
	945,808	3,863	423,507	1,067
<i>Employee share scheme buy-back:</i>				
- 27 June 2013	-	-	(300,000)	(507)
	-	-	(300,000)	(507)
Less capital raising costs, net of tax	-	(120)	-	(1,439)
Balance at end of the year	204,338,625	231,103	196,809,265	206,506

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 19: CONTRIBUTED EQUITY (Continued)

	2014	2014	2013	2013
	Shares	\$'000	Shares	\$'000
(b) Movement in VCR share capital				
Balance at the beginning of the year	5,111,334	5,867	4,819,998	5,082
<i>Conversion of vested VCR shares to ordinary shares:</i>				
- 24 September 2012	-	-	(1,908,664)	(3,431)
- 26 September 2013	(2,037,333)	(3,851)	-	-
- 2 December 2013	(83,000)	(157)	-	-
	<u>(2,120,333)</u>	<u>(4,008)</u>	<u>(1,908,664)</u>	<u>(3,431)</u>
<i>VCR shares issued under Employee Ownership Plan:</i>				
- 20 December 2012	-	-	2,294,998	2,797
- 25 February 2013	-	-	130,002	161
	<u>-</u>	<u>-</u>	<u>2,425,000</u>	<u>2,958</u>
<i>Employee share scheme buy-back:</i>				
- 27 June 2013	-	-	(225,000)	(108)
- 24 April 2014	(361,668)	(438)	-	-
	<u>(361,668)</u>	<u>(438)</u>	<u>(225,000)</u>	<u>(108)</u>
Share based payments expense	-	1,180	-	1,377
Equity adjustment for leavers and extension of repayment terms	-	(66)	-	(4)
Less capital raising costs, net of tax	-	-	-	(7)
Balance at end of the year	2,629,333	2,535	5,111,334	5,867

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 27 for detailed discussion on the rights attached to VCR shares.

Capital Management

When managing capital, management's objective is to ensure the Group continues to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cashflows.

During 2014, management paid dividends of \$13.8 million (2013: \$10.6 million)

Management manages capital through the gearing ratio a:b (net debt / total equity). Net debt is calculated as total borrowings (including trade and other payables) as shown in the balance sheet less cash and cash equivalents. The target for the Group's gearing ratio is between 30% to 40%.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 20: RESERVES

	Note	2014 \$'000	2013 \$'000
Cash flow hedging	20(a)	(781)	(473)
Foreign currency translation	20(b)	9,871	4,183
		9,090	3,710

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	(473)	(664)
(Loss)/gain recognised on interest rate hedge, net of tax	(308)	191
Balance at the end of the year	(781)	(473)

(b) Foreign currency translation

Balance at the beginning of the year	4,183	(332)
Currency translation differences arising during the year	5,695	4,519
Non-controlling interest share in translation reserve	(7)	(4)
Balance at the end of the year	9,871	4,183

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 21: RETAINED PROFITS

Retained earnings	21(a)	180,139	132,963
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(a) Retained earnings

Balance at the beginning of year		132,963	102,124
Net profit attributable to ordinary equity holders		60,946	41,486
Total available for appropriation		193,909	143,610
Dividends paid	7	(13,770)	(10,647)
Balance at end of year		180,139	132,963

NOTE 22: NON-CONTROLLING INTERESTS

		2014 \$'000	2013 \$'000
Share capital		-	113
Reserves		7	4
Retained earnings		206	44
Balance at end of year	22(a)	213	161

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 22: NON-CONTROLLING INTERESTS (Continued)

(a) Non-controlling interests	Note	2014	2013
		\$'000	\$'000
Balance at the beginning of the year		161	71
Capital contributions from non-controlling interests		(114)	51
Non-controlling interest share in net profit after tax		159	35
Non-controlling interest share in translation reserve		7	4
Balance at the end of the year		<u>213</u>	<u>161</u>

NOTE 23: CASH FLOW INFORMATION

(a) Reconciliation of cash

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	<u>25,270</u>	<u>20,056</u>
		<u>25,270</u>	<u>20,056</u>

