

SLATER AND GORDON LIMITED
ACN 097 297 400

**Notice of Annual General Meeting &
Explanatory Memorandum**

**YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE
IN FAVOUR OF THE RECAPITALISATION RESOLUTION, IN THE
ABSENCE OF A SUPERIOR PROPOSAL**

**The Independent Expert has concluded that the Recapitalisation is
fair and reasonable, in the absence of a superior proposal**

This is an important document and requires your immediate attention. You should read this document in its entirety before deciding how to vote and, if necessary, consult your legal, investment, taxation or other financial adviser without delay.

IMPORTANT NOTICES

Nature of this document

This Explanatory Memorandum provides information to assist Shareholders in determining how to vote in respect of the Resolutions, including the Recapitalisation Resolution which are required to be passed for the Recapitalisation to take effect.

This is an important document and should be read carefully. It comprises part of, and should be read in conjunction with, the Notice of the Meeting of Slater and Gordon to be held at 10.00 am (Melbourne time) on 6 December 2017 at the Marriott Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne, Victoria 3000.

Shareholders are encouraged to read this Explanatory Memorandum and the accompanying material in its entirety before making a decision on how to vote on the proposed Resolutions.

Disclaimer

The information in this Explanatory Memorandum should be read in conjunction with Slater and Gordon's other periodic and continuous disclosure announcements and other announcements which can be obtained from ASX's website www.asx.com.au or from Slater and Gordon's website www.slatergordon.com.au.

In preparing this Explanatory Memorandum, Slater and Gordon has not taken into account the investment objectives, financial situation or particular needs of any particular person. Accordingly, before acting on this Explanatory Memorandum, you may need to obtain independent legal, financial and/or taxation advice in light of your own financial circumstances.

ASX

A copy of this Explanatory Memorandum (including the Independent Expert's Report) has been provided to ASX. Neither ASX, nor any of its officers, take any responsibility for the contents of this Explanatory Memorandum.

Responsibility for information

This Explanatory Memorandum (excluding the Independent Expert's Report and the Anchorage Information) has been prepared by Slater and Gordon. Slater and Gordon, its Related Bodies Corporate and their respective directors, officers and advisers do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report or the Anchorage Information.

KPMG has provided, and is responsible for, the information contained in its Independent Expert's Report set out in **Annexure B** to this Explanatory Memorandum. The Independent Expert does not assume any responsibility for the accuracy or completeness of any information in this Explanatory Memorandum other than that contained in the Independent Expert's Report.

Anchorage has provided, and is responsible for, the information contained in **Section 8** of this Explanatory

Memorandum (the **Anchorage Information**). Anchorage does not assume any responsibility for the accuracy or completeness of any information in this Explanatory Memorandum other than the Anchorage Information.

No person has been authorised to give any information or make representations in connection with the Recapitalisation other than the information and representations contained in this Explanatory Memorandum. Except as expressly stated in this Explanatory Memorandum, no persons have been authorised to make any representation or warranty, express or implied as to the accuracy or completeness of the Explanatory Memorandum.

Forward looking statements

Any forward looking statements contained in this Explanatory Memorandum have been based on expectations at the date of preparation of this Explanatory Memorandum about future events. The forward looking statements included in this document may generally be identified by use of forward looking words such as *believe, aim, expect, anticipate, intending, foreseeing, likely, should, planned, may, estimate, potential* or other similar words. Similarly, statements that describe Slater and Gordon's objectives, plans, goals or expectations are, or may be, forward looking statements. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause actual results to differ materially from the expectations. Nothing contained in this Explanatory Memorandum is, or may be relied on as, a promise or representation as to the accuracy or likelihood of fulfilment of any forward looking statements, except to the extent required by law. You are therefore cautioned not to place undue reliance on any such forward looking statements.

Subject to any obligations under the Corporations Act or the ASX Listing Rules, Slater and Gordon does not give any undertaking to update or revise any forward looking statements after the date of this Explanatory Memorandum to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Defined terms

A number of terms used in this Explanatory Memorandum are defined in the glossary in **Section 14** of this Explanatory Memorandum.

