

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

FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

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Directors' Report

The Directors present their report together with the condensed consolidated half-year financial report consisting of Slater and Gordon Limited ("the Company") and its controlled entities (collectively referred to as "the Group"), for the half-year ended 31 December 2015. This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Directors

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

- John Skippen – Chair
- Andrew Grech – Group Managing Director
- Ian Court
- Ken Fowle – Managing Director (UK & Europe)
- Erica Lane
- Rhonda O'Donnell
- James Millar (appointed 1 December 2015)

All directors, other than James Millar, have been in office since the start of the financial period to the date of this report.

Review of Operations

The Group ended the half-year to 31 December 2015 with total revenue and other income of \$487.5 million (2014 restated: \$267.7 million), a net loss after tax of \$958.3 million (2014 restated: \$49.3 million net profit) and operating cash flows used of \$83.3 million (2014 restated: \$25.8 million positive). Excluding interest received, borrowing costs and income tax paid, the Group ended the half-year with gross operating cash flows used of \$62.5 million (2014 restated: \$31.1 million positive). The comparative 31 December 2014 profit and loss and cash flow figures were prior to the acquisition of Slater and Gordon Solutions (SGS) in the United Kingdom on 29 May 2015. Following the acquisition of various business assets, activities have expanded to include other services complementary to the processing and resolution of personal injury claims in the UK. As a result the cost base for the current period reflects additional expenses relating to SGS including cost of sales associated with service revenue, advertising, marketing and administration.

The half-year to 31 December 2015 result was impacted by:

- an \$876.4 million impairment charge against the carrying value of goodwill;
- underperformance in the UK operations, in relation to both intake and resolution of personal injuries claims in Slater and Gordon Lawyers (SGL) UK and Slater Gordon Solutions (SGS) including lower resolutions in respect of Noise Induced Hearing Loss (NIHL);
- A\$21.3 million of additional provisioning for debtors and disbursements across the UK and Australia;
- early adoption of the new accounting standard AASB 15 – *Revenue from Contracts with Customers*; and
- impact of restatements in relation to deferred consideration payable to vendors in accordance with AASB 3 – *Business Combinations*.

In November 2015, the UK Government announced proposals which would restrict the right of people injured in road traffic accidents to claim damages for minor soft tissue injuries. Together with a proposal to increase the limit of the Small Claims Court from £1,000 to £5,000, these are referred to as "the Osborne Reforms." The Company expects the foreshadowed consultation process to commence shortly and has made its best effort to factor potential changes into its assessment of the future cash flows even though results are not yet certain. Slater and Gordon maintains its view that SGS will be well positioned to be a leading provider of services to people who require legal, car hire, car repair and rehabilitation services assistance as a result of road traffic accidents and legal services for other fast track claims in the UK.

The Company is in compliance with its financial covenants and has agreed to present to the lenders and their financial advisers proposals which may include amendments to the current finance facility. A comprehensive review including an assessment of revised financial forecasts, and the implementation of performance improvement programmes have been initiated across the group with the aim of improving the profitability and cash flow of the business and reducing the level of debt.

Along with the performance improvement programmes a number of other projects were also the focus for the period, with the main project being the early adoption of AASB 15 *Revenue from Contracts with Customers* ("AASB 15").

The Group elected to early adopt AASB 15, which would otherwise be mandatorily effective for annual reporting periods beginning on or after 1 January 2018. The initial application date for the Group is 1 July 2015. The Group has elected to apply the standard on a full retrospective basis as permitted by AASB 15. Refer to Note 1(b) for further details.

Directors' Report

Significant Changes in the State of Affairs

Other than disclosed above, 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

There have not been any matters or circumstances that have significantly affected, or may significantly affect, the results reported in the financial statements.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is provided with this report.

Rounding of Amounts

The amounts contained in the Directors' Report and financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



John Skippen
Chair
Melbourne
28 February 2016



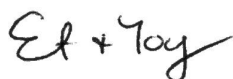
Andrew Grech
Group Managing Director

Auditor's Independence Declaration to the Directors of Slater and Gordon Limited

As lead auditor for the review of Slater and Gordon Limited and Controlled Entities for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Slater and Gordon Limited and the entities it controlled during the financial period.



Ernst & Young



Christopher George
Partner
Melbourne
28 February 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year Ended 31 December 2015

	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000 Restated*
Revenue from contracts with customers			
Fee revenue – rendering of services		352,500	220,587
Net movement in work in progress		(8,624)	6,349
Services revenue		135,701	-
Total revenue from contracts with customers	5	479,577	226,936
Gain from bargain purchase		-	38,770
Other income		7,897	1,970
Total revenue and other income		487,474	267,676
Less expenses			
Salaries and employee benefit expense		215,808	121,389
Payments to former owners		11,540	4,934
Share based payment expense to former owners		7,695	4,928
Cost of sales		101,155	-
Rental expense		19,431	13,586
Advertising and marketing expense		89,137	18,213
Administration and office expense		49,393	20,415
Consultant fees		11,693	2,829
Finance costs		15,476	4,257
Bad and doubtful debts		29,472	2,609
Depreciation and amortisation expense		11,324	4,400
Costs associated with acquisitions		621	1,552
Other expenses		17,911	8,680
Impairment of intangible assets		876,449	-
(Loss)/Profit before income tax expense		(969,631)	59,884
Income tax (credit)/expense		(11,294)	10,592
(Loss)/Profit for the half-year after income tax (credit)/expense		(958,337)	49,292
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		(10,730)	6,076
Changes in fair value of cash flow hedges		(383)	(712)
Total items that may be reclassified subsequently to profit or loss		(11,113)	5,364
Other comprehensive (loss)/income for the half-year, net of tax		(11,113)	5,364
Total comprehensive (loss)/income for the half-year, net of tax		(969,450)	54,656
(Loss)/Profit for the half-year attributed to:			
Owners of the Company		(958,181)	49,322
Non-controlling interests		(156)	(30)
		(958,337)	49,292
Total comprehensive (loss)/income for the half-year attributed to:			
Owners of the Company		(969,288)	54,674
Non-controlling interests		(162)	(18)
		(969,450)	54,656
Basic (loss)/earnings per share (cents)	11	(272.6) cents	24.1 cents
Diluted (loss)/earnings per share (cents)	11	(272.6) cents	23.9 cents

The above statement should be read in conjunction with the accompanying notes.

*Certain amounts shown here do not correspond to the 2014 half-year financial statements and reflect adjustments made for AASB 15 *Revenue from Contracts with Customers* and AASB 3 *Business Combinations*, refer to Note 1(b).

Consolidated Statement of Financial Position

As at 31 December 2015

	Note	31 Dec 2015 \$'000	30 Jun 2015 \$'000 Restated*
Current assets			
Cash and cash equivalents		51,890	96,985
Receivables		632,587	623,271
Work in progress		429,399	454,509
Current tax assets		39,363	29,041
Other current assets		20,329	29,779
Total current assets		1,173,568	1,233,585
Non-current assets			
Property, plant and equipment		36,223	31,959
Receivables		31,577	31,744
Work in progress		233,960	222,184
Intangible assets	7	388,762	1,282,648
Deferred tax assets		70,563	88,231
Other non-current assets		17,220	15,180
Total non-current assets		778,305	1,671,946
Total assets		1,951,873	2,905,531
Current liabilities			
Payables		566,742	605,264
Short term borrowings		4,006	3,753
Current tax liabilities		30,449	23,412
Other current liabilities		10,306	10,985
Provisions		52,628	34,487
Total current liabilities		664,131	677,901
Non-current liabilities			
Payables		1,483	3,121
Long term borrowings		789,289	716,600
Deferred tax liabilities		108,751	144,088
Derivative financial instruments		2,000	1,621
Provisions		11,190	11,875
Total non-current liabilities		912,713	877,305
Total liabilities		1,576,844	1,555,206
Net assets		375,029	1,350,325
Equity			
Contributed equity	8	1,103,869	1,098,345
Reserves		76,972	80,119
Retained (losses)/profits		(806,069)	171,442
Total equity attributable to equity holders in the Company		374,772	1,349,906
Non-controlling interests		257	419
Total equity		375,029	1,350,325

The above statement should be read in conjunction with the accompanying notes.