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

Profit after income tax		61,105	41,521
<i>Non-cash flows in profit from ordinary activities</i>			
Notional interest on VCR share loans	4	(1,428)	(1,105)
Depreciation and amortisation	5	6,955	4,973
Share based payments expenses	5	1,180	1,377
Costs associated with acquisition		4,054	282
Notional interest on deferred consideration	5	3,068	1,495
Foreign exchange revaluation reserve		-	3,870
<i>Changes in assets and liabilities</i>			
Increase in receivables		(5,945)	(7,892)
Increase in other assets		(169)	(1,811)
Increase in work in progress		(45,382)	(41,954)
Increase in payables		13,808	11,864
Decrease in income tax payable		(8,167)	(1,771)
Increase in deferred taxes		21,013	20,436
Increase in provisions		4,343	1,432
Cash flows from operations		<u>54,435</u>	<u>32,717</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 24: COMMITMENTS AND CONTINGENCIES **Note** **2014** **2013**

Operating lease commitments **\$000** **\$000**

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

Within one year	20,815	16,965
One year or later and not later than five years	43,920	37,981
Greater than five years	6,911	10,959
	71,646	65,905

Bank guarantees in respect of rental properties and acquisitions	9,255	8,271
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Other commitments and contingencies

The Group has entered into agreements with third party disbursement funders, ASK Funding Limited and Equal Access Funding Proprietary Limited (“the Funders”) to provide financial guarantees to the Funders with respect to disbursement funding borrowings to the Group’s clients. The nature of these agreements is that the Funders 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 the Funders. The total gross amount (before repayments) currently funded by the Funders to the Group’s clients at 30 June 2014 is \$19,048,164 (2013: \$8,579,653). The maximum exposure of the Group at 30 June 2014 is \$12,881,278 (2013: \$8,051,803) if the individual client matters are not recovered from any other party.

NOTE 25: EARNINGS PER SHARE

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	60,946	41,486
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	60,946	41,486

Weighted average number of ordinary shares used in calculating basic earnings per share (‘000’s)	201,306	173,258
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Effect of dilutive securities:

VCR shares (‘000’s)	3,437	4,598
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Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share (‘000’s)	204,743	177,856
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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 27 for a detailed explanation of VCR shares.

NOTE 26: DIRECTORS AND EXECUTIVES’ COMPENSATIONS

	2014	2013
Compensation by Category	\$’000	\$’000
Short-term employment benefits	3,490	2,797
Post employment benefits	161	135
Other long term employment benefits	86	54
Share based payments	12	21
Other benefits	241	236
	3,990	3,243

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 27: 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.

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 2014

NOTE 27: 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 15% of the aggregate number of VCR shares, or 20% of the aggregate value (based on the issue price) of 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 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 2014:

	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	14,025	2,529	-	-	16,554
VCR shares which may convert to ordinary shares but are subject to disposal restrictions	10,464	1,994	4,096	-	16,554
VCR shares to be redeemed	-	140	-	-	140

Recognition in the Accounts

The VCR Share loan receivable is initially recognised 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	21 December 2009	22 February 2011	31 December 2011	20 December 2012 and 25 February 2013
Shares issued	2,880,000	1,830,000	2,390,000	2,425,000
Issue price	\$1.63	\$2.05	\$1.79	\$1.95
Effective interest rate	8.5%	8.5%	8.5%	8.5%
Final repayment date	1 July 2013 to 1 July 2015	1 July 2014 to 1 July 2016	1 July 2015 to 1 July 2017	1 July 2016 to 1 July 2018

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 2014

NOTE 28: AUDITOR'S REMUNERATION

	Note	2014 \$'000	2013 \$'000
Amounts received or due and receivable by Pitcher Partners:			
An audit of the financial report of the Group and review of statutory accounts		247	229
The half year review of the financial report of the Group		98	94
Other assurance services		12	17
Due diligence investigations		16	28
IT review		5	29
		<u>378</u>	<u>397</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		228	69
		<u>228</u>	<u>69</u>
Total auditor's remuneration		<u>606</u>	<u>466</u>

NOTE 29: RELATED PARTY DISCLOSURES

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

- As outlined in the replacement Prospectus ("the Prospectus") dated 13 April 2007 the South Australian practice is 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 2014 the Service and Licence Fee totalled \$1,186,000 (2013: \$1,128,000);

As disclosed in Note 2, this entity is included in the consolidated group in accordance with AASB 10.

