

ASX Announcement

31 August 2017

Market Update: Amended Recapitalisation Agreement

Further to its announcement to the ASX on 29 June 2017, Slater and Gordon Limited (ASX:SGH, the "**Company**") advises that it has entered into an amended binding restructure support deed ("**RSD**") with 100% of its secured senior lenders ("**Senior Lenders**") in relation to a recapitalisation of the Company ("**Recapitalisation**").

The revised terms of the Recapitalisation will provide the Company with the additional liquidity support required for its continued operation prior to the implementation of the Recapitalisation and to fund the business plan thereafter. It will also deliver the substantial debt reduction that was a feature of the original proposal.

The Company's Directors unanimously support the revised terms of the Recapitalisation. The Directors continue to hold the view that current levels of bank debt materially exceed total enterprise value and that the Company requires a holistic restructuring of its balance sheet. Therefore, in the absence of a superior proposal, the Directors believe that the Recapitalisation is the best outcome available for shareholders and all stakeholders.

The Recapitalisation will enable the Company to pursue its mission to provide people with easy access to world class legal services, with a stabilised balance sheet and a sound operating platform. Shareholders will retain the opportunity to participate in future value creation as the Company pursues its strategic plan in Australia.

Key Terms of amended RSD

The key terms of the Recapitalisation are summarised as follows:

1. Increased Working Capital Facility

The Company's Senior Lenders have committed to increase the Company's existing A\$40m working capital facility as announced on 5 May 2017 by an amount equivalent to a further A\$50m. The additional funding will be available for drawdown prior to and following implementation of the Recapitalisation. The additional funding will comprise an A\$25m AUD denominated tranche ("**AUD Incremental Facility**") and a GBP-equivalent A\$25m denominated tranche ("**GBP Incremental Facility**", and together with the AUD Incremental Facility, the "**Incremental Facilities**"). The Incremental Facilities will be used for general corporate purposes, including one-off costs incurred in connection with the Recapitalisation, and working capital support as the business pursues its turnaround plan.

2. Separation of UK Operations

On implementation of the creditors' scheme of arrangement to give effect to the Recapitalisation ("**Senior Lender Scheme**"), all UK operations and UK subsidiaries (including Slater & Gordon (UK) 1 Ltd ("**S&G UK**") will be separated from the Company and transferred to a new UK holding company ("**UK HoldCo**"). UK HoldCo will be wholly owned by the Senior Lenders. Following separation, existing shareholders of the Company will cease to have any interest in the Company's existing UK operations or UK subsidiaries. As a result of this, the working capital Incremental Facilities will be separated into a \$65m AUD denominated facility with the Company for the Australian business and a GBP denominated facility (with an aggregate principal amount equal to the commitments made available under the GBP Incremental Facility) with S&G UK for the UK business. These replacement facilities are to be entered into immediately following the Recapitalisation and are described further below.

The Company believes the separation of the UK operations provides the best option to enable both the Australian and UK operations to succeed in their own right and will enable the Company to focus its management's time and resources on the Australian business.

3. Watchstone Receivable

As partial consideration for the transfer of S&G UK shares from the Company to UK HoldCo, the Company will have recourse to the first A\$40m of any proceeds that S&G UK receives from Watchstone-related claims. These proceeds will be applied first to reduction of the Company's Super Senior Secured Debt Facility (refer below), further deleveraging the business.

4. Issue of shares in the Company to Senior Lenders

On implementation of the Senior Lender Scheme, Senior Lenders will be issued with approximately 95% of the equity of the Company.

Existing shareholders will hold approximately 5% of the Company post the Recapitalisation.

The number of shares to be issued to each Senior Lender will depend on their commitments in respect of the Incremental Facilities and the Super Senior Secured Debt Facilities (described below and which will refinance the Company's Incremental Facilities immediately upon Recapitalisation).

5. Debt Facilities (Australia)

Outstanding secured debt will be permanently reduced by a combination of releasing, refinancing and restating debt.

The senior debt facilities of the Company immediately following implementation of the Recapitalisation will be as follows:

- a) **Super Senior Secured Debt Facility (A\$65m):** The \$65m facility will have a 3 year term and will be used for working capital purposes.
- b) **Restated Debt Facility (A\$60m):** \$60m of senior secured debt under the Company's existing Syndicated Facility Agreement will be restated on substantially the same terms but amended with a 5 year term with payment in kind interest ("PIK") accrued but not payable until the facility has been repaid, amongst other changes.