Currency

Unless otherwise stated, a monetary reference in this Explanatory Memorandum is a reference to the Australian dollar.

Privacy and personal information

Slater and Gordon may need to collect personal information to conduct the Meeting, implement the Recapitalisation and undertake the Share Consolidation. This information may include the name, contact details and security holding of Shareholders, and the name of persons appointed by Shareholders to

act as proxy, attorney, or in the case of a corporate Shareholder or proxy, as corporate representative at the Meeting. The primary purpose of collecting this personal information is to assist Slater and Gordon in the conduct of the Meeting, the Recapitalisation, the Share Consolidation and to enable the Recapitalisation and the Share Consolidation to be implemented in the manner described in this Explanatory Memorandum. Without this information, Slater and Gordon may be hindered in its ability to carry out these purposes to full effect. The collection of certain personal information is authorised by the Corporations Act.

Personal information may be disclosed to the Share Registry, print and mail service providers, authorised securities brokers and to Related Entities of Slater and Gordon.

Shareholders have certain rights to access their personal information that has been collected. Shareholders should contact the Company Secretary in the first instance if they wish to request access to their personal information.

Shareholders who appoint a named person to act as their proxy, attorney, or in the case of a corporate Shareholder or proxy, as their corporate representative at the Meeting, should ensure that they inform that person of the matters outlined above.

Notice to foreign persons

This document has been prepared to reflect the applicable disclosure requirements of Australia, which may be different from the requirements applicable in other jurisdictions. The Financial Information included in this document is based on financial statements that have been prepared in accordance with accounting principles and practices generally accepted in Australia, which may differ from generally accepted accounting principles and practices in other jurisdictions.

This Explanatory Memorandum and the Notice of Meeting do not constitute an offer to acquire or sell, or

a solicitation of an offer to sell or purchase, any securities in any jurisdiction. In particular, this document does not constitute an offer, solicitation or sale to any U.S. person or in the United States or any state or jurisdiction in which such an offer, tender offer, solicitation or sale would be unlawful. The securities referred to herein have not been, and will not be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**), and neither such securities nor any interest or participation therein may be offered, or sold, pledged or otherwise transferred, directly or indirectly, in the United States or to any U.S. person absent registration or an available exemption from, or a transaction not subject to, registration under the US Securities Act.

Rounding

A number of figures, amounts, percentages, estimates, calculations of values and fractions in this Explanatory Memorandum are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Explanatory Memorandum.

Timetable and dates

All times and dates relating to the implementation of the Recapitalisation and of the Share Consolidation referred to in this Explanatory Memorandum may change and, among other things, are subject to all necessary approvals from regulatory authorities.

Contact details

If you have any questions regarding the matters set out in this Explanatory Memorandum, you should call the shareholder information line on 1300 393 803 within Australia or +61 3 9415 4050 outside of Australia.

Date

This Explanatory Memorandum is dated 30 October 2017.

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CHAIR'S LETTER

30 October 2017

Dear Slater and Gordon Shareholder

On behalf of the Directors of Slater and Gordon, I am pleased to invite you to attend the annual general meeting (**AGM**) of Slater and Gordon to consider and vote on, among other things, the resolutions required to implement the recapitalisation on the terms announced on 31 August 2017.

In addition to considering the ordinary business of the AGM, being the Ordinary Business Resolutions, the Directors consider that the AGM is also an appropriate forum to consider the Special Business Resolutions related to Slater and Gordon's proposed recapitalisation transaction (**Recapitalisation**). For further details about the Ordinary Business Resolutions, you should refer to **Section 3** of the Explanatory Memorandum and for further details of the Special Business Resolutions, you should read **Section 4** of the Explanatory Memorandum. Details of the Resolutions that Shareholders are being asked to vote on can be found in the Notice of Meeting at **Annexure A**.