*Certain amounts shown here do not correspond to the 30 June 2015 full year financial statements and reflect adjustments made for AASB 15 *Revenue from Contracts with Customers* and AASB 3 *Business Combinations*. Refer to Note 1(b) and Note 12.

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2015

31 December 2015	Note	Contributed Equity	Retained Profits/ (Losses)	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling interests	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2015 (restated)		1,098,345	171,442	(1,189)	70,689	10,619	1,349,906	419	1,350,325
Net loss after tax for the period		-	(958,181)	-	-	-	(958,181)	(156)	(958,337)
Total other comprehensive loss for the period		-	-	(383)	(10,724)	-	(11,107)	(6)	(11,113)
Total comprehensive loss for the period		-	(958,181)	(383)	(10,724)	-	(969,288)	(162)	(969,450)
Transactions with owners in their capacity as owners									
Ordinary and VCR shares issued (net)	8	2,783	-	-	-	-	2,783	-	2,783
Dividends paid	6	-	(19,330)	-	-	-	(19,330)	-	(19,330)
Recognition of share based payments expense to former owners		-	-	-	-	7,695	7,695	-	7,695
Costs of equity raising	8	2,741	-	-	-	-	2,741	-	2,741
Performance rights		-	-	-	-	265	265	-	265
Total transactions with owners in their capacity as owners		5,524	(19,330)	-	-	7,960	(5,846)	-	(5,846)
Balance as at 31 December 2015		1,103,869	(806,069)	(1,572)	59,965	18,579	374,772	257	375,029

31 December 2014	Note	Contributed Equity	Retained Profits	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling interests	Total Equity
Restated*		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2014 (restated)		217,049	126,620	(780)	9,914	4,988	357,791	239	358,030
Net profit after tax for the period (restated)		-	49,322	-	-	-	49,322	(30)	49,292
Total other comprehensive income for the period		-	-	(712)	6,064	-	5,352	12	5,364
Total comprehensive income for the period		-	49,322	(712)	6,064	-	54,674	(18)	54,656
Transactions with owners in their capacity as owners									
Ordinary and VCR shares issued (net)	8	3,437	-	-	-	-	3,437	-	3,437
Dividends paid	6	-	(10,279)	-	-	-	(10,279)	-	(10,279)
Transfer from share based payments reserve		2,228	-	-	-	(2,228)	-	-	-
Recognition of share based payments expense to former owners		-	-	-	-	4,928	4,928	-	4,928
Costs of equity raising	8	(93)	-	-	-	-	(93)	-	(93)
Performance rights		-	-	-	-	80	80	-	80
Total transactions with owners in their capacity as owners		5,572	(10,279)	-	-	2,780	(1,927)	-	(1,927)
Balance as at 31 December 2014 (restated)		222,621	165,663	(1,492)	15,978	7,768	410,538	221	410,759

The above statement should be read in conjunction with the accompanying notes.

*Certain amounts shown here do not correspond to the 31 December 2014 half-year financial statements and reflect adjustments made for AASB 15 *Revenue from Contracts with Customers*, refer to Note 1(b) and AASB 3 *Business Combinations*, refer to Note 12.

Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2015

	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000 Restated*
Cash flow from operating activities			
Receipts from customers		532,963	239,840
Payments to suppliers and employees		(594,098)	(207,991)
Payments to former owners		(1,356)	(730)
Interest received		122	171
Borrowing costs		(11,419)	(3,191)
Income tax paid		(9,508)	(2,306)
Net cash (utilised in)/provided by operating activities		(83,296)	25,793
Cash flow from investing activities			
Payment for software development		(6,067)	(3,499)
Payment for plant and equipment		(8,294)	(6,958)
Costs associated with acquisition of businesses		(621)	(1,552)
Advance - secured		-	(22,148)
Payment for acquisition of businesses, net of cash in subsidiaries		-	(31,557)
Payment for acquisition of businesses – deferred consideration		(11,259)	(6,983)
Net cash utilised in investing activities		(26,241)	(72,697)
Cash flow from financing activities			
Costs of equity issued		(85)	(123)
(Loans/payments to)/proceeds from related parties and employees		(3,257)	1,108
Proceeds from borrowings		110,649	81,794
Repayment of borrowings		(25,733)	(36,150)
Dividends paid		(17,060)	(9,312)
Net cash provided by financing activities		64,514	37,317
Net decrease in cash held		(45,023)	(9,587)
Net foreign exchange difference		(72)	235
Cash at beginning of the half-year		96,985	25,270
Cash at end of the half-year	9	51,890	15,918

The above statement should be read in conjunction with the accompanying notes.

* Certain amounts shown here do not correspond to the 31 December 2014 half-year financial statements and reflect adjustments made for AASB 3 *Business Combinations*. Refer to Note 1(b).

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 1: Basis of Preparation of the Half-Year Financial Report

This half-year financial report does not include all the notes of the type usually included in an annual financial report.

Slater and Gordon Limited is a for-profit company which is listed on the Australian Securities Exchange. The nature of the operations and principal activities of the Company are to provide consumer legal services in Australia and the United Kingdom.

The half-year financial report was authorised for issue by the directors on 28 February 2016.

(a) Basis of preparation

This half-year financial report for the six months ended 31 December 2015 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 June 2015.

It is also recommended that the half-year financial report be considered with any public announcements made by the Group up to the date of this report in accordance with the continuous disclosure obligations of the Australian Securities Exchange listing rules.

(b) Changes in accounting policies, accounting standards and interpretations

The accounting policies adopted in the preparation of the half-year financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015, except for the adoption of new standards and interpretations noted below:

AASB 15 Revenue from Contracts with Customers

The Group has elected to early adopt AASB 15 *Revenue from Contracts with Customers* as issued in December 2014, which would otherwise be mandatory, effective for annual reporting periods beginning on or after 1 January 2018. The initial application date for the Group is 1 July 2015. The Group has elected to apply the standard on a full retrospective basis as permitted by AASB 15 whereby the cumulative effect of retrospective application is recognised at the date of initial application by adjusting opening retained profits or other relevant components of equity. Comparatives for the 31 December 2014 half-year and the 30 June 2015 financial year have also been restated. See below for further details on the key impacts of the change in accounting policy arising from the adoption of the new standard. Refer to Note 5 for additional details.

(i) Estimating variable consideration

Prior to the adoption of AASB 15, in previous reporting periods, variable consideration expected to be received from services (including services provided on a No Win – No Fee basis) was estimated based on historical average fees and success outcomes.

Under AASB 15, where consideration in respect of a contract is variable, revenue can only be recognised to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract will not be subject to a significant reversal (this is referred to as the "constraint" requirements). As a result, the Group has applied the new constraint requirements in estimating the amount of variable consideration included in the transaction price compared to the amount of variable consideration previously included.

