SLATER AND GORDON GROUP

ASX Announcement

4 November 2016

ANNUAL GENERAL MEETING

CHAIRMAN AND GROUP MANAGING DIRECTOR'S ADDRESS

JOHN SKIPPEN, CHAIRMAN:

As you are all well aware, the 2016 financial year was a most challenging and disappointing period for Slater and Gordon and the financial results delivered were well below expectations.

We are very disappointed that we had to make such a large write off relating to the Slater Gordon Solutions acquisition and are very concerned by the under performance of our UK operations in general.

In February I offered shareholders an apology on behalf of the board and I re-iterate that apology today. We are sorry for the financial losses you have suffered and as a Board we are doing everything we can to ensure the Group's financial performance is restored to sustainable levels as quickly as possible.

As we reported in August, the UK business remains in a process of transition as we implement a very significant performance improvement programme. Whilst we are making progress there are still challenges and a lot more work that needs to be done to build a sustainable business in the UK.

I've asked Andrew to brief you today about the execution of that plan which is beginning to deliver results. I will deliberately keep my opening remarks brief to allow Andrew more time for this update.

Successfully securing the continued support of our lending group this year was central to our ability to address the UK issues. The amended finance facilities now provide us with the opportunity to improve the profitability and cash flow performance of the business and therefore improve the prospects of refinancing in due course and reduce debt to more acceptable levels.

We have made significant changes to improve the governance and performance of the Group.

The ongoing process of ensuring our Board has the right combination of continuity, fresh eyes and a broadening of its skills has been advanced by changes to Board composition with the resignations of two long standing Board members and the appointment of James Millar and Tom Brown. This process will continue with a further non-executive Director appointment anticipated this financial year.

A special board committee has been established to actively monitor business improvement activity and the board has appointed an independent UK based expert with substantial business transformation experience to act as advisor to the special board committee.

We have bolstered our senior management team with the appointment of a new Group CFO, Bryce Houghton and CEO of Australia, Hayden Stephens.

Bryce joined on 30 November 2015 and has made significant improvements to our finance function and financial reporting processes. He was heavily involved in dealing with the myriad of reporting issues in FY16 and the amendment of the finance facilities.

Hayden has over 20 years' experience in legal services and is very capable of ensuring the Australian business continues to be strong throughout this period.

Senior management ranks across the UK and Australia have also been bolstered to ensure we are well positioned to overcome the challenges we face.

What is pleasing is that throughout a tumultuous year, with lots of negative publicity in the market, the performance of our Australian business was broadly in line with expectations which is testament to the resilience and professionalism of our team

I want to acknowledge the work done by Slater and Gordon's staff this year on behalf of its clients. Our mission continues to be to provide people with easier access to world class legal services. Fulfilling that mission is the paramount consideration for Slater and Gordon, its Board and its staff. Our clients have always, and will always, come first.

My position as Chairman has attracted media comment and I want to assure you that my aim together with the Board is to assist Andrew and his team to place the company back on a strong financial path for the future.

Ladies and gentlemen, we enter the 2017 financial year with the strategy and people in place to undertake the programme of improvement necessary to stabilise the business. Your Board is closely monitoring the execution of the performance improvement programme. We acknowledge the challenges and that there is still work to be done to build a sustainable business in the UK. Your Board and Management are focused on the task at hand and on improving shareholder value.

I will now hand over to Andrew Grech.

ANDREW GRECH, GROUP MANAGING DIRECTOR:

Good morning everyone, thank you for joining us today. As John mentioned, we are here today to report to you on performance during the period ending 30 June 2016, and to provide an update on our progress in the UK since the full year results were delivered in late August this year. As reported in August the UK business remains in a process of transition as we implement a very significant performance improvement programme. Whilst we are making progress there are still challenges and a lot more work that needs to be done to build a sustainable business in the UK.

UK Operating Model

The UK operations have now been streamlined to align the business with the markets we operate in and enable us to deliver better client outcomes.

Our legal services business has been re-organised into three divisions with Slater and Gordon Lawyers servicing clients with serious & specialised personal injury claims and providing other General Law services such as Family Law, Employment Law and Dispute Resolution. The Slater Gordon Solutions legal business focusses on clients with fast track personal injury claims. This business manages a high volume of personal injury law claims which operate largely in a fixed fee environment. Slater Gordon Solutions also continues to provide Motor and Health Services for the benefit of people who are involved in accidents.