Background

As announced on 31 August 2017, Slater and Gordon has entered into a Restructuring Support Deed with its Senior Lenders in relation to the Recapitalisation.

The Recapitalisation is required for Slater and Gordon to avoid insolvency. It is intended to provide Slater and Gordon with a sustainable level of senior secured debt and a stable platform for its future operations.

Shareholders will have an opportunity to consider and approve the Recapitalisation at the AGM. In addition to the ordinary business to be considered at the AGM, the Recapitalisation Resolution is the primary business of the AGM. You are encouraged to vote to express your support for the Recapitalisation and vote in favour of the Recapitalisation Resolution.

Why is the Recapitalisation being proposed?

1 Unsustainable debt levels

As of 30 June 2017, Slater and Gordon owes a total of \$761.6 million¹ to its Senior Lenders under the Syndicated Facility Agreement, which is the primary source of Slater and Gordon indebtedness. A large portion of this debt (approximately \$375 million) was drawn to partially fund the acquisition of Quindell Plc's Professional Services Division in 2015.

If the Recapitalisation is not implemented, the Directors consider that Slater and Gordon will not be in a position to repay any amounts due under the Syndicated Facility Agreement when they become payable (including amounts that have already fallen due on 29 May 2017). Accordingly, the Directors consider that, without implementation of the Recapitalisation, Slater and Gordon will become insolvent.

¹ Assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

2 No value without the Recapitalisation

The Directors have formed the view that the Secured Debt materially exceeds total enterprise value. This is supported by the Independent Expert, which has assessed that prior to the Recapitalisation, no value is attributable to Shares due to Slater and Gordon's debt being significantly greater than the value of its assets.

Therefore, in the event that the Recapitalisation was not implemented and Slater and Gordon became insolvent, Shareholders would most likely receive nothing because the assets of Slater and Gordon are not sufficient to fully satisfy its Secured Debt obligations, let alone the claims of other secured creditors, unsecured creditors or any interests of Shareholders. In addition, the value of Slater and Gordon's business may be further eroded due to the loss of current employees and clients that would likely occur as a result of entering an insolvency process.

3 The Recapitalisation provides the prospect of a solvent outcome

In comparison to insolvency, the Recapitalisation provides a holistic restructuring of Slater and Gordon's balance sheet. The Recapitalisation will enable Slater and Gordon to pursue its mission to provide people with easier access to legal services, with a stabilised balance sheet and operating platform. Shareholders will retain the opportunity to participate in future value creation and recovery as Slater and Gordon pursues its strategic plan in Australia.²

4 No feasible alternatives

The Board believes that there are no feasible alternatives to the Recapitalisation to reduce Slater and Gordon's Secured Debt. In the opinion of the Directors, the Recapitalisation represents the only executable option for Slater and Gordon to create a more sustainable capital structure while providing the potential for value recovery for Shareholders and other stakeholders in the future.

Overview of the Recapitalisation

The Recapitalisation involves Slater and Gordon undertaking a creditors' scheme of arrangement with the Senior Lenders.

The Recapitalisation will include the following key terms which will impact Slater and Gordon and its Shareholders:

1 Reduced debt

Slater and Gordon's outstanding Secured Debt will be reduced under the Recapitalisation. As of 30 June 2017, Slater and Gordon owes a total of \$761.6 million³ to its Senior Lenders under the Syndicated Facility Agreement. Immediately following implementation of the Recapitalisation, the gross senior secured debt position of the Australian Operations (being the debt position of Slater and Gordon post the transfer of the UK Operations) will not exceed \$125 million (excluding transactional and ancillary facilities).

Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have

² Shareholders should note that they will only benefit from any future value recovery if they continue to hold Shares. Refer to **Section 7.4(d)** and **Section 7.5** for a discussion of the circumstances in which Shareholders may cease to hold Shares following the Recapitalisation.

³ Assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

any obligation to pay, or guarantee or secure the payment of, any secured debt in respect of the UK Operations. This effectively means a reduction in the Secured Debt owed by Slater and Gordon and the Australian Subsidiaries of \$636.6 million upon implementation of the Recapitalisation.⁴

The senior debt facilities of Slater and Gordon (in respect of the Australian Operations) immediately following implementation of the Recapitalisation will be as follows:

- (i) New AUD Super Senior Facility (\$65 million): the \$65 million facility will have a 3 year term and will be used to refinance the AUD-denominated amounts owing under the existing super senior facility and for general corporate purposes or such other purposes approved by the Senior Lenders.
- (ii) Restated SFA (\$60 million): amounts owing under Slater and Gordon's existing Syndicated Facility Agreement will be refinanced such that, immediately following implementation of the Recapitalisation, Slater and Gordon will owe a principal amount of \$60 million on substantially the same terms as the existing Syndicated Facility Agreement (with the facility subordinated to the New AUD Super Senior Facility) but amended with a 5 year term and payment in kind interest not payable until the facility is repaid, amongst other changes.

The UK Operations will also have in place senior debt facilities with the Senior Lenders. However, as the UK Operations will be wholly owned by the Senior Lenders following implementation of the Recapitalisation (refer below), Slater and Gordon and the Australian Subsidiaries will not have any obligations in respect of that secured debt.

2 Separation of UK operations

Slater and Gordon's UK Operations and UK Subsidiaries (including Slater and Gordon (UK) 1 Ltd (**S&G UK**)) will be separated from Slater and Gordon and transferred to a new UK holding company (**UK HoldCo**) which will be wholly owned by the Senior Lenders following implementation of the Recapitalisation. Following separation, existing Slater and Gordon shareholders will cease to have any interest in the UK Operations or UK Subsidiaries. The UK Operations have underperformed and have continued to generate material losses for the Group (in FY17, the UK Operations recorded a net loss before tax and net finance expenses of \$433.2 million). Notwithstanding, due to the separation, Shareholders will not have the opportunity to benefit from any future recovery or turnaround in the performance of these operations in the long-term, or value realisation in any asset sales, if such a scenario was (or scenarios were) to be achieved under UK HoldCo ownership.

As partial consideration for the transfer of the UK Operations to UK HoldCo (which will be wholly owned by the Senior Lenders following the Recapitalisation), Slater and Gordon will have recourse to the first \$40 million of any proceeds that the UK Subsidiaries receive in respect of claims made against Watchstone, the vendor in connection with the Watchstone Acquisition. These proceeds will be applied to reduce Slater and Gordon's secured debt facilities following implementation of the Recapitalisation, further deleveraging the business. In addition, Slater and Gordon will also receive a \$40 million promissory note (issued by the Senior Lenders) as part of the consideration for the transfer of the UK Operations. This promissory note will be applied as part of the Recapitalisation to reduce amounts owing by Slater and Gordon under the Restated SFA, so that the principal amount owed will be \$60 million upon completion of the Recapitalisation.

⁴ Calculated as total Secured Debt of \$761.6 million as at 30 June 2017 less Slater and Gordon's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

3 Issue of shares in Slater and Gordon to Senior Lenders

Senior Lenders will be issued with approximately 95% of the equity in Slater and Gordon as at immediately following implementation of the Recapitalisation.⁵

Existing Shareholders will hold approximately 5% of the equity in Slater and Gordon post the Recapitalisation (and which will also exclude the UK Operations).⁶ Although Shareholders' interests will be significantly diluted by the Recapitalisation, the Directors consider that the outcome for Shareholders is still better than the alternative to it, which is likely to be insolvency with no value recovery for Shareholders.

In addition, it is proposed that Slater and Gordon will undertake a share consolidation given the number of Shares to be issued under the Recapitalisation.

Conditions to the Recapitalisation

Implementation of the Recapitalisation is subject to the satisfaction of a number of conditions, including the following:

- (a) Shareholders approving the Recapitalisation Resolution by a simple majority;
- (b) Senior Lenders approving the Senior Lender Scheme by the requisite majority;
- (c) Court approval of the Senior Lender Scheme, as well as the Shareholder Claimant Scheme and the Hall Proceeding Settlement (discussed below); and
- (d) Slater and Gordon obtaining all other relevant regulatory approvals, confirmations, consents and waivers.