(ii) Stage of completion

As a result of more detailed requirements under AASB 15 with respect to measuring the stage of completion of a performance obligation, the Group has conducted a review of its methodology for measuring progress towards completion of relevant performance obligations.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 1: Basis of Preparation of the Half-Year Financial Report (continued)

(b) Changes in accounting policies, accounting standards and interpretations (continued)

In summary, as a result of early adopting AASB 15, the following adjustments were made to the amounts recognised in the statement of financial position and statement of profit or loss and other comprehensive income at the date of initial application (1 July 2015) and at the end of the comparative periods (1 July 2014, 31 December 2014 and 30 June 2015):

	AASB 118 carrying amount	Prior Period Remeasurement	Current Period Remeasurement	AASB 15 carrying amount
Statement of Financial Position	1 Jul 2014			1 Jul 2014
	\$'000	\$'000	\$'000	\$'000
Work in progress (current and non-current)	467,334	-	(85,813)	381,521
Current tax liabilities	2,481	-	1,417	3,898
Deferred tax liabilities	123,621	-	(26,512)	97,109
Reserves	14,217	-	(93)	14,124
Retained profits	187,213	-	(60,592)	126,621
Non-controlling interests	271	-	(32)	239
Statement of Profit or Loss and Other Comprehensive Income	31 Dec 2014			31 Dec 2014
	\$'000	\$'000	\$'000	\$'000
Net movement in work in progress	22,777	-	(16,428)	6,349
Income tax expense	13,674	-	(2,840)	10,834
Statement of Financial Position	30 Jun 2015			30 Jun 2015
	\$'000	\$'000	\$'000	\$'000
Receivables*	619,855	-	(113)	619,742
Work in progress* (current and non-current)	825,898	(86,706)	(45,576)	693,616
Current tax liabilities*	22,556	1,612	(1,001)	23,167
Deferred tax liabilities*	180,508	(26,886)	(9,021)	144,601
Reserves*	82,877	(808)	(2,415)	79,654
Retained profits	253,147	(60,592)	(33,079)	159,476
Non-controlling interests	624	(32)	(173)	419

Remeasured amounts relate solely to the application of AASB 15 and do not reflect other adjustments as a result of the other areas of restatement.

*Prior period remeasurements converted at the closing rate in the current period remeasurement with the resulting foreign exchange difference included in the Foreign Currency Translation Reserve included in Reserves.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 1: Basis of Preparation of the Half-Year Financial Report (continued)

AASB 3 Business Combinations

Certain comparatives disclosed in the half-year report were corrected and restated when the Group re-assessed the accounting treatment of deferred consideration payable in the context of its acquisition of legal service practices. These amended amounts relate to deferred consideration payable to vendors of the acquired businesses that were subject to so-called bad leaver provisions. Refer to the 30 June 2015 annual report for further details. The income statement effect of these changes to the half-year financial report for the period ended 31 December 2014 is outlined as follows:

Impact on consolidated comprehensive income of the restatement of business acquisition accounting	Previously reported 31 Dec 2014 \$'000	Restatements \$'000	Restated 31 Dec 2014 \$'000
Gain from bargain purchase	-	38,770	38,770
Payments to former owners	-	(4,934)	(4,934)
Share based payment expense to former owners	-	(4,928)	(4,928)
Income tax expense	13,674	(568)	13,106

Impact on the Consolidated Statement of Cash Flows

Classification changes were made for payments previously clarified as deferred consideration in investing activities. These have now been restated as payments to former owners in operating activities (\$0.7m).

(c) Rounding of amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Class Order 98/100 and accordingly, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Note 2: Critical Accounting Estimates and Judgements

In preparing these half-year financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2015, except for the following:

(a) Identifying the performance obligation

In personal injury matters, contracts with clients generally comprise a single distinct performance obligation, being the provision of services in pursuit of the successful settlement of a customer's claim, and the transaction price is allocated to this single performance obligation. Some contracts contain multiple deliverables – such as legal services in respect of a statutory claim and a common law claim, or initial pre-issue work and litigation work. In such circumstances, these multiple deliverables are considered to represent a single distinct performance obligation, given there is a significant service of integration performed by the Group in delivering these services. Management considers the methods used provide a faithful depiction of the transfer of goods or services.

The Group has some contractual arrangements outside of personal injury matters that include multiple performance obligations. In these transactions, the transaction price must be allocated to the performance obligations on a relative stand-alone selling price basis. In most cases, the price for each separate performance obligation is identified in the contract and in most cases, these prices are considered to be reflective of the stand-alone selling price of each performance obligation.

The Group notes that it is not practicable to determine and track on a case-by-case basis the elements of a transaction that should be attributed to pre- and post-acquisition performance, given the nature of the estimates of variable consideration, and the methodology adopted (based around actual historical average fees and estimates of success rates on a cohort-by-cohort rather than case-by-case basis).

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 2: Critical Accounting Estimates and Judgements (continued)

(b) Estimating the transaction price: Variable consideration – No Win - No Fee arrangements

As noted in Note 1(b) above and Note 5, the Group provides various services on the basis of No Win – No Fee conditional fee arrangements. The uncertainty around the fees ultimately receivable under these types of contracts is generally only fully resolved when a matter is concluded.

Where the Group has sufficient historical experience in similar contracts in order to be able to estimate the expected outcome of a group of existing contracts reliably, revenue is estimated using the expected value method. Fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded.

To determine the probability of success of a case using the expected value method, a level of judgement is required to be applied based on past experience and historical performance of similar matters. The estimated amount of variable consideration is based on the expected fee for the nature of the legal service provided with reference to internal historical fee levels and relative rates of successful and unsuccessful outcomes.

Where historical averages are not predictive of the probability of outcomes for a given contract, or where the Group has limited historical experience with similar contracts, the expected amount of variable consideration is estimated using a most likely amount approach on a contract by contract basis. In such circumstances, a level of judgement is required to determine the likelihood of success of a given matter, as well as the estimated amount of fees that will be recovered in respect of the matter.

In addition, when new businesses are acquired, there is a transition period during which time the Group's practices and procedures are embedded into the operations of the new business. Therefore the valuation of work in progress acquired in a business combination may be adjusted during the period of provisional accounting for the acquisition.

(c) Recognising revenue: Measuring the stage of completion

Revenue is recognised when control of a service is transferred to the customer. The Group recognises revenue in respect of personal injury matters "over time" (as opposed to at a "point in time"). A stage of completion approach is used to measure progress towards completion of the performance obligation. The stage of completion is determined using a milestones based approach using prescribed status codes for client matters as the relevant milestones. The percentage completion is determined either by calculating the average fee received for matters that resolve at a particular status code as a percentage of the average fee received for matters that resolve at that status and any later status, or by use of defined completion allocations based on historical performance.

In addition, when new businesses are acquired, there is a transition period during which time the Group's practices and procedures are embedded into the operations of the new business. Therefore the valuation of work in progress acquired in a business combination may be adjusted during the period of provisional accounting for the acquisition.

Note 3: Financing Arrangements

The financial statements have been prepared using the going concern assumption which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group has net assets of \$375.0m, which have decreased since 30 June 2015 primarily due to a non-cash impairment charge of \$876.4m and the adoption of AASB 15. The Group has net current assets of \$509.4m.

The Group had drawings of \$783.0m under its syndicated debt facility, against limits of \$850.3m at 31 December 2015. The Group had cash on hand of \$51.9m and other borrowings of \$10.3m, resulting in net debt (drawn debt facilities less cash and cash equivalents) of \$741.4m and available liquidity of \$119.2m. The Group's net debt position has increased since 30 June 2015 by \$118.0m, reflecting underlying cash requirements in the business.

Since 1 July 2015, the Group has obtained various amendments from its banking syndicate ("lenders") to the Slater and Gordon Syndicated Facility Agreement ("SFA"). As at 31 December 2015 and at the date of the half year financial report, the Group remains in compliance with all its undertakings under the SFA.

The Group has agreed to present to the lenders and their financial advisers proposals which may include amendments to the current SFA. In the event that amendments are required by the lenders and if are not implemented by 30 April 2016, repayment dates for the SFA may be brought forward to a date no earlier than 31 March 2017.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 3: Financing Arrangements (continued)

The Directors are of the view that the Group will comply with the above obligations. The Group has further initiated a comprehensive review including an assessment of revised financial forecasts, and the implementation of performance improvement programmes with the aim of improving the profitability of the business and reducing the level of drawn debt.