The combined UK operations delivered fee and services revenue of approximately £330m in FY16. Our challenge is to deliver improved efficiency and acceptable margins from this revenue base and to deal with the short term issues facing the legal services business.

UK Performance Improvement Programme Update

The UK performance improvement programme is beginning to deliver some results.

It is important to recognise that this is a business transformation programme which will take time to complete. We are substantially through phase 1 which focuses on a re-organisation of people into the three legal services businesses and a rationalisation of the number of sites at which we have a presence. Phase 2 is focused on improving productivity and cash conversion. There are a number of project teams reporting into the steering committee undertaking the changes to work practices, process and technology required to achieve the desired improvements.

There are of a number of projects underway with four key areas of focus.

As mentioned above, our first priority was streamlining the operations to align the business with the markets we operate in and right size the business in terms of its operating foot print and workforce.

That business re-organisation is largely complete and the right sizing of the operational footprint of the business is well progressed:

- A 16% reduction to headcount so far this calendar year has delivered immediate financial benefits.
- Operating sites will have reduced – from 47 to 32 by January 2017 – with further locations scheduled to be re-organised or closed in the remainder of 2017.
- The shared services teams have also been consolidated delivering immediate benefits.

Delays to implementation have been experienced in some areas however, the re-organisation is past the period of maximum risk and has occurred with limited disruption to our clients.

The second key area of activity has been focused on rationalising our marketing and new business generation investment. This has also delivered immediate financial benefits. The goals in this area are to ensure that:

- our level of investment is appropriately aligned with our case resolution performance;
- the cases we are taking in are of a high enough quality; and
- despite reduced investment we are maintaining and building awareness of our brands.

Marketing and new business investment has been reduced by over a third since the programmme's inception and pleasingly, case intake volumes have not been significantly affected despite the reduced spend.

In fact, brand awareness for the Slater and Gordon Lawyers brand continues to strengthen –having risen from 24% to 28% in FY16 – and is the highest of its competitor set.

Our online presence is also very effective relative to our competitors with over 200,000 visitors per month to the Slater and Gordon Lawyers website – twice the level of our nearest competitor.

Both of our key consumer facing legal services brands enjoy strong trust pilot ratings, a key legal sector measure of brand strength.

The third key area of the UK performance improvement programme activity involves enhancing our processes and systems. This is shifting into the phase 2 type activity that I referred to earlier.

Our objectives are to:

- develop robust efficient infrastructure;
- improve productivity though the enhancement of our case management systems; and
- improve the skills of our staff.

All of which will contribute to the acceleration of the realisation of our work in progress.

A project team led by our Chief Restructuring Officer, is focused on improving our financial systems, processes and back of office capability which is intended to enhance cash collection.

Working capital lock up remains a problem in the UK legal services businesses. The team led by the Chief Restructuring Officer is giving this area the immediate focus it needs and beginning to make progress.

While some short term financial benefits have also been delivered through the programme in the form of reduced IT costs this is a programme of work where benefits will be realised over a number of years.

To date, key infrastructure has been stabilised and case management systems are progressively being enhanced.

The fourth area of activity is communications and employee engagement.

Clearly during any transformation programme involving a 16% reduction in headcount a key challenge is retaining the right staff and keeping those staff motivated and engaged to deliver results for our clients.

We have experienced some unplanned staff attrition, but overall this has stabilised and is manageable. There are specific challenges in a few key specialist areas of the legal practices however, this is also reflective of a shortage of skills in those areas across the sector. Our brand, scale, and position in the market remains an attractive employee proposition.

Generating and then maintaining support for our change programme is key and our leadership teams have embraced the programme.

In summary, we are making progress in the UK. There are risks and challenges that we still face as we strive to achieve this. These risks are well understood and are being managed but remain constant.

UK Performance Improvement Programme Risks/Challenges

I've outlined some of the obvious risks on this slide.

The cost of client acquisition and marketing may not continue to moderate and may increase against more recent trends.

As a result of our initiatives, case failure rates have been declining more recently, however the risk is that this improvement may not be sustained and failure rates may either return to previous levels or worsen.

We may not be able to improve productivity and thereby increase profitability and cash flow as quickly as planned.

Unexpected adverse legislative change may occur or may occur more quickly than currently anticipated.

The UK Opportunity

In calling out the risks, I think it's also important to call out the opportunity and I reiterate today that despite the challenges we are facing in the UK we remain convinced of the strategic merit of taking a leadership position in the UK consumer legal services market. In doing so we have positioned Slater and Gordon to take advantage of the consolidation which is already underway and will continue. We are in a growing sector with a well positioned brand and the opportunity to win market share once we are through our current challenges.