6. Debt Facilities (UK)

In respect of the UK operations (which will be owned 100% by the Senior Lenders), S&G UK's debt facilities on implementation of the Recapitalisation will be as follows:

- a) **Super Senior Secured Debt Facility:** (aggregate principal amount equal to the commitments made available under the GBP Incremental Facility): This facility will be denominated in GBP, will have a 3 year term and will be used for working capital purposes.
- b) **Convertible Notes (£250m):** S&G UK will issue interest-free convertible notes to Senior Lenders. The convertible notes will entitle the holders to payment of any amounts, up to £250m, received by S&G UK in respect of the net proceeds of Watchstone-related claims above A\$40m and certain net proceeds of any asset divestments and insurance proceeds received in respect of the UK operations.

Separately, the ancillary facilities (including transactional banking facilities) will remain available to the Australian and UK operations and will continue to be secured.

Implementation of the Recapitalisation

The Company and the Senior Lenders have entered into the RSD to give effect to the Recapitalisation, subject to certain conditions precedent being satisfied or waived (as applicable).

Subject to the satisfaction of conditions precedent, the Recapitalisation is now expected to be completed in early December 2017. A summary of the key terms of the RSD and an indicative implementation timetable is included in Appendix A.

Recommendation of the Board and Key Management Personnel ("KMP")

The Company's Directors unanimously support entry into the RSD and the proposed terms of the Recapitalisation. The Directors will unanimously recommend in the relevant meeting materials that the Senior Lenders and shareholders vote in favour of all resolutions required to approve the Recapitalisation. Those recommendations are subject to there being no superior proposal emerging and the independent expert concluding that the Company will be solvent immediately following implementation of the Recapitalisation and also concluding that the recapitalisation is 'fair and reasonable' or 'not fair but reasonable' to shareholders.

The Company's Directors and KMP also intend to vote in favour or cause to be voted all Company shares in which they have a relevant interest to approve, or agree to, any resolutions put to shareholders in relation to the Recapitalisation, in the absence of a superior proposal.

ENDS

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About Slater and Gordon

Slater and Gordon Limited ("Slater and Gordon Group", ASX:SGH) includes Slater and Gordon Lawyers in the United Kingdom and Australia, as well as Slater Gordon Solutions in the UK. Slater Gordon Solutions includes Claims, Health and Motor Services.

Appendix A: Key Terms of the amended Restructuring Support Deed (“RSD”)

Term	Summary
Conditions Precedent	<p>The recapitalisation is conditional upon the satisfaction or waiver (if applicable) of certain conditions precedent, including:</p> <ul style="list-style-type: none"> • (FIRB Approval) the Treasurer of the Commonwealth has provided written advice or confirmation to the effect there are no objections under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) to the recapitalisation, or is otherwise precluded from making an order in respect of the recapitalisation; • (Shareholder Meeting) Shareholders of the Company approving the required resolutions at the general meeting by the requisite majorities (if required); • (Scheme Meeting) the Senior Lender Scheme and Shareholder Creditor Scheme is approved at the scheme meetings by the requisite majorities of the respective creditors; • (Court Approvals) Court approval of the Senior Lender Scheme, the Shareholder Creditor Scheme and the proposed settlement of the Hall Proceeding; • (Regulatory Approvals) the Company obtaining all other relevant regulatory approvals, consents or waivers, including from ASX and ASIC; • (Separation arrangements) each party to a ‘Business Separation and Transitional Arrangements Agreement’ (or similar document) in respect of the separation of the S&G Group’s Australian and UK operations (in a form to be agreed between the Company and the Senior Lenders) has duly executed their counterpart, each of which is to be held in escrow and released in accordance with the terms of the Senior Lender Scheme; • (Litigation proceeds) the Company has received cash proceeds in relation to project litigation matters substantially in accordance with budgeted quantum and timing in the period between the date of the RSD and the Scheme Meeting for the Senior Lender Scheme; • (Material Contracts) the Company has obtained the consent from each person who is entitled to exercise any right under any provision of any material contract that entitles the person to terminate or modify the contract as a result of the recapitalisation and in respect of which the Majority Supporting Lenders require the Company to seek such consent; • (Deed Poll) deeds poll entered into by certain third parties continue to benefit the beneficiaries named in those deeds poll, and those deeds poll have not been terminated; • (Tax) without waiving any privilege which the Company may claim, the Company has received a tax opinion from PricewaterhouseCoopers. The condition will be satisfied upon written notice from the Supporting Lenders that the tax opinion received by the Company is reasonably acceptable to the Supporting Lenders; • (No Restraints) no legal or regulatory restraint that prohibits, materially restricts, makes illegal or restrains the implementation of the Senior Lender Scheme; and • (Authorisations) all material authorisations required to complete the recapitalisation have been granted or obtained and have not been withdrawn, cancelled or revoked. <p>Each party must use its respective reasonable endeavours to procure that each of the conditions precedent is satisfied as soon as reasonably practicable.</p> <p>The Company or the Majority Supporting Lenders may, if any other condition precedent is not satisfied or waived, or becomes incapable of satisfaction, by 31 December 2017, terminate the RSD if the parties are not able to reach agreement on how to proceed with the recapitalisation following a period of consultation.</p>