The Directors, having given consideration to the current financial forecasts for the Group, the engagement with the banking syndicate and its financial advisers, the comprehensive review, and the performance improvement programmes being implemented by management, consider the going concern basis of preparation is appropriate.

Note 4: Segment Reporting

The Group has three operating segments, which also represents its three reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit is managed separately. For each of the strategic business units, the Group Managing Director, who is the Chief Operating Decision Maker, reviews internal management reports on a monthly basis. The following summary describes each of the Group's reportable segments:

- **Slater and Gordon Australia ("AUS")** – includes the parent company Slater and 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 segments, 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 segments in the Group.
- **Slater and Gordon UK ("UK")** – includes the Group's operations, conducting a range of legal services in the United Kingdom.
- **Slater Gordon Solutions ("SGS")** – represents the acquired business assets/entities from Quindell Plc, offering legal services relating to road traffic accidents, employee liability and noise induced hearing loss. This segment also provides complementary services in health and motor services.

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

Half-Year ended 31 December 2015	AUS \$'000	UK \$'000	SGS \$'000	Total \$'000
Revenue and other income from external customers	123,813	108,841	254,820	487,474
Earnings before interest, tax, depreciation and amortisation	(13,054)	(32,832)	(21,025)	(66,911)
Interest revenue	420	89	20	529
Finance costs	(2,970)	(10,240)	(2,266)	(15,476)
Depreciation and amortisation	(6,344)	(3,414)	(1,566)	(11,324)
Impairment of intangible assets	(52,745)	(9,458)	(814,246)	(876,449)
Income tax credit/(expense)	745	17,927	(7,378)	11,294
Net loss after income tax	(73,948)	(37,928)	(846,461)	(958,337)

As at 31 December 2015

Segment assets

Total assets per statement of financial position	452,239	597,623	902,011	1,951,873
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Segment liabilities

Total liabilities per statement of financial position	318,620	891,878	366,346	1,576,844
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Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 4: Segment Reporting (continued)

Half-Year ended 31 December 2014 Restated	AUS \$'000	UK \$'000	SGS \$'000	Total \$'000
Revenue and other income from external customers	163,343	104,333	-	267,676
Earnings before interest, tax, depreciation and amortisation	61,096	6,799	-	67,895
Interest revenue	499	147	-	646
Finance costs	(2,524)	(1,733)	-	(4,257)
Depreciation and amortisation	(2,640)	(1,760)	-	(4,400)
Income tax expense	(8,184)	(2,408)	-	(10,592)
Net profit after income tax	48,247	1,045	-	49,292

As at 30 June 2015

Restated

Segment assets

Total assets per statement of financial position	544,750	636,427	1,724,354	2,905,531
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Segment liabilities

Total liabilities per statement of financial position	316,130	867,243	371,833	1,555,206
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Note 5: Revenue from contracts with customers

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the major product lines Personal Injury Law ("PIL") and General Law ("GL") and geographical regions:

Half-Year ended 31 December 2015	Australia		UK	SGS	Total
	PIL \$'000	GL \$'000			
Segment revenue	90,509	32,566	78,434	28,705	480,296
Inter-segment revenue	-	-	(131)	(58)	(719)
Revenue from external customers	90,509	32,566	78,303	28,647	479,577

Type of contract

Fixed price	-	11,426	-	5,074	-	16,500
Time and Materials	-	15,989	7,523	23,025	127,833	174,370
No Win – No Fee	90,509	5,151	70,780	548	121,719	288,707
	90,509	32,566	78,303	28,647	249,552	479,577

Half-Year ended 31 December 2014	Australia		UK	SGS	Total
	PIL \$'000	GL \$'000			
Segment revenue	99,356	26,242	78,369	22,969	226,936
Revenue from external customers	99,356	26,242	78,369	22,969	226,936

Type of contract

Fixed price	-	10,445	-	2,363	-	12,808
Time and Materials	-	13,983	3,942	19,145	-	37,070
No Win – No Fee	99,356	1,814	74,427	1,461	-	177,058
	99,356	26,242	78,369	22,969	-	226,936

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 5: Revenue from contracts with customers (continued)

(b) Accounting policies and significant judgements

(i) Provision of legal services – Personal Injury Claims

Revenue from provision of legal services for personal injury claims is recognised over time in the accounting period when services are rendered.

The personal injury practice operates on the basis of No Win – No Fee conditional fee arrangements, whereby fees are earned only in the event of a successful outcome of a customer's claim. The amount of fees payable under a contract is generally based on the type of matter being addressed and the services required to be provided to complete a claim successfully. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements (primarily in the UK), fees are fixed as a specified percentage of damages awarded under a claim.

The uncertainty around the fees receivable under a contract is generally only resolved when a matter is concluded. In recognising revenue in the personal injury practice, the Group estimates the fees for contracts using the expected value method based on historical fee outcomes. Expected fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded. This assessment is carried out based on a statistical analysis of groups of matters with similar characteristics.

Revenue is recognised over time with reference to the stage of completion of a contract as at the end of the reporting period, using a milestone-based approach, which was explained above at Note 2(c).

Some contracts contain multiple deliverables – such as legal services in respect of a statutory claim and a common law claim, or initial pre-issue work and litigation work. In such circumstances, these multiple deliverables are considered to represent a single distinct performance obligation, given there is a significant service of integration performed by the Group in delivering these services.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group has determined that no significant financing component exists in respect of the personal injury revenue streams. This is because in personal injury matters, a substantial amount of the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the Group.

A receivable in relation to these services is recognised on settlement and when a bill has been invoiced, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Company also acts as an agent for disbursements, which are only recognised when it is assessed that a reimbursement will be received from the client or on his or her behalf. The disbursements are treated as a separate asset. The amount recognised for the expected reimbursement does not exceed the relevant costs incurred.

The amount of any expected reimbursement is reduced by an allowance for non-recovery based on past experience.

(ii) Provision of legal services – General Law legal services

The Group also earns revenue from provision of general legal services, incorporating project litigation. Revenue for general legal services is recognised over time in the accounting period when services are rendered.

Fee arrangements from general legal services include fixed fee arrangements, unconditional fee for service arrangements ("time and materials"), and variable or contingent fee arrangements (including No Win – No Fee arrangements for services including project litigation, and some consumer and commercial litigation).

For fixed fee arrangements, revenue is recognised based on the stage of completion with reference to the actual services provided as a proportion of the total services expected to be provided under the contract. The stage of completion is tracked on a contract by contract basis using a milestone based approach, which was explained above at Note 2(c).

In fee for service contracts, revenue is recognised up to the amount of fees that the Group is entitled to invoice for services performed to date based on contracted rates.

The Group estimates fees for variable or conditional service fee arrangements using a most likely amount approach on a contract by contract basis. Management makes a detailed assessment of the amount of revenue expected to be received and the probability of success of each case. Variable consideration is included in revenue only to the extent that it is highly probable that the amount will not be subject to significant reversal when the uncertainty is resolved (generally when a matter is concluded).

Certain project litigation matters are undertaken on a partially funded basis. The Group has arrangements with third party funders to provide a portion of the fees receivable on a matter over time as services are performed. In such arrangements, the funded portion of fees is billed regularly over time and is not contingent on the successful outcome of the litigation. The remaining portion of fees is variable consideration which is conditional on the successful resolution of the litigation. The variable consideration is included in revenue as services are performed only to the extent that it is highly probable that the amount will not be subject to significant reversal when the uncertainty is resolved.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 5: Revenue from contracts with customers (continued)

(ii) Provision of legal services – General Law legal services (continued)

As in the case of personal injury claims, estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group has determined that no significant financing component exists in respect of the general law services revenue streams. This has been determined on fee for service and fixed fee arrangements as the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. For No Win - No Fee arrangements this has been determined because a significant amount of the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the Group.