The shareholdings of related parties 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 30: GROUP ENTITIES

		2014	2013
	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	100
Slater & Gordon (UK) 1 Limited	United Kingdom	100	100
New Claims Direct Limited	United Kingdom	100	100
4 Legal Limited	United Kingdom	100	100
4 Legal Solutions Limited	United Kingdom	100	100
Slater & Gordon (UK) LLP	United Kingdom	100	100
Adroit Financial Planning Limited	United Kingdom	100	-
Pannone Trust Corporation Limited	United Kingdom	100	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 31: BUSINESS COMBINATIONS

2014:

Acquisition of business – Gibson & Gibson

On 1 August 2013, the Group acquired the business of Gibson & Gibson, a personal injuries law firm based in Perth, Western Australia, for a total consideration of \$3,289,100. Included in this amount is final goodwill of \$1,636,314.

Acquisition of business – Fentons Solicitors LLP (“Fentons”)

On 27 September 2013, the Group acquired the business of Fentons, a personal injuries law firm based in London, UK.

The strategic rationale for this business acquisition is:

- to further expand and diversify our personal injuries practice in a market 4 to 5 times that of Australia’s with a similar legal jurisdiction;
- synergies expected to be achieved as a result of combining the acquired businesses with the rest of the Group;
- access to referral networks not previously available to the Group; and
- to become a dominant law firm brand in the consumer legal services market in the UK.

The initial accounting for the acquisition had previously been provisionally determined. 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 \$7,372,000 decrease in the goodwill recognised on this transaction.

The value of the assets and liabilities at the date of acquisition and converted using the acquisition date rate of exchange are as follows:

	\$’000
Consideration	
Cash	43,266
Equity issued (1,903,911 shares at \$3.63 per share)	6,854
Fair value of deferred consideration (cash)	5,904
Net present value of total consideration	56,024
Net assets acquired	Fair Value
Assets	
- Cash and cash equivalents	7
- Trade and other receivables	43,768
- Work in progress	54,686
- Plant and equipment	1,518
- Other assets	120
Total assets acquired	100,099
Liabilities	
- Payables	40,176
- Provisions	3,899
Total liabilities acquired	44,075
Net assets acquired	56,024
Goodwill on acquisition	-

There were 1,903,911 shares issued as part of the consideration. The issue price of \$3.63 is based on the average of the volume weighted average price of ordinary shares on each of the 20 business days immediately preceding the completion date.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 31: BUSINESS COMBINATIONS (Continued)

Since the acquisition date, Fentons has contributed revenue of \$54,806,898 and profit after tax of \$9,208,591 in the year ended 30 June 2014, which is included within the consolidated profit. It is not practicable to disclose the revenue and profit after tax of the combined entity as if the acquisition took place on 1 July 2013, as the Group does not have access to audited financial information to reliably determine the revenue and profit after tax of the acquired business from 1 July 2013 to the date of acquisition.

Acquisition-related costs for this acquisition amounting to \$720,000 have been recognised as an expense in the year ended 30 June 2014, within the 'costs associated with acquisitions' line item in the Statement of Comprehensive Income.

Acquisition of other businesses in the UK

During the period under review, the Group acquired the following businesses in the UK:

<i>Acquisition Date</i>	<i>Company</i>	<i>Location</i>	<i>Business Type</i>	<i>Acquired</i>
16 August 2013	Taylor Vinters LLP	Cambridge, UK	Personal Injury	Personal Injuries business operations and assets
30 August 2013	Goodmans Law Limited	Liverpool, UK	Personal Injury	Business operations and assets
29 November 2013	John Pickering & Partners LLP	Halifax, UK	Personal Injury	Business operations and assets
4 December 2013	Chadwick Lawrence LLP	Yorkshire, UK	Personal Injury	Personal Injuries business operations and assets

The strategic rationale for these business acquisitions is:

- diversification of earnings through expansion of geographic coverage;
- to become a dominant law firm brand in the consumer legal services market in the UK; and
- access to referral networks not previously available to the group.