Impact of the Recapitalisation

The Recapitalisation is being proposed as it offers the only means presently available to Slater and Gordon to restructure its liabilities. It is intended that implementation of the Recapitalisation will:

- (a) reduce Slater and Gordon's total Secured Debt to a sustainable level;
- (b) enable Slater and Gordon to continue to trade and operate the Australian Operations (the UK Operations will be transferred to UK HoldCo); and
- (c) prevent a breach of the Syndicated Facility Agreement and other secured finance documents.

However, existing Shareholders will be significantly diluted upon implementation of the Recapitalisation and Slater and Gordon's UK Operations will be transferred to UK HoldCo from the Implementation Date.

The table below illustrates the impact of the Recapitalisation on shareholdings in Slater and Gordon.

	Prior to implementation of the Recapitalisation	Immediately following implementation of the Recapitalisation
Existing Shareholders' interest in Shares	100%	5%
Senior Lenders' interest in Shares	0%	95%

⁵ This is not calculated on a fully diluted basis as it does not include any Shares that could be issued on exercise of existing warrants in Slater and Gordon. For further details about these warrants, refer to **Section 7.4(c)**.

⁶ As above, this is not calculated on a fully diluted basis and does not include any Shares that could be issued on exercise of existing warrants in Slater and Gordon.

The table below illustrates the impact of the Recapitalisation on shareholdings in S&G UK.

	Prior to implementation of the Recapitalisation	Immediately following implementation of the Recapitalisation
Slater and Gordon's interest in S&G UK shares	100%	0%
Senior Lenders' interest in S&G UK shares (through UK HoldCo)	0%	100%

The table below illustrates the total aggregate debt owed by Slater and Gordon, S&G UK and the Group to the Senior Lenders prior to the Recapitalisation. It also illustrates the secured debt that will be owing by each of Slater and Gordon and S&G UK from implementation of the Recapitalisation.

Pre-implementation of the Recapitalisation			Post-implementation of the Recapitalisation	
Amount owed by Slater and Gordon to the Senior Lenders as Primary Borrower	Amount owed by S&G UK to the Senior Lenders as Primary Borrower	Aggregate amount owed by each member of the Group to the Senior Lenders	Amount owed (in any capacity) by Slater and Gordon to the Senior Lenders ⁷	Amount owed (in any capacity) by S&G UK to the Senior Lenders ⁸
\$119.2 million	£379.8 million	\$761.6 million ⁹	\$125 million ¹⁰	GBP equivalent of up to \$25 million plus £250 million of convertible notes ¹¹

⁷ This reflects the debt owed to the Senior Lenders only and does not include any amounts owed under the Transactional Facilities following implementation of the Recapitalisation, or any other debts owed by Slater and Gordon. Shareholders should refer to **Section 13.4(b)** for further details about the Transactional Facilities.

⁸ Following implementation, Slater and Gordon and the other entities in the Australian Group will not have any obligations in respect of amounts that remain owing by the UK Operations to the Senior Lenders. The Senior Lenders will not have any security over the assets of the Australian Operations in respect of debts owing by the UK Operations.

⁹ As at 30 June 2017 and assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

¹⁰ Comprised of amounts owing under the Restated SFA following the Recapitalisation and the total amount available to Slater and Gordon under the New AUD Super Senior Facility.

¹¹ The convertible notes will only be repayable from specific proceeds, including Watchstone Proceeds in excess of the first \$40 million received.

Shareholder Claimant Scheme

Two shareholder representative proceedings have been filed against Slater and Gordon in the Federal Court of Australia. Slater and Gordon has also been notified of a further potential shareholder class action claim.