A receivable in relation to these services is recognised when a bill has been invoiced, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(iv) Provision of other services - Slater Gordon Solutions

Legal services

Revenue from work in progress on Road Traffic Accidents ("RTA") and Employer Liability/Public Liability ("EL/PL") files is recognised over the life of the case based on prescribed milestones in a matter.

The legal services practice operates on the basis of No Win – No Fee conditional fee arrangements, whereby fees are earned only in the event of a successful outcome of a customer's claim. The amount of fees payable under a contract is generally based on the type of matter being addressed and the services required to be provided to complete a claim successfully. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements, fees are fixed as a specified percentage of damages awarded under a claim.

The uncertainty around the fees receivable under a contract is generally only resolved when a matter is concluded. In recognising revenue in the legal services practice, the Group estimates the fees for contracts using the expected value method based on historical fee outcomes. Expected fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded. This assessment is carried out based on a statistical analysis of groups of matters with similar characteristics.

The measurement of this component of revenue is consistent with the Group approach for valuing work in progress based on average fees, probability of success and percentage completion.

No value of work in progress has been recognised for Noise Induced Hearing Loss ("NIHL") files as the amount of revenue cannot at this stage (31 December 2015) be measured reliably.

A receivable in relation to these services is recognised when a bill has been issued upon completion of fixed payment stages of work or settlement of a matter, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Vehicle hire and repair

Revenue from the provision of car repair is recognised at a point in time. Revenue from the provision of car hire and cost recovery services are recognised over the time that the services are performed.

For car repair services, the revenue is recognised when the repair work is completed. The amount of revenue recognised is the amount as agreed in writing between the parties prior to the service being provided in the repair contract. Revenue is recognised upon completion of all repair work and upon the customer signing a "client satisfaction note" in taking back possession of the car.

For car hire and cost recovery services, the revenue is recognised over time. This will be the period between the commencement of the car hire and settlement of costs through the Third Party Insurer ("TPI"). The amount of revenue recognised is the amount as agreed in writing between the parties prior to the service being provided in the hire rental agreement.

Work in progress is recognised for the following transactions:

- i) Incomplete work in progress – where a car hire is still in use; and
- ii) Billing not completed – this occurs where the car hire has been returned or repairs completed where the invoice is still outstanding (due to the time period required for all documentation to be in place before it is issued).

Work in progress is only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded. A dilution rate is applied on the invoice to recognise the fact that there may be a settlement adjustment with the insurer if the insurer disputes any costs. This also takes into account the fact that some cases may not be 'no fault'.

A receivable in relation to these services is recognised when a bill has been issued, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 5: Revenue from contracts with customers (continued)

(iv) Provision of other services - Slater Gordon Solutions (continued)

Medical reports and rehabilitation services

Revenue from the provision of medical appointments and rehabilitation services is recognised at a point in time.

For medical appointments, the revenue is recognised when the medical report is received from the medical expert. The amount of revenue recognised is based on the average fee per case calculated on a historic basis. This value remains in work in progress until the medical report is issued to the Instructing Party ('IP') at which point the sales invoice is raised.

For rehabilitation services, the revenue is recognised when the course of treatment is completed and the final assessment or discharge report is issued to the IP. The amount of revenue recognised is based on the average fee per case calculated on a historic basis. This value remains in work in progress until the final assessment or discharge report is issued to the IP at which point the sales invoice is raised.

A receivable in relation to these services is recognised when a bill has been issued, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Note 6: Dividends

For the half-year ended 31 December

	2015 \$'000	2014 \$'000
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Dividends paid during the half-year

Dividends on ordinary shares

Partially franked (40%) final dividend at the tax rate of 30% for the year ended

30 June 2015: 5.50 cents per share (30 June 2014: 5.00 cents per share, fully franked)

19,330 10,279

Total dividends paid during the half-year

19,330 10,279

Dividends proposed and not recognised as a liability

Dividends on ordinary shares

No dividend proposed for the half-year ended 31 December 2015 (31

December 2014: 3.50 cents per share, fully franked)

- 7,341

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 7: Intangible Assets

Movements in carrying amount

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the period:

	31 Dec 2015 \$'000	30 Jun 2015 \$'000 Restated
(a) Goodwill		
Opening net book amount	1,208,859	108,492
Additions in respect of business combinations	-	1,062,664
Impairment of intangible assets	(876,449)	-
Foreign exchange differences	(14,846)	37,702
Closing net book value	317,564	1,208,859
(b) Software development		
Opening net book amount	19,098	5,105
Additions	6,067	9,970
Additions in respect of business combinations	-	3,746
Reclassification from plant and equipment	-	1,995
Foreign exchange differences	(305)	149
Amortisation expense	(3,077)	(1,807)
Disposals	(13)	(60)
Closing net book value	21,770	19,098
(c) Trademarks and brand names (including indefinite life intangibles)		
Opening net book amount	54,691	10,058
Additions in respect of business combinations	-	46,578
Foreign exchange differences	(577)	1,751
Amortisation expense	(4,686)	(3,696)
Closing net book value	49,428	54,691
Total intangible assets	388,762	1,282,648

Impairment testing of goodwill and intangible assets with indefinite lives

The Group has considered whether any indicators that the carrying value of goodwill, other indefinite life intangibles (included in SGS) and other non-financial assets may be impaired are present.

The Group considered the relationship between its market capitalisation and the book value of its equity, among other factors, when reviewing for indicators of impairment. As at 31 December 2015, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill. In addition, the performance of the UK business has not been in line with the Directors' expectations and internal forecasts indicate that the business would be adversely impacted by changes in the UK regulatory environment, known as the "Osborne Reforms." Furthermore, the Australian General Law ("GL") business and, in some states, the Australian Personal Injury Law ("PIL") businesses have not met acquisition targets.

As a result, management performed an impairment test as at 31 December 2015 for all cash generating units ("CGUs"). The impairment test was based on value-in-use methodology.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 7: Intangible Assets (continued)

Impairment testing of goodwill and intangible assets with indefinite lives (continued)

The following CGUs were impaired:

CGU	Impairment loss (\$'000)	Recoverable amount (\$'000)
Slater & Gordon Solutions (SGS)	814,245	477,117
UK – GL	9,458	34,576
Australia – PIL NSW, QLD and WA	38,806	104,732
Australia – GL	13,939	19,565

At 30 June 2015, goodwill for Australia was tested at the operating segment level, being GL and PIL. At 31 December 2015 goodwill for PIL was tested for impairment at a more disaggregated state level.

Discount rates used in the calculation of value-in-use

Australian CGUs

A post-tax discount rate of 10.5% (30 June 2015: 9.25%) was used for all Australian CGUs.

United Kingdom CGUs

A post-tax discount rate of 9.25% was used for each of the 3 UK CGUs (30 June 2015: 10.45% for SGS and 9.25% for UK PIL and UK GL). The discount rate for SGS was assessed at a higher rate at 30 June 2015 due to the recent acquisition of SGS by the Group at that date and the inherent risk that new acquisitions carry with them, as well as the risk characteristics of the forecast cash flows. Whilst a risk adjustment has been retained to reflect uncertainty in the UK legal market, the forecast cash flows used at 31 December 2015 reflect more conservative assumptions and accordingly, the risk adjustment to the discount rate for SGS has been reduced.

Cash flow forecasts used in the calculation of value-in-use

Value-in-use was calculated using approved forecasts covering a period of five years. Cash flows beyond five years were subject to a terminal growth rate of 2.5% for all CGUs (30 June 2015: 3.0%).