Term	Summary
Implementation of Restructure and Timetable	<p>The parties agree to undertake the recapitalisation on, and subject to the terms of, the RSD, and to use all reasonable endeavours to do so in accordance with the Timetable (as set out below).</p> <p>The parties will use all reasonable endeavours to agree definitive transaction documents to give effect to the recapitalisation and consult reasonably to agree any changes to the Timetable which may be necessary or desirable.</p>
Conduct of the Company Business	<p>During the period from the date of the RSD up to and including the earlier of the termination of the RSD and implementation of the recapitalisation, the Company must:</p> <ul style="list-style-type: none"> • procure that the S+G Group conducts its business and operations in the ordinary course and substantially consistent with the manner in which each such business and operation has been conducted in the 12 months immediately prior to entry into the RSD; and • use its reasonable endeavours to preserve intact the S+G Group's current business organisation, <p>except to the extent required to be done or procured by the Company pursuant to, or that is otherwise expressly permitted by, the scheme documents, or the undertaking of which the Majority Supporting Lenders have approved in writing.</p>
Transfer Restrictions	<p>Following implementation, the respective equity and debt instruments within Australia and the UK are proposed to be subject to transfer restrictions within each of those jurisdictions requiring the Senior Lenders to collectively retain ownership of the equity and debt facilities until: (a) for the Australian equity and debt instruments, the release of the Company's FY19 half year results, except that the transfer restrictions relating to the equity will apply to Anchorage until the release of the Company's FY19 full year results; and (b) for the UK equity and debt instruments, 28 February 2019, except that the transfer restrictions relating to the equity will apply to Anchorage until 31 August 2019.</p>
Governance	<p>Following the recapitalisation, the Company's board will comprise 7 directors. Anchorage will be entitled to nominate 4 non-executive directors, other members of the Majority Supporting Lenders (excluding Anchorage) will be entitled to nominate 2 non-executive directors, and the Majority Supporting Lenders together (including Anchorage) will be entitled to nominate the other director.</p> <p>The Senior Lenders will implement separate governance arrangements for the UK business following implementation.</p>
Management Incentive Plan	<p>A new management incentive plan in respect of the Australian business (on terms to be developed) with the intention that it will allow for the economic equivalent of 10% of the Company's fully diluted share capital to be available to beneficiaries of the plan over time. The proposed beneficiaries are employees of the Company and its various subsidiaries who contribute to its future success.</p> <p>The Company and each of its subsidiaries has committed to not exercise any board discretion to vest any incentive rights or options granted to directors, management or senior executives in anticipation of any potential change of control pursuant to the recapitalisation.</p> <p>The Senior Lenders will implement separate management incentive arrangements for the UK business following implementation.</p>