The initial accounting for these acquisitions had previously been provisionally determined. 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 an immaterial movement in the goodwill recognised on this transaction.

The value of the assets and liabilities at the date of acquisition and converted using the acquisition date rate of exchange are as follows:

	\$'000
Consideration	
Cash	16,950
Equity issued (960,882 shares at \$3.35 per share)	3,217
Fair value of deferred consideration (cash)	10,675
Net present value of total consideration	30,842
Net assets acquired	Fair Value
Assets	
- Trade and other receivables	9,665
- Work in progress	15,370
- Plant and equipment	9
- Other assets	65
Total assets acquired	25,109
Liabilities	
- Payables	5,488
- Provisions	849
Total liabilities acquired	6,337
Net assets acquired	18,772
Goodwill on acquisition	12,070

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 31: BUSINESS COMBINATIONS (Continued)

There were 960,882 shares issued as part of the combined consideration. The issue price of \$3.35 is based on the average of the volume weighted average price of ordinary shares on each of the 20 business days immediately preceding the completion dates. The key item that gave rise to the goodwill above is the existing business to underpin strategic growth of the personal injuries practice within the UK market.

Since the acquisition date, these UK entities have contributed combined revenue of \$14,206,979 and profit after tax of \$1,202,256 in the year ended 30 June 2014, which is included within the consolidated profit. It is not practicable to disclose the revenue and profit after tax of the combined entity as if the acquisitions took place on 1 July 2013, as the Group does not have access to audited financial information to reliably determine the revenue and profit after tax of the acquired businesses from 1 July 2013 to the date of acquisition.

Contingent Consideration

For the Goodmans Law acquisition, the Group has agreed to pay cash consideration of up to GBP 600,000 subject to an agreed net fees target being met from completion up to and including 31 December 2014. This payment represents a net present fair value of GBP 527,924 (\$915,579) at the date of acquisition. Notional interest of GBP 42,056 (\$74,498) has been recognised on this contingent consideration in the current year.

Acquisition-related costs for these acquisitions amounting to \$740,000 have been recognised as an expense in the year ended 30 June 2014, within the 'costs associated with acquisitions' line item in the Statement of Comprehensive Income.

Acquisition of business – Pannone Solicitors LLP ("Pannones") and related entities

On 14 February 2014, the Group acquired the Consumer Law business of Pannones, a consumer law firm based in London, UK. On the same day the Group also acquired two related entities, Adroit Financial Planning Limited ("Adroit") and Pannone Trust Corporation Limited ("Pannone Trust"). Adroit Financial Planning Limited is a financial planning business. Pannone Trust Corporation Limited is a dormant company, initially incorporated to act as administrator of estates and other appointments having fiduciary responsibility associated with Adroit.

The strategic rationale for these business acquisitions is:

- diversification of earnings through expansion of geographic coverage; and
- to become a dominant law firm brand in the consumer legal services market in the UK.

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

Consideration	\$'000
Cash	37,589
Equity issued (1,339,886 shares at \$4.42 per share)	6,003
Equity to be issued	7,870
Fair value of deferred consideration (cash)	8,183
Net present value of total consideration	59,675
Net assets acquired	Fair Value
Assets	
- Cash and cash equivalents	518
- Trade and other receivables	31,793
- Work in progress	47,944
- Plant and equipment	83
- Other assets	1,992
Total assets acquired	82,330
Liabilities	
- Payables	23,681
- Provisions	4,498
Total liabilities acquired	28,179
Net assets acquired	54,151
Goodwill on acquisition	5,524

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 31: BUSINESS COMBINATIONS (Continued)

There were 1,339,886 shares issued as part of the consideration. The issue price of \$4.42 is based on the average of the volume weighted average price of ordinary shares on each of the 20 business days immediately preceding the completion date.