Key assumptions underlying the cash flow forecasts were:

Australia – GL

The cash flow forecasts used in the impairment test showed operating cash outflows in all periods covered by the five year model. Accordingly management fully impaired the goodwill of \$13.9m in the Australia GL CGU.

Australia – PIL

Value-in-use was calculated separately for the PIL business in each state. The cash flow forecasts in New South Wales and Queensland reflect the impact of regulatory change to workers' compensation. In other states the forecasts assumed an average growth consistent with growth rates experienced over the last three years in the five year forecast period. The value in use calculation resulted in the impairment losses disclosed above in Queensland, New South Wales and Western Australia. The recoverable amounts for each CGU exceeded the carrying amounts in Victoria, ACT and Tasmania and there are no reasonably possible changes that could cause the recoverable amount to be less than the carrying amount.

There is no goodwill in the PIL business in South Australia.

The remaining aggregate carrying amount of goodwill in the Australian PIL CGUs after impairment is \$8.7m.

United Kingdom businesses

The "Osborne Reforms" announced in November 2015 are expected to affect personal injury claims below £5,000. The cash flow forecasts for the UK businesses assume that the Osborne reforms will be implemented as announced and will affect forecast fees beginning from January 2018. The forecasts assume that fees on claims below the £5,000 threshold will be significantly impacted, with a proportionate reduction in direct operating costs. Management's estimate of the impact is based on the current proportion of total fees that represent claims below the threshold. Management expects that the UK businesses will be able to take advantage of other opportunities following the Osborne reforms, however given the inherent uncertainty regarding any such opportunities they have not yet been reflected in the cash flow forecasts.

The cash flow forecasts assume a steady state for practice areas that are not affected by the Osborne reforms in the five year forecast period.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 7: Intangible Assets (continued)

Cash flow forecasts used in the calculation of value-in-use (continued)

The cash flow forecasts have not considered the expected benefits associated with the planned reorganisation to be undertaken in the UK businesses, and the efficiencies that are expected to be derived from this, as the accounting standard AASB 136 does not permit the Group to include in the value-in-use calculation the effects of a reorganisation to which the Group was not committed at 31 December 2015. However, a natural attrition in staff consistent with historic staff turnover rates has been forecast on the basis that, without reorganisation, there would otherwise be some under-utilisation within SGS.

The remaining carrying amounts of goodwill in the UK CGUs are \$259.5m in SGS, and \$49.4m in UK – PIL. The goodwill in UK-GL was fully impaired. Increases in the discount rates or a reduction in the cash flows could result in a reasonable possible change that could cause the recoverable amount to be less than the carrying amount.

Note 8: Contributed Equity

	31 Dec 2015 Shares	31 Dec 2015 \$'000	30 Jun 2015 Shares	30 Jun 2015 \$'000
Ordinary shares fully paid	352,377,933	1,103,869	350,719,894	1,097,928
VCR Shares	-	-	833,334	417
Balance at end of the period	352,377,933	1,103,869	351,553,228	1,098,345

(a) Movement in Ordinary Share Capital

	For the half-year ended 31 December			
	2015 Shares	2015 \$'000	2014 Shares	2014 \$'000
Balance at the beginning of the period	350,719,894	1,097,928	204,338,625	214,514
Issued during the year				
- Consideration for acquisitions	-	-	2,895,299	1,954
- Conversion of vested VCR shares	728,334	1,399	1,235,333	2,332
- Dividend Reinvestment Plan	786,949	2,270	160,676	967
- Equity Incentive Plan	142,756	401	65,688	406
- Transfer from share-based payment reserve	-	-	-	2,228
Equity reclassification for VCR shares	-	(870)	-	-
Reversal of capital raising costs, net of tax	-	2,741	-	(93)
Balance at end of the period	352,377,933	1,103,869	208,695,621	222,308

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 8: Contributed Equity (continued)

(b) Movements in VCR Share Capital

	For the half-year ended 31 December			
	2015 Shares	2015 \$'000	2014 Shares	2014 \$'000
Balance at the beginning of the period	833,334	417	2,629,333	2,535
- Conversion of vested VCR shares to ordinary shares	(728,334)	(1,399)	(1,235,333)	(2,332)
- VCR shares redeemed	(105,000)	(176)	(520,666)	(162)
- Share based payments expense	-	288	-	548
Equity reclassification for VCR shares	-	870	-	(276)
Balance at end of the period	-	-	873,334	313

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.

Vesting Convertible Redeemable ("VCR") shares

Please refer to the financial report for the year ended 30 June 2015 for detailed discussion on the rights attached to VCR shares.

Note 9: 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 three months and net of bank overdrafts.

Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	For the half-year ended 31 December	
	2015 \$'000	2014 \$'000 Restated
Cash on hand	51,890	15,918

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 10: Commitments and Contingencies

Other commitments and contingencies

As outlined in the financial report at 30 June 2015, the Group has agreements with third party disbursement funders, ASK Funding Limited and Equal Access Funding Proprietary Limited ("the existing 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.

Since 30 June 2014, the Group ended its arrangement with ASK Funding and settled all disbursements previously funded by ASK Funding and recognised them as part of the receivables balance at 30 June 2015. The total amount funded by the funders (existing and assumed) to the Company's clients at 31 December 2015 is \$18,843,035 (30 June 2015: \$18,851,000). The maximum exposure of the Group at 31 December 2015 is \$18,843,035 (30 June 2015: \$18,851,000) if the disbursements on client matters are not recovered from any other party.

Contingent consideration

The Group may be required to pay contingent consideration in relation to acquisitions that have been undertaken. Further details are included in Notes 12 and 13.

Note 11: (Loss)/earnings per Share

The following reflects the income and share data used in the calculations of basic and diluted (loss)/earnings per share

	For the half-year ended 31 December	
	2015	2014
	\$'000	\$'000
		Restated
Net (loss)/profit after tax attributable to ordinary equity holders	(958,181)	49,321
(Loss)/earnings used in calculating basic and diluted earnings per share	(958,181)	49,321
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share ('000's)	351,442	204,768
<i>Effect of dilutive securities:</i>		
VCR shares ('000's)	353	1,743
Performance rights ('000's)	-	120
Adjusted weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share ('000's)	351,795	206,631

Potential ordinary shares resulting from VCR shares and performance rights have an anti-dilutive effect due to the Group being in a loss position for the half-year ended 31 December 2015. As a result, diluted loss per share is disclosed as the same value as basic loss per share. The VCR shares and performance rights issued by the Company and which are outstanding at half-year end could potentially dilute earnings per share in the future if exercised when the Group is in a profit making position.

VCR shares

VCR shares are considered to be potential ordinary shares and have been included in the determination of diluted (loss)/earnings per share. Refer to Note 27 of the financial report for 30 June 2015 for a detailed explanation of VCR shares.

Performance rights

The Group introduced the Equity Incentive Plan ("EIP") in October 2014, which replaces the existing Employee Ownership Plan ("EOP") without prejudice to the rights of current participants in the EOP. The performance rights vest based on a three year service condition and the financial performance of the Australian, UK or Group operations (depending on the executive role) over the three financial years. Performance measures include total shareholder return and earnings measures. Each performance right grants the holder one ordinary share if vested, hence they have been included in the calculation of diluted (loss)/earnings per share.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 12: Business Combinations

Prior Period:

Acquisition of business – All States Legal Co Pty Ltd trading as Nowicki Carbone

On 31 October 2014, the Group acquired the business of Nowicki Carbone, a personal injury law firm based in Melbourne, Victoria.