Term	Summary
Exclusivity	<p>Exclusivity Provisions:</p> <p>The Company is required to comply with certain exclusivity obligations under the RSD, which include:</p> <ul style="list-style-type: none"> • Termination of existing discussions: the Company must cease any discussions with any third party in relation to a Competing Proposal and must cease the provision of any due diligence access and the making of any non-public information in relation to the S+G Group to any third party, where the purpose was for a potential Competing Proposal. The Company must require any third party to whom non-public information has been provided or made available to immediately return or destroy that non-public information, where the purpose was for a potential Competing Proposal. • No shop restriction: the Company must not directly or indirectly solicit, initiate or invite enquiries, discussions, negotiations or proposals in relation to, or which may reasonably be expected to lead to, a Competing Proposal, or communicate to any person any intention to do any of the above things. • No talk restriction: subject to the fiduciary exception (summarised below), the Company must not: <ul style="list-style-type: none"> (a). directly or indirectly enter into, continue or participate in any discussions or negotiations in relation to, or which may reasonably be expected to lead to, a Competing Proposal; (b). disclose any non-public information about the business or affairs of the Company to a third party with a view to obtaining, or which may reasonably be expected to lead to, receipt of a Competing Proposal, other than in the ordinary course of business or as required by law; (c). accept, enter into or offer to accept or enter into any agreement, arrangement or understanding in relation to an offer or proposal from any third party in relation to a Competing Proposal; or (d). communicate to any person any intention to do any of the things referred to in the clauses (a), (b) or (c) above. • No due diligence: subject to the fiduciary exception (summarised below), the Company must not: <ul style="list-style-type: none"> (a). solicit, initiate, facilitate or encourage any party (other than the New Lenders or their representatives) to undertake due diligence on the Company or any S+G Group Member; or (b). make available to any other person (other than the New Lenders or their representatives) or permit such person to receive any non-public information relating to the Company or any S+G Group Member. • Notification obligation: subject to the fiduciary exception (summarised below), the Company must notify the Supporting Lenders within 1 business day if the Company is approached about a Competing Proposal, or if the Company provides or intends to provide any material non-public information to a third party to enable that third party to make a Competing Proposal.

Term	Summary
Exclusivity (cont.)	<p>Fiduciary Exception:</p> <p>In respect of a bona fide Competing Proposal that is or may be received by, or become known to, the Company without any breach by the Company of its obligations under the exclusivity provisions, the Company may undertake any action (a “prohibited action”) that would otherwise be prohibited by the ‘no talk’ restriction or the ‘no due diligence restriction’ or refrain from giving notice under the ‘notification obligation’, if (and only to the extent that) the Company board determines, acting in good faith and after obtaining legal advice, that not undertaking the prohibited action, or undertaking the required action, would be likely to result in a breach by a Company director of his or her fiduciary or statutory duties.</p> <p>Definitions of Competing Proposal and Superior Proposal:</p> <p>A ‘Competing Proposal’ under the RSD means any proposed or potential dissolution, winding up, liquidation, reorganisation, assignment for the benefit of creditors, consolidation, restructuring of the Company, financing (debt or equity), refinancing, transaction or arrangement (including any takeover bid, scheme of arrangement, share and/or asset sale, capital reduction, buy back, joint venture or dual listed company structure, recapitalisation, establishment of a new holding company for the S+G Group or other synthetic merger, or any other means) under which a third party would, if completed:</p> <ul style="list-style-type: none"> (a). directly or indirectly acquire an interest (including an economic interest by way of an equity swap, contract for difference or similar transaction or arrangement) or a relevant interest in: <ul style="list-style-type: none"> (i). 20% or more of the Company’s shares; or (ii). 20% or more of the share capital of any other material S+G Group Member; (b). directly or indirectly acquire, become the holder of or have a right to acquire or an economic interest in all or a substantial part of the business, or any of the material assets, of the S+G Group (where a substantial part of the business or a material asset of the S+G Group will include rights in respect of assets representing 20% or more of the value of the S+G Group’s total assets); or (c). otherwise acquiring control of or merging or amalgamating with the Company whether by way of takeover bid, scheme of arrangement, share and/or asset sale, capital reduction, buy back, joint venture or dual listed company structure, recapitalisation, establishment of a new holding company for the S+G Group or other synthetic merger, or any other means. <p>A ‘Superior Proposal’ under the RSD means a bona fide Competing Proposal that the Company board determines, acting in good faith and after taking written advice from the Company’s legal and financial advisers:</p> <ul style="list-style-type: none"> (a). is reasonably capable of being implemented within six months, taking into account all aspects of the Competing Proposal, including the identity, reputation and financial standing of its proponent(s), conditionality, structure and financing, as well as the current contractual rights of the Supporting Lenders under the finance documents); and (b). would, if completed substantially in accordance with its terms, produce an outcome for both the Company’s shareholders and the Senior Lenders (as a whole) that is superior to the outcome that would be produced by the creditors’ scheme.

