

ASX Announcement

29 September 2015

Market Update

Audited FY15 Accounts Lodged and Released

In June 2015 Slater and Gordon Limited (SGH) appointed Ernst & Young LLP (EY) to conduct the audit of SGH's UK businesses, reporting to SGH's statutory auditor, Pitcher Partners (PP).

On 28 August 2015, SGH lodged its Appendix 4E Statement – Preliminary Financial Report. This Report was unaudited in accordance with previous practice. In the ordinary course of completion of the statutory audit process, SGH management, PP and EY have identified a range of adjustments and corrections which have now been incorporated into the Audited Statutory Financial Statements (Audited SFS) for FY15, which were lodged today and are now publicly available. Additional details on the changes and corrections are described in the attachment to this announcement.

As announced in the course of SGH's FY15 results presentation, SGH has enhanced its financial disclosure. For example, SGH has reclassified a portion of its WIP and disbursement assets as non-current and has provided additional information regarding revenue recognition. These enhanced disclosures have been included in SGH's Audited SFS.

As previously announced, SGH will move to early adoption of accounting standard AASB 15 - Revenue from Contracts with Customers for its FY16 financial statements, ahead of the prescribed timeframe. The move to AASB 15 will not impact SGH's cash earnings.

Processes Commenced to Supplement Board of Directors and Undertake Auditor Tender Process

SGH has commenced a process to expand its board of directors, with a view to complementing the skill sets of existing directors. SGH has also commenced a tender process for the Group external auditors. The market will be updated in due course.

SGH continues to cooperate with ASIC in relation to its ongoing review process.

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GUIDE TO RECONCILIATION OF APPENDIX 4E STATEMENT – PRELIMINARY FINAL REPORT (“Appendix 4E”) TO THE AUDITED STATUTORY FINANCIAL STATEMENTS (“Audited SFS”) OF SLATER AND GORDON LTD (“SGH”) FOR THE YEAR ENDING 30 JUNE 2015

Subsequent to the release of the Appendix 4E, in the ordinary course of completion of the statutory audit process changes and corrections have been made which are reflected in the Audited SFS. In summary the changes reflect:

- i. Changes to the application of AASB 3 – *Business Combinations*;
- ii. Adjustments arising from provisional accounting treatment for the Pannone and Leo Abse Cohen acquisitions in February 2014 and May 2015 respectively;
- iii. Review of the provisional accounting treatment for the Slater Gordon Solutions (“SGS”) acquisition which was completed in May 2015; and
- iv. Changes to the Consolidated Statement of Cash Flows.

None of the changes are reflective of any change in the previously reported trading performance of SGH.

The relevant changes are set out below.

i. **Changes to the Application of AASB 3**

An error occurred in the application of AASB 3 which has been identified and corrected.

In FY15 the following changes to net assets have been made:

- a) a reduction in deferred tax assets of \$4.8m,
- b) a reduction in intangible assets of \$2.9m,
- c) an increase in net payables of \$5.6m, including a reclassification of non-current payables to current of \$19.1m,
- d) an increase in current tax liabilities of \$3.7m, and
- e) a decrease in provisions of \$2.8m.

In FY15 the following changes to net profit, have been made:

- a) an increase in gain on bargain purchase of \$4.0m,
 - b) an increase in tax expense of \$2.8m, and
 - c) a net reduction in finance costs and other expenses of \$0.2m,
- resulting in an increase in net profit after tax of \$1.4m.

In FY14 the following changes to net assets, have been made:

- a) a decrease in deferred tax assets of \$4.7m,
- b) a decrease in deferred tax liabilities of \$1.0m,

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- c) an increase in current tax liabilities of \$1.3m,
- d) an increase in net payables of \$0.7m, including a reclassification of \$11.8m non-current liabilities to current, and
- e) an increase in provisions of \$0.3m.

In FY14 the following changes to net profit have been made:

- a) a reduction in gain on bargain purchase of \$5.1m,
 - b) an increase in tax expense of \$4.9m, and
 - c) a net reduction in finance costs and other expenses \$0.4m,
- resulting in a reduction in net profit of \$9.6m.

ii. Adjustments Arising from Provisional Accounting – Pannone and Leo Abse Cohen

Following lodgement of the Appendix 4E management has reviewed the provisional estimates of certain balance sheet items relating to the accounting treatment of the Pannone and Leo Abse Cohen acquisitions. The adjustments to the provisional accounting estimates contained in the Appendix 4E are as follows:

In FY14, an adjustment to net assets in relation to the Pannone acquisition, being:

- a) a reduction in the value of Work in Progress of \$6.0m, and
- b) an increase in intangible assets of \$1.1m.

In FY15, reclassification of the movement in work-in-progress to a discount on acquisition obtained in the Leo Abse Cohen acquisition to gain on bargain purchase of \$12.5m. This reclassification has no impact on the underlying earnings and net assets recorded in the Audited SFS for FY15.

iii. Adjustments Arising from Provisional Accounting – SGS

In the ordinary course of the audit process since lodgement of the Appendix 4E the provisional accounting treatment for the SGS acquisition in May 2015 has been reviewed. The review has resulted in changes in the opening balances of various balance sheet items being made. The changes to the provisional accounting estimates contained in the Appendix 4E relating to FY15 are as follows:

- a) an increase in disbursements of \$8.8m,
- b) an increase in intangible assets of \$18.5m,
- c) an increase in net payables of \$14.7m,
- d) a reclassification of the current tax liability to a tax asset of \$14.2m, as this was previously offset against a tax asset,
- e) an increase in deferred tax assets of \$1.2m, and
- f) an increase in deferred tax liabilities of \$13.8m,

resulting in no movement in net assets.

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iv. Changes to the Consolidated Statement of Cash Flows

The Appendix 4E incorrectly recorded cash proceeds from the 30 March 2015 Entitlements Offer as \$859.5m in FY15. This is now correctly recorded in the Audited SFS as \$890.9m.

Following lodgement of the Appendix 4E, management has reviewed the use of an average exchange rate in respect of the acquisition of SGS and determined that it is more appropriate to use the exchange rate at the transaction date. The resultant changes, reflecting the foreign exchange rate at the date of the transaction rather than the average rate, to FY15 are as follows:

- a) Proceeds from borrowings of \$594.0m; and
- b) Payment for acquisition of businesses, net of cash in subsidiaries of \$1,334.0m.

Aggregate Impact of Changes and Corrections

In FY15 an increase in net profit after tax of \$1.4m and a decrease in net assets of \$14.5m.

In FY14 a decrease in net profit after tax of \$9.6m and a decrease in net assets of \$9.6m.