The strategic rationale for this business acquisition is:

- to further expand the Group's personal injury law practice;
- synergies expected to be achieved as a result of combining the acquired business with the rest of the Group; and
- to reaffirm the Group's position as the leading law firm brand in the Australian consumer legal services market.

The initial accounting for this acquisition had previously been provisionally determined. The necessary fair valuation of consideration and net assets acquired has now been finalised and is reflected in the amounts detailed below. This revaluation has resulted in an increase in the work in progress of \$5.8m and additional provisions raised of \$1.0m resulting in an increase in the gain from bargain purchase of \$4.8m.

Acquisition of business – All States Legal Co Pty Ltd trading as Nowicki Carbone (continued)

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

\$'000

Consideration

Cash	10,000
Total consideration	10,000

Net assets acquired

Fair Value

\$'000

Assets

- Trade and other receivables	3,158
- Work in progress	45,014
- Plant and equipment	993
- Intangible assets	57
- Deferred tax assets	770
- Other assets	1,323
Total assets acquired	51,315

Liabilities

- Bank overdraft	(151)
- Payables	(3,448)
- Provisions	(511)
- Borrowings	(319)
Total liabilities acquired	(4,429)
Net assets acquired	46,886
Gain from bargain purchase	(36,886)

Acquisition-related costs for this acquisition amounting to \$nil (30 June 2015: \$270,000) have been excluded from the total consideration and have been recognised as an expense in the period, within the 'costs associated with acquisitions' line item in the statement of profit or loss and other comprehensive incomes.

Acquisition of businesses in the UK

During the year ended 30 June 2015, the Group acquired the following businesses in the UK:

Acquisition Date	Business	Location	Business Type
5 September 2014	Flint Bishop LLP	Derby, UK	Personal Injury Law
8 May 2015	Leo Abse Cohen	Wales, UK	Personal Injury Law and Consumer Legal Services

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 12: Business Combinations (continued)

Acquisition of businesses in the UK (continued)

The strategic rationale for these business acquisitions are:

- 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 initial accounting for the acquisition had previously been provisionally determined. The Group completed the valuation of assets and liabilities acquired in the current period for Flint Bishop LLP whilst the accounting for Leo Abse Cohen remains provisional as at 31 December 2015.

The initial accounting for Flint Bishop LLP had previously been provisionally determined. The necessary fair valuation of consideration and net assets acquired has now been finalised and is reflected in the amounts detailed below. This revaluation has resulted in an increase in the work in progress of \$1.6m and increase in deferred tax liability of \$0.3m resulting in a decrease of the goodwill to nil, and a resulting gain from bargain purchase of \$1.2m.

The valuation of assets and liabilities acquired for Leo Abse Cohen continues to remain provisional at the end of the current period. A revaluation of the assets and liabilities during the current period has resulted in a decrease in the work in progress of \$1.5m and decrease in deferred tax liability of \$0.3m resulting in a decrease in the gain from bargain purchase of \$1.2m.

The consideration transferred and the value of the consolidated assets and liabilities assumed at the dates of acquisition are as follows:

Consideration	\$'000
Cash	13,136
Fair value of deferred consideration (cash)	1,427
Net present value of total consideration	14,563

Net assets acquired	Fair Value \$'000
Assets	
- Trade and other receivables	7,670
- Work in progress	29,356
- Other assets	850
Total assets acquired	37,876
Liabilities	
- Payables	(4,499)
- Provisions	(1,140)
- Deferred tax liabilities	(20)
Total liabilities acquired	(5,659)
Net assets acquired	32,217
Gain from bargain purchase	(17,654)*

*The acquisition of Flint Bishop LLP resulted in a gain from bargain purchase of \$1,226,000 and the acquisition of Leo Abse Cohen resulted in a gain from bargain purchase of \$16,428,000.

The profit and loss results of the acquired businesses are not set out. It is not practicable to disclose the profit and loss results of the acquired businesses as they have been integrated into the existing operations and reporting structure of the Group.

It is also not practical to disclose the revenue and profit after tax of the combined entities as if these acquisitions took place on 1 July 2014 as the Group does not have access to audited financial information for the period prior to the dates of acquisition prepared on the same Group accounting policies.

Acquisition-related costs for these acquisitions amounting to \$28,000 (30 June 2015: \$458,000) have been recognised as an expense in the period, within the 'costs associated with acquisitions' line item in the statement of profit or loss and other comprehensive income.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 12: Business Combinations (continued)

Acquisition of other business in the UK – Slater Gordon Solutions (provisionally accounted)

On 29 May 2015 the Group acquired SGS from Quindell Plc. SGS is comprised of 52 legal entities incorporated in the UK and Malta.

The principal activities of SGS are:

- I. Conducting claims on behalf of individuals injured in the course of employment or in a public place ("EL/PL"). One type of employers' liability claim that SGS is currently conducting are personal injury claims for a large group of people who allege noise induced hearing loss ("NIHL") as a consequence of employment and who may be entitled to compensation as a result. It is expected that these NIHL claims will be concluded in the next 1 to 3 years;
- II. First notification of loss ("FNOL") services for various partner organisations, including insurance brokers, insurers, motoring organisations and vehicle manufacturers. These services include the facilitation of vehicle retrieval, repair and replacement vehicle hire for not at fault drivers;
- III. Conducting claims on behalf of not at fault parties to road traffic accidents ("RTA"), including credit hire, repair and personal injury claims; and Services complementary to these claims processes, including:
 - a. A medical reporting service for claimant lawyers;
 - b. The assessment, triage and facilitation of rehabilitation services for not at fault parties injured in accidents; and
 - c. A costing service for lawyers.

The strategic rationale for this business acquisition is:

- to become the leading personal injury group in the UK; and
- access to a comprehensive platform of businesses, processes and infrastructure that augments the Group's existing UK operation.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 12: Business Combinations (continued)

Acquisition of other business in the UK – Slater Gordon Solutions (provisionally accounted) (continued)

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

Consideration	\$'000
Cash	936,793
Cash paid for liabilities acquired from previous owner	357,902
Total cash consideration	1,294,695
Net assets acquired	Fair Value
	\$'000
Assets	
- Cash and cash equivalents	5,129
- Trade and other receivables	316,401
- Work in progress	121,941
- Plant and equipment	4,889
- Intangible assets	50,364
- Current tax assets	29,041
- Deferred tax assets	47,768
- Other assets	7,773
Total assets acquired	583,306
Liabilities	
- Short-term borrowings	(10)
- Current tax liability	(14,080)
- Payables	(317,775)
- Provisions	(4,794)
- Deferred tax liabilities	(9,304)
Total liabilities acquired	(345,963)
Net assets acquired	237,343
Goodwill on acquisition	1,057,352

The initial accounting for the acquisition of SGS has only been provisionally determined at the end of the reporting period, which has been updated since our disclosures in the financial report at 30 June 2015. The respective changes to reported provisional fair value of net assets acquired are:

- \$31.4m reduction in the fair value of work in progress
- \$42.6m decrease in the fair value of trade and other receivables, incorporating a \$10.1m provisioning adjustment for SGS Motor.
- Reduction of Brand Names totalling \$20.9m with an assessed fair value of Nil at acquisition date (Quindell Business Processes Services (QPBS) and Accident Claims Helpline (ACH)).
- Increase in the deferred tax asset by \$3m to recognise the future tax benefit associated with the revised fair value of WIP in accordance with AASB 15, AASB 3 restatements, and other fair value adjustments incorporating carry forward losses.
- Reduction in the fair value of trade payables \$30.4m.
- \$4.1m reduction deferred tax liabilities associated with de-recognition of acquired brands (QPBS & ACH).

The resulting impact of the above fair value adjustment is to increase the value of Goodwill on acquisition to \$1.057 billion. In accordance with AASB 3 *Business Combinations* the provisional accounting period remains in place.