The key item that gave rise to the goodwill above is the existing business to underpin strategic growth within the UK market.

Since the acquisition date, Pannones has contributed revenue of \$26,295,754 and profit after tax of \$3,171,402 in the year ended 30 June 2014, which is included within the consolidated profit. It is not practicable to disclose the revenue and profit after tax of the combined entity as if the acquisition took place on 1 July 2013, as the Group does not have access to audited financial information to reliably determine the revenue and profit after tax of the acquired business from 1 July 2013 to the date of acquisition.

Acquisition-related costs for this acquisition amounting to \$1,543,000 have been recognised as an expense in the year ended 30 June 2014, within the 'costs associated with acquisitions' line item in the Statement of Comprehensive Income.

2013:

Acquisition of businesses – JSP Solicitors and Marrons Solicitors (“JSP” and “Marrons”)

On 25 January 2013 and 24 May 2013, the Group acquired the businesses of JSP and Marrons respectively, two personal injury law firms based in the UK, for a total consideration of GBP 2,320,000. Included in this amount was goodwill of GBP 726,000.

Acquisition of business – Clark Toop & Taylor (“CTT”)

On 26 March 2013, the Group acquired CTT, a personal injuries law firm based in Melbourne, Victoria, for a total consideration of \$8,500,000. Included in this amount was goodwill of \$823,895.

2012:

Acquisition of business – Hilliard & Associates (“Hilliards”)

On 9 August 2012, the Group acquired the business of Hilliards, a personal injuries law firm based in Hobart, Tasmania, for a total consideration of \$1,286,000. Included in this amount was goodwill of \$376,000

NOTE 32: 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

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 the balance sheet 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 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.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 32: FINANCIAL RISK MANAGEMENT (Continued)

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 2014, approximately 67% 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.

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 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 23: 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.

	2014 \$'000	2013 \$'000
Total banking facility		
Banking overdrafts	5,000	5,000
Cash advance facility	200,000	134,316
Other sundry facilities	15,640	10,210
Total credit facility	220,640	149,526
Amount utilised	(125,657)	(58,754)
Unused bank facility	94,983	90,772

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 (2013: \$5,000,000). Interest rates are variable and subject to adjustment.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 32: FINANCIAL RISK MANAGEMENT (Continued)

Cash Advance and Equipment Finance Facility

The Group renewed its multicurrency (AUD/GBP) syndicated bank facility on 30 December 2013 with a structure and maturity profile as follows:

- an AUD \$25,000,000 revolving annual interest only working capital facility. The facility is to be renewed on 30 December 2014 and interest is charged on the loans at BBSY/LIBOR plus an agreed margin;
- an AUD \$80,000,000 revolving interest only loan facility. This loan matures on 30 December 2016 and interest is charged on the loan at BBSY/LIBOR plus an agreed margin;
- an AUD \$95,000,000 revolving interest only loan facility. This loan matures on 30 December 2018 and interest is charged on the loan at BBSY/LIBOR plus an agreed margin; and
- bilateral facilities totalling AUD \$41,000,000.

The proceeds of the facilities 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.

Maturity analysis

The table below represents the undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities.

	< 12 Months \$'000	1-5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
2014				
Payables	192,729	16,681	209,410	214,037
Borrowings	9,485	118,035	127,520	126,331
Other current liabilities	10,103	-	10,103	10,103
Financial liability maturities	212,317	134,716	347,033	350,471
2013				
Payables	92,667	6,878	99,545	98,148
Borrowings	20,145	33,471	53,616	52,135
Financial liability maturities	112,812	40,349	153,161	150,283

(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 interest rate swaps.