Australian Operations

We are also ensuring the Australian business remains strong with a range of targeted activities to reinforce its leading position in the market.

We have implemented performance improvement initiatives across the Australian business to ensure that it remains strong and continues to grow and improve over time.

As in the UK, a number of workstreams have been created to deliver improvement initiatives. There are 5 key areas of focus in Australia – clients, staff engagement, revenue generation, cash and cost savings.

Pleasingly, independent research measuring Australian client satisfaction showed increasing satisfaction levels in 2016 despite the numerous challenges we faced as a business.

Despite the challenges we have faced I am constantly amazed by the quality of service and dedication of our staff. Provided we continue to keep clients at the centre of everything we do we will restore performance and confidence.

Turning now to a trading update for the first quarter of the 2017 financial year.

Q1 Trading Update

Australia

The Australian operations have had a good start to the year delivering first quarter revenues and earnings in line with budget.

Strong fee performances were achieved in the Queensland, New South Wales and Tasmanian Personal Injury Law businesses. The General Law business was on budget.

While enquires are broadly in line with the prior year we have seen some weakness in file openings in the Victorian Personal Injury Law business which we are addressing. We are continuing to see strong growth in family law enquiries.

UK

In the UK, first quarter earnings tracked slightly ahead of budget driven by overperformance from the Serious and Specialised Personal Injury Law practice within Slater and Gordon Lawyers UK. As I mentioned earlier, the UK performance improvement programme is beginning to deliver results and recurring cost savings have been achieved.

Enquiries and intake for the legal services businesses have stabilised in the first quarter. What has been particularly pleasing is the quality of new client instructions that have been secured and the loyalty of existing clients.

Intake has also been pleasing in the Serious and Specialised Personal Injury Law practice with both volumes and quality meeting our expectations.

As part of the transition to re-align our practices in the UK, we are directing fast track personal injury law claims to Slater Gordon Solutions Legal, however this leaves a number of those claims to be run-off within Slater and Gordon Lawyers. The run-off process is behind schedule and is beginning to impact negatively on month by month performance.

In General Law, volumes in key consumer areas such as family and employment law have been largely on track, with a few disappointing pockets elsewhere. Again, the quality of enquiries continues to improve.

Much of our success in Slater and Gordon Lawyers can be attributed to the growing strength of the Slater and Gordon brand in the UK which is underpinned by the skills and dedication of our staff.

In Slater Gordon Solutions there was some revenue shortfall in the Slater Gordon Solutions Legal business or fast track division, driven by lower than expected case resolutions. We are addressing this by continuing to look for opportunities to enhance the productivity of case handlers and shorten the claims resolution cycle. We have also initiated an improvement programme within the fast track division.

We continue to be disappointed by the lack of progress with bulk settlements in the noise induced hearing loss portfolio, but costs are being managed carefully and losses will be significantly reduced from last year. The delays in claim resolution were impacted by a combination of:

- the acquired caseload not being sufficiently ready for settlement;
- higher than expected staff attrition in Q4 of FY16 continuing through Q1 of FY17;
- a need to invest more time in staff recruitment and training;
- a revamp of the case management systems to enable productivity improvements; and
- a lack of insurer capacity and will to accelerate the process.

The delays are frustrating and may cause a higher level of case attrition than first expected. It is not currently clear whether we will be able to achieve our initial expectations of 18,000 – 22,000 cases being successfully resolved. It is possible that the delays may result in case attrition being materially higher. This higher attrition may be partially offset by lowering the costs of the practice and average fees per file being higher as the time for resolution (and thereby work performed on each case) may increase.

The SGS Motor and Health businesses are broadly on track against budget.

In summary, first quarter Group earnings and cash flows are significantly improved over the prior comparative period. Our challenge is to continue to accelerate this improvement process so that we may maintain the support of our lenders and ensure we move to a position where we have a sustainable capital structure.

FY17 Priorities

Moving now to priorities for FY17.

We are clear that our priority is to restore the earnings and cash flow profile of the business, which in turn will allow us to refinance debt and restore value for all stakeholders.

Key to this is delivering the UK performance improvement programme and continuing to improve our already strong Australian business.

We will continue to improve our governance and reporting systems and processes.

Group cash flow performance remains challenging as we deal with the impact of the re-organisation activity in the UK. Our liquidity position remains finely balanced and improving the working capital position remains a key focus of both management and the Board.