The key item that gave rise to the goodwill above is the capacity of SGS to underpin strategic growth of the personal injuries practice within the UK market.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 12: Business Combinations (continued)

Acquisition of other business in the UK – Slater Gordon Solutions (provisionally accounted) (continued)

SGS has contributed total revenue of \$254.8m and a loss after tax of \$32.2m in the period ended 31 December 2015, which is included within the consolidated statement of profit or loss. As at the date of reporting, it is not practical to disclose the revenue and profit after tax of the combined entities as if the acquisition took place on 1 July 2014 as the Group does not have access to audited financial information for the period prior to the date of acquisition prepared on the same Group accounting policies.

Acquisition-related costs for this acquisition amounting to \$445,006 (30 June 2015: \$20,776,000) have been recognised as an expense in the period, within the 'costs associated with acquisitions' line item in the statement of profit or loss and other comprehensive income.

The acquisition of SGS is provisionally accounted for at the half-year ended 31 December 2015 as the values of the acquired assets and liabilities of SGS are considered to be provisional under AASB 3. It also remains not practical for the Group to determine an estimate of the noise-induced hearing loss ("NIHL") claims asset and associated deferred consideration. These will be updated before the completion of the measurement period which can be no longer than 12 months post-acquisition. The directors believe contingent consideration could be in the range of £10m (\$20m) to £40m (\$80m).

In line with the requirements under AASB 136 *Impairment of Assets* the carrying value has been amended as at 31 December 2015. Refer to Note 7 for further details.

On 5 August 2015, Quindell Plc, the vendor of SGS, published qualified financial statements in which the current directors and auditors of Quindell Plc explained, inter alia, that relevant information relating to transactions entered into

By the former directors that could impact on the accounting, intention, commercial purpose or value of certain transactions was not available to them.

On 5 August 2015 the Serious Fraud Office in the United Kingdom advised that it has opened a criminal investigation into the business and accounting practices of Quindell Plc.

The acquisition of SGS was structured as an acquisition of the various entities rather than an acquisition of the common stock of Quindell Plc. Moreover, Quindell Plc provided detailed warranties to the Company in relation to the operations of the assets comprising SGS. Those warranties are secured by a Warranty Escrow account holding £50m.

The Company is confident that it has no liability as a result of the matters described above.

In the course of preparing these financial statements, the Directors have sought to identify, understand and properly account for all relevant prior transactions undertaken by entities within SGS. Despite reasonable inquiries, including of current directors of Quindell Plc, the Directors are unable to identify or rationalise every historic transaction undertaken by the former directors of the various entities and have made fair value adjustments as appropriate. The Directors believe that none of the known transactions relate to the fundamental business activities or economics of SGS and none of the known transactions are material in value or effect to the Company.

Acquisition of business – Walker Smith Way Limited (provisionally accounted)

On 30 April 2015, the Group acquired the business of Walker Smith Way Limited ("WSW"), a personal injury and consumer law practice operating throughout Northern England and Wales.

The strategic rationale for this business acquisition 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 valuation of assets and liabilities acquired for Walker Smith Way continues to remain provisional at the end of the current period. A revaluation of the assets and liabilities during the current period has resulted in an increase in the work in progress of \$8.7m and an increase in deferred tax liability of \$1.7m resulting in an increase in the gain from bargain purchase of \$7.0m.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 12: Business Combinations (continued)

Acquisition of business – Walker Smith Way Limited (provisionally accounted) (continued)

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

Consideration	\$'000
Cash	5,204
Cash settled vendor debt	6,427
Fair value of deferred consideration (cash)	947
Net present value of total consideration	12,578

Net assets acquired	Fair Value \$'000
Assets	
- Cash and cash equivalents	2,174
- Trade and other receivables	7,603
- Work in progress	28,885
- Plant and equipment	67
Total assets acquired	38,729
Liabilities	
- Payables	(4,313)
- Provisions	(1,328)
- Deferred tax liabilities	(4,565)
Total liabilities acquired	(10,206)
Net assets acquired	28,523
Gain from bargain purchase	(15,945)

The initial accounting for the acquisition of WSW has only been provisionally determined at the end of the reporting period. The profit and loss result of the acquired business is not set out. It is not practicable to disclose the profit and loss result of the acquired business as it has been integrated into the existing operations and reporting structure of the Group.

It is also not practical to disclose the revenue and profit after tax of the acquired business as if this acquisition took place on 1 July 2014 as the Group does not have access to audited financial information for the period prior to the date of acquisition prepared on the same Group accounting policies.

Acquisition-related costs for this acquisition amounting to \$nil (30 June 2015: \$230,000) has been recognised as an expense in the period, within the 'costs associated with acquisitions' line item in the statement of profit or loss and other comprehensive income.

Acquisition of other businesses in Australia

During the year ended 30 June 2015, the Group acquired the following businesses in Australia in addition to Nowicki Carbone:

Acquisition Date	Business	Location	Business Type
31 July 2014	Fiocco Lawyers	Perth, WA	Personal Injury Law and Consumer Legal Services
5 September 2014	Biddle Lawyers	Victoria Point, QLD	Consumer Legal Services
12 September 2014	Cox West Lawyers	Penrith, NSW	Personal Injury Law and Consumer Legal Services
31 October 2014	Schultz Toomey O'Brien	Sunshine Coast, QLD	Personal Injury Law and Consumer Legal Services
28 November 2014	Bannister Law	Sydney, NSW	Personal Injury Law

Details of the above business combinations have been disclosed in Note 31 of the annual financial report for the year ended 30 June 2015.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 13: Fair Value Measurements

i) Fair value hierarchy

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

31 December 2015	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	-	2,000	-	2,000
Contingent consideration	-	-	3,111	3,111
	-	2,000	3,111	5,111

30 June 2015	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	-	1,621	-	1,621
Contingent consideration	-	-	6,089	6,089
	-	1,621	6,089	7,710

ii) 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 determine the present value the future cash flows.

iii) Reconciliation of recurring Level 3 fair value movements

	31 Dec 2015	30 Jun 2015
	\$'000	\$'000
Contingent Consideration		
Opening balance	6,089	7,927
Acquisitions	-	4,185
Payments	(3,195)	(1,865)
Adjustment to contingent consideration	-	(4,983)
Interest	217	378
Foreign exchange differences	-	447
Closing balance	3,111	6,089

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

iv) 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 end of the reporting period and therefore not impact profit after tax and equity.

Notes to the Financial Statements

For the Half-Year Ended 31 December 2015

Note 14: Subsequent Events

There have not been any matters or circumstances that have significantly affected, or may significantly affect, the results reported in the financial statements.

Slater and Gordon Limited

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 4 to 28 are in accordance with the *Corporations Act 2001*:

- (a) Comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2015 and of its performance and cash flows for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Slater and Gordon Limited will be able to pay its debts as and when they become due and payable.

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



John Skippen
Chair
Melbourne
28 February 2016



Andrew Grech
Group Managing Director

Independent Review Report to the members of Slater and Gordon Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Slater and Gordon Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Slater and Gordon Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

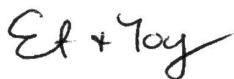
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Slater and Gordon Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Christopher George
Partner
Melbourne
28 February 2016

Corporate Directory

Directors

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

Company Secretary

Moana Weir

Registered Office and Corporate Office

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

Company Website

www.slatergordon.com.au

Company Numbers

ACN 097 297 400
ABN 93 097 297 400

Auditors

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000

Bankers

Westpac Banking
Corporation
Level 7
150 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
Computershare Investor
Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

GPO Box 2975
Melbourne Victoria 3001

Telephone

Toll Free 1300 850 505
(Australia)
+61 3 9415 4000
(Overseas)

Investor Centre Website:

www.computershare.com.au

Email:

web.queries@computershare.com.au