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 *Financial Instruments: Disclosures*; 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

ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 32: 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 sheet date are as follows:

Financial Instruments	Weighted average interest rate		Non interest bearing		Variable interest rate		Fixed interest rate		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>(i) Financial assets</i>										
Cash	0.88%	0.67%	-	-	25,270	20,056	-	-	25,270	20,056
Trade debtors			102,859	69,857	-	-	-	-	102,859	69,857
Disbursements			126,210	60,568	-	-	-	-	126,210	60,568
Other receivables			299	74	-	-	-	-	299	74
VCR share loans receivable			11,844	16,108	-	-	-	-	11,844	16,108
Total financial assets			241,212	146,607	25,270	20,056	-	-	266,482	166,663
<i>(ii) Financial liabilities</i>										
Bank overdraft			-	-	-	-	-	-	-	-
Trade creditors			5,129	4,072	-	-	-	-	5,129	4,072
Legal creditors and accruals			171,218	76,800	-	-	-	-	171,218	76,800
Interest bearing vendor liabilities – acquisitions	-	4.00%	-	-	-	-	-	1,628	-	1,628
Non-interest bearing vendor liabilities - acquisitions			37,690	15,741	-	-	-	-	37,690	15,741
Provisions			21,228	16,733	-	-	-	-	21,228	16,733
Other current liabilities	4.45%	-	-	-	10,103	-	-	-	10,103	-
Hire purchase liability	7.42%	7.34%	-	-	-	-	6,418	7,871	6,418	7,871
Bills of exchange – fixed	2.49%	3.02%	-	-	-	-	80,094	36,572	80,094	36,572
Bills of exchange – variable	3.02%	4.01%	-	-	39,819	7,692	-	-	39,819	7,692
Total financial liabilities			235,265	113,346	49,922	7,692	86,512	46,071	371,699	167,109

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 67% (2013: 83%) of the Group's outstanding borrowings on the cash advance facility (excluding the working capital facility) at 30 June 2014. The net interest payments or receipt settlements of the swap contracts are matched to the maturity of the cash advance they are hedging. The net settlement amounts are brought into account as an adjustment to interest expense. At the balance sheet date, the details of outstanding contracts, all of which are to receive floating/pay-fixed interest rate swaps, are as follows:

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 32: FINANCIAL RISK MANAGEMENT (Continued)

Maturity of notional amounts	Effective average fixed interest rate payable		Notional principal value	
	2014	2013	2014 \$'000	2013 \$'000
0 to 2 years	4.18%	-	17,500	-
2 to 5 years	2.02%	3.02%	62,594	36,572
			<u>80,094</u>	<u>36,572</u>

The net effective variable interest rate borrowings (i.e. 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	2014 \$'000	2013 \$'000
Floating rate instruments			
Unhedged cash advances/bills of exchange		39,819	7,692
		<u>39,819</u>	<u>7,692</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 borrowings, the balance in the reserve attributable to interest rate swaps is generally minimal.

Interest rate sensitivity

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

	2014 \$'000	2013 \$'000
+/- 100 basis points		
Impact on profit after tax	-	-
Impact on equity	2,371	979

(v) Foreign exchange risk

The Group has no significant exposures to currency risk other than the translation of its foreign subsidiary S&G UK. Any impacts on the balances relating to S&G UK as a result of movements in the foreign exchange rate are recorded in other comprehensive income as a foreign currency translation reserve. Refer to Note 1(e).

The Group has no other significant exposures to currency risk.

NOTE 33: FAIR VALUE MEASUREMENTS

(a) Fair value hierarchy

Assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 33: FAIR VALUE MEASUREMENTS (Continued)

30 June 2014	Level 1	Level 2	Level 3	Total
Recurring Fair Value Measurements	\$'000	\$'000	\$'000	\$'000
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	1,020	-	1,020
Contingent consideration	-	-	13,208	13,208
Total financial liabilities	-	1,020	13,208	14,228

30 June 2013	Level 1	Level 2	Level 3	Total
Recurring Fair Value Measurements	\$'000	\$'000	\$'000	\$'000
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	656	-	656
Contingent consideration	-	-	7,976	7,976
Total financial liabilities	-	656	7,976	8,632

(b) Valuation techniques and inputs used in level 2 and 3 fair value measurements

The fair value of the interest rate swaps is measured with reference to market data which can be used to estimate future cash flows. The key input into this valuation is the interest rate swap revaluation statement as provided by Westpac Banking Corporation and National Australia Bank.