Term	Summary
Matching Right	<p>The RSD requires that the Company must not enter into any agreement or arrangement in relation to or in connection with the implementation of a Competing Proposal (a “Rival Proposal”) unless:</p> <ul style="list-style-type: none"> (a). the Rival Proposal is a Superior Proposal; (b). the Company has given the Supporting Lenders written notice (‘Matching Right Notice’) of the identity of the third party, consideration, timing, conditions, structure and other key terms of the Rival Proposal; and (c). the Majority Supporting Lenders do not, within 5 business days after receiving the Matching Right Notice, make a written proposal (“Supporting Lender Proposal”) to the Company in respect of an improvement to the scheme consideration or an alternative transaction or arrangement that the Company board determines, acting in good faith, would result in an outcome more favourable or no less favourable for both the Company shareholders and the New Lenders (as a whole) as would result from the Rival Proposal (assuming that both the Supporting Lender Proposal and Rival Proposal would be implemented in accordance with their terms). <p>The Company must ensure that, as soon as practicable after:</p> <ul style="list-style-type: none"> (a). receipt of a Supporting Lender Proposal, the Company board considers whether the Matching Right Determination can be made; and (b). the Company board has considered this matter, the Supporting Lenders are notified of the Company board’s decision in writing. <p>If the Company board makes the Matching Right Determination, the Supporting Lenders and the Company must use reasonable endeavours to promptly agree such matters, and take such other steps, as are reasonably necessary to give effect to the Supporting Lender Proposal (including entering into an amending deed in respect of amendments to this deed).</p>
Termination	<p>The RSD contains customary termination rights, including:</p> <ul style="list-style-type: none"> • Termination by any party: <ul style="list-style-type: none"> (a). if a condition precedent is not satisfied or waived, or becomes incapable of satisfaction by the relevant end date for that condition; or (b). if the creditors’ scheme of arrangement has not been completed in accordance with the terms of the RSD by 31 December 2017 or becomes incapable for any reason of being completed by 31 December 2017. • Termination by Majority Supporting Lenders: <ul style="list-style-type: none"> (a). if the Company breaches, or is in breach of, the RSD in any material respect; (b). any Company director publicly withdraws or adversely changes his or her recommendation or voting intention in any circumstances; (c). in any circumstances, the Company enters, or purports to enter, into any agreement or arrangement in relation to the implementation of a Competing Proposal; or (d). if the Company suffers an insolvency event.

Term	Summary
Debt Standstill	<p>From the date of the RSD until the earlier of implementation of the Senior Lenders Scheme, termination of the RSD and 31 December 2017, each Supporting Lender agrees to:</p> <ul style="list-style-type: none"> • not commence or continue and not instruct the security trustee or the agent (as applicable) to commence or continue any legal action or other proceedings against any S+G Group Member or any security property (including any rights arising from an event of default occurring or subsisting) (and must vote against any proposal or resolution to do the same); • not exercise and not direct the security trustee or the agent (as applicable) to exercise, and instruct the security trustee or the agent (as applicable) to desist from exercising, any rights under the finance documents or otherwise (and must vote against any proposal to do the same), other than as contemplated in this deed; • not take any steps to enforce or make any demand under any guarantee, transaction security or other right of recourse held by or for the benefit of the lenders (and must vote against any proposal or resolution to do the same); and • not take and not instruct the security trustee or the agent (as applicable) to take any steps (directly or indirectly), to wind up or appoint a liquidator, administrator, receiver or receiver and manager or analogous officer over, or commence any other insolvency related or attachment proceedings against any S+G Group Member or against any security property or take any steps to enforce payment or discharge of any money owing (other than as contemplated by this deed).

Indicative Timetable

Date*	Milestone
18 September 2017	Lodgement of draft documentation with ASIC and ASX
Week commencing 16 October 2017	First Court hearing for the Schemes
Week commencing 23 October 2017	<ul style="list-style-type: none"> • Despatch Scheme Materials to creditors • Despatch Shareholder Materials to shareholders • Release materials to ASX
Week commencing 20 November 2017	Scheme Meetings for the Schemes
Week commencing 20 November 2017	Shareholder meeting
Week commencing 27 November 2017	Second Court hearing for the Schemes
1 business day after the Second Court hearing	Effective Date of the Schemes
Early December 2017	Implementation Date of Senior Lender Scheme

* Dates are indicative only and subject to change.