In terms of the operating environment in the UK, the Former Chancellor's Autumn Statement proposals now appear unlikely to be implemented as originally outlined. The Government has however re-iterated its interest in reducing the cost of claims and fraud and therefore legislative change is likely to remain on the agenda.

In Australia, the changes to the law contemplated by the New South Wales government in relation to motor vehicle accident claims has been placed on hold to seek further consultation with stakeholders, which is welcome. Some interim measures were recently introduced to restrict legal costs on minor motor vehicle accident claims in New South Wales. These interim changes are not expected to materially impact performance in FY17 or beyond.

Thank you, I will now hand you back to John Skippen.

JOHN SKIPPEN, CHAIRMAN:

Before we move to the formal business of the meeting and the opportunity for questions, I thought I would share my responses to a range of matters that have been raised with me in my recent discussions with shareholders.

Shareholders have asked me why Andrew Grech is being issued any performance rights at all.

At the time of the announcement of Slater and Gordon's half year results, I told you that Andrew Grech had offered his resignation to the Board. I said at the time the Board's view was, (and this remains) that Andrew has the skills and experience needed to lead the Company through this period of change. It is unlikely that the Company would be able to successfully recruit a senior executive with the same mix of skills and industry knowledge.

Andrew is committed to the Company and has been based in the UK full time since January and has agreed to remain there as long as required to ensure we achieve a steady profitable state in the UK business.

The Board believes the fundamental driver for remuneration should be long term shareholder value creation and to achieve this Andrew's package includes a mix of components focused on promoting long term, sustainable shareholder value.

The Board is asking shareholders to approve a plan which will reward Andrew with rights only if he delivers outcomes that are aligned with shareholder value creation.

Let me make one point very clear. Andrew did not receive a performance related bonus for FY16 or any increase in his salary in FY17.

The performance rights approved by shareholders at last year's AGM were cancelled by the Board, and the same will be the case with this year's rights if performance hurdles are not met.

There have also been questions raised about the short term incentive payments accruing in FY16 to our senior executives Bryce Houghton and Felicity Pantelidis. Let me first observe that these were the only two senior executives to be awarded any incentive payments. In the case of our Group CFO Bryce Houghton, Bryce's performance against key performance measures agreed shortly after he started during the period from December 2015 to June 2016 made him eligible for the payments made. The Board considered it appropriate to approve the incentive payments based on his contribution and leadership in the financial management of the Company through a very challenging period, acknowledging that those challenges resulted from events prior to his commencement.

Another issue raised is the increase in Director's Fees.

Board fees were reviewed by an external remuneration specialist in April 2015, based on a comparator group of companies of similar size to Slater and Gordon.

This resulted in fees being adjusted from 1 July 2015 to enable the recruitment of new directors with the appropriate skills and experience to enhance the Board and to assist with the substantial increase to the workload of directors.

We have announced that we have notified Watchstone Group Plc (formerly Quindell Plc) of our intention to make a claim against it arising from the acquisition. As a first step we have sought to ensure that the £50m of the acquisition price currently in escrow remains in escrow until the claim is determined. That merits based assessment by an independent barrister as to whether the funds will continue to remain in escrow will be completed by the end of the month. Proceedings relating to the claim itself may take a number of years to resolve.

The fact that a class action has been filed by shareholders of the Company has been well-publicised. The Company has said that it will vigorously defend the proceedings which it expects to take place over several years.

I have been asked about the impact a class action would have on the Group.

The Board's view is that the proceedings are clearly not in the best interests of the Company's shareholders. However, we do not expect the costs of defending the proceedings to have any material impact on the Company's financial performance.

Another question I am being asked, given the large write-off attributable to Slater Gordon Solutions and the assertions made in the class action, is, what was wrong with the due diligence and why haven't we sued our advisors. As I hope you will appreciate, with legal proceedings on foot, I am restricted in what I can say. What I can say is that the Slater Gordon Solutions acquisition due diligence was extensive and the Company engaged highly experienced external advisors.

With regards to our remuneration report, the current voting indicates a first strike will be received. In light of this we will review our remuneration structure and this will be reported to shareholders in our FY17 remuneration report.

We understand shareholder concerns about the current value ascribed to their shares, but we aimed to balance that against the need for us to provide market competitive remuneration packages to attract and retain staff and to address some of the critical matters that faced the business last year.

We will now move to the formal business of the meeting.