The fair value of contingent consideration payable in a business combination is measured with reference to current fee and performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 9.2% used to present value the future cash flows.

(c) Reconciliation of recurring level 3 fair value movements

	2014	2013
	\$'000	\$'000
Contingent Consideration		
Opening balance	7,976	6,949
Acquisitions	11,687	-
Payments	(4,947)	-
Adjustment to contingent consideration	(2,668)	-
Interest	1,119	710
Exchange differences	41	317
Closing balance	13,208	7,976

There has been no change in the range of undiscounted contingent consideration outcomes during the year.

(d) Sensitivity analysis for recurring level 3 fair value measurements

A reasonable movement in the unobservable inputs would not significantly impact the fair value of contingent consideration as at the reporting date.

NOTE 34: SUBSEQUENT EVENTS

Subsequent to the reporting date, the Group announced its intention to purchase the following businesses:

- Schultz Toomey O'Brien, a consumer law firm based in Queensland, with an indicative completion date in November 2014.
- Nowicki Carbone, a specialist personal injuries practice in Victoria, with an indicative completion date in November 2014.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 35: 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 2014

NOTE 35: DEED OF CROSS GUARANTEE (Continued)	Note	2014	2013
		\$'000	\$'000
Statement of Comprehensive Income			
Revenue		227,009	219,235
Finance costs		(5,138)	(5,592)
Other expenses		(171,817)	(162,973)
Profit before income tax expense		50,054	50,670
Income tax expense		(16,408)	(15,913)
Profit for the year		33,646	34,757
Changes in fair value of cash flow hedges and foreign currency translation, net of tax		4,753	245
Total comprehensive income for the year		38,399	35,002
Statement of Financial Position			
Current assets			
Cash and cash equivalents		11,620	18,018
Receivables		217,680	158,999
Work in progress		280,105	253,484
Other current assets		5,323	5,076
Total current assets		514,728	435,577
Non-current assets			
Plant and equipment		7,611	9,180
Work in progress		2,730	2,337
Intangible assets		58,807	57,323
Investment in subsidiary		7,678	7,678
Other non-current assets		11,844	16,109
Total non-current assets		88,670	92,627
Total assets		603,398	528,204
Current liabilities			
Payables		62,777	59,651
Short term borrowings		1,741	12,298
Current tax liabilities		841	2,507
Provisions		16,199	13,647
Total current liabilities		81,558	88,103
Non-current liabilities			
Payables		2,765	6,238
Long term borrowings		43,908	18,574
Deferred tax liabilities		87,369	73,795
Derivative financial instruments		759	598
Provisions		3,034	2,784
Total non-current liabilities		137,835	101,989
Total liabilities		219,393	190,092
Net assets		384,005	338,112
Equity			
Contributed equity		233,638	212,373
Reserves		4,334	(419)
Retained profits		146,033	126,158
Total equity		384,005	338,112

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 36: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2014 the parent entity of the Group was Slater & Gordon Limited.

	Note	2014	2013
		\$'000	\$'000
Results of parent entity			
Profit for the year		36,054	29,701
Other comprehensive income		(113)	245
Total comprehensive income for the year		<u>35,941</u>	<u>29,946</u>

There has been a recharge by the parent entity of management and associated services and interest expense to the subsidiary entities.

Financial position for the parent entity at year end

Current assets	447,604	366,814
Total assets	565,695	488,118
Current liabilities	75,941	82,963
Total liabilities	201,412	172,137

Total equity of the parent company comprising of

Contributed equity	233,638	212,373
Reserves	4,334	(419)
Retained profits	126,311	104,027
Total Equity	<u>364,283</u>	<u>315,981</u>

Other commitments and contingencies

The Company has entered into agreements with third party disbursement funders, ASK Funding Limited and Equal Access Funding Pty Limited ("the Funders") to provide financial guarantees to the Funders with respect to disbursement funding borrowings to the Company's clients. The nature of these agreements is that the Funders 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 the Funders. The total gross amount (before repayments) currently funded by the Funders to the Company's clients at 30 June 2014 is \$14,579,907 (2013: \$6,855,036). The maximum exposure of the Company at 30 June 2014 is \$10,591,462 (2013: \$6,405,246) if the individual client matters are not recovered from any other party.

Operating lease commitments	2014	2013
	\$'000	\$'000

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

Within one year	11,986	10,462
One year or later and not later than five years	31,775	28,167
Greater than five years	6,342	10,656
	<u>50,103</u>	<u>49,285</u>

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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SLATER & GORDON LIMITED

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 41 to 84 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 2014 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 30 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 2014.

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



John Skippen
Chair



Andrew Grech
Managing Director

Melbourne
27 August 2014

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

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

Report on the Financial Report

We have audited the accompanying financial report of Slater & Gordon Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2014, 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 gives a true and fair view and 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 company'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 company'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.

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

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

Independence

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

Opinion

In our opinion:

- (a) the financial report of Slater & Gordon Limited 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 2014 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 31 to 38 of the directors' report for the year ended 30 June 2014. 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 & Gordon Limited and controlled entities for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



M W PRINGLE
Partner

27 August 2014



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 18 August 2014.

(a) Distribution of shareholders and option holders.

Holding	Number of Ordinary Shareholders
1 - 1,000	1,645
1,001 - 5,000	2,107
5,001 - 10,000	617
10,001 - 100,000	574
100,001 - Over	92
	5,035

There are 275 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	44,166,879	21.61
2 JP Morgan Nominees Australia	35,400,585	17.32
3 National Nominees Limited	24,474,144	11.98
4 Citicorp Nominees Pty Limited	14,850,666	7.27
5 BNP Paribas Noms Pty Ltd (DRP)	7,839,551	3.84
6 Ken Fowlie	5,096,221	2.49
7 Andrew Grech	5,028,238	2.46
8 RBC Investor Services Australia Nominees Pty Limited	4,425,327	2.17
9 Hayden Stephens	4,255,115	2.08
10 Cath Evans	4,110,476	2.01
11 HSBC Custody Nominees (Australia) Limited (Nt-Comnwlth Super Corp A/C)	1,981,998	0.97
12 Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	1,926,800	0.94
13 Warbont Nominees Pty Ltd (Accumulation Entrepot A/C)	1,550,674	0.76
14 Deansgate 123 LLP	1,261,673	0.62
15 Edward Cooper	1,039,394	0.51
16 BNP Paribas Noms (NZ) Ltd (DRP)	920,729	0.45
17 Alexander Whitehead	826,021	0.40
18 Frog Hollow Super Pty Ltd (Frog Hollow Remit Fund A/C)	759,884	0.37
19 AMP Life Limited	710,020	0.35
20 Mark Walter	648,740	0.32
	161,273,135	78.92

(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	Number	Ordinary Shares % *
National Australia Bank Limited and its Associated Companies	15,656,052	7.66

* 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 2,629,333 held by 83 employee shareholders.

Corporate Directory

Directors

John Skippen, Chair
Andrew Grech, Group
Managing Director
Ian Court
Ken Fowlie
Erica Lane
Rhonda O'Donnell

Company Secretaries

Wayne Brown
Kirsten Morrison

Registered Office and Corporate Office

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485 La Trobe Street
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Company Website

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Company Numbers

ACN 097 297 400
ABN 93 097 297 400

Auditors

Pitcher Partners
Level 19
15 William Street
Melbourne Victoria 3000

Bankers

Westpac Banking Corporation
Level 7
360 Collins Street
Melbourne Victoria 3000

National Australia Bank
Level 30
500 Bourke Street
Melbourne Victoria 3000

Solicitors

Arnold Bloch Leibler
Level 21
333 Collins Street
Melbourne Victoria 3000

Securities Exchange Listing

Slater and Gordon Limited shares
are listed on the Australian Securities
Exchange. The Home Exchange
is Melbourne.

ASX Code: SGH

Share/Security Registers

The Registrar

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