Slater and Gordon is also proposing a creditors' scheme of arrangement with Shareholder Claimants as part of a comprehensive solution to resolve and compromise all potential Shareholder Claims by Shareholder Claimants against Slater and Gordon and other Released Persons, on terms by which the benefit of relevant insurance policies held by Slater and Gordon are shared rateably amongst all Shareholder Claimants.

The Shareholder Claimant Scheme forms part of the proposed solvent restructure of Slater and Gordon, the purpose of which is to protect the interests of Slater and Gordon's clients, creditors, current and future Shareholders, and other stakeholders having regard to the current financial position of Slater and Gordon.

The right and entitlement of each Shareholder Claimant to bring or enforce any Shareholder Claim against Slater and Gordon or the Released Persons will be extinguished under the Shareholder Claimant Scheme, and any such claim will be limited to the Shareholder Claimant's entitlement (if any) under a fund to be established pursuant to the Shareholder Claimant Scheme, with funds made available by agreement under applicable insurance policies with Slater and Gordon's relevant insurers. The ability of Shareholder Claimants to pursue Shareholder Claims against third parties who are not Released Persons will also be reduced.

Shareholder approval is not required for Slater and Gordon to implement the Shareholder Claimant Scheme. However, Shareholders should note that the Recapitalisation and the Shareholder Claimant Scheme are inter-conditional.

Independent Expert's conclusion

KPMG has prepared an Independent Expert's Report in relation to the Recapitalisation. The Independent Expert has concluded that the Recapitalisation is fair and reasonable to Shareholders, in the absence of a superior proposal. The Independent Expert's Report is set out in **Annexure B**, and I encourage you to review it in its entirety.

Recommendation of the Directors

The Directors unanimously recommend that Shareholders **vote in favour** of the Recapitalisation Resolution, in the absence of a Superior Proposal.

The Directors intend to vote any Shares they hold, or in which they have a Relevant Interest, in favour of the Recapitalisation Resolution.

This Explanatory Memorandum includes the Notice of Meeting and the Independent Expert's Report. A Proxy Form accompanies this Explanatory Memorandum. I encourage you to read this Explanatory Memorandum carefully and in full, as it contains information to assist you in making an informed decision.

This Explanatory Memorandum is also available from ASX's website www.asx.com.au or from Slater and Gordon's website www.slatergordon.com.au/investors. Slater and Gordon's website will also allow you to access other materials that may be relevant to your consideration of the Recapitalisation, such as the 29 June 2017 ASX announcement regarding the recapitalisation and the 31 August 2017 ASX announcement regarding the amendment of the Restructuring Support Deed.

If you intend to attend the AGM in person, please bring your Proxy Form with you to assist us in the efficient processing of your registration. The AGM will commence at **10.00 am** on **Wednesday, 6 December 2017**. If you are unable to attend, you may appoint a proxy to vote for you at the AGM by completing the Proxy Form that accompanies this Explanatory Memorandum. If you intend to appoint a proxy, please return the completed Proxy Form in accordance with the directions on the form by **10.00 am** on **4 December 2017**.

Your Directors look forward to seeing you at the AGM.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'John Skippen', with a stylized flourish at the end.

John Skippen
Chairman
Slater and Gordon Limited

KEY DATES AND TIMETABLE

Event	Date
Date of this Explanatory Memorandum	30 October 2017
Deadline for lodgement of Proxy Forms with the Share Registry	10.00 am 4 December 2017
Meeting Record Date	7.00 pm 4 December 2017
Senior Scheme Meeting	9.00 am 28 November 2017
Shareholder Claimant Scheme Meeting	10.30 am 28 November 2017
Announce results of Scheme Meetings	28 November 2017
Meeting	10.00 am 6 December 2017
Announce results of Meeting	6 December 2017
Last day for trading on pre-Share Consolidation basis	7 December 2017
Trading in consolidated shares on a deferred settlement basis begins	8 December 2017
Last day to register share transfers on a pre-Share Consolidation basis	11 December 2017
Effective date of Share Consolidation (and shareholdings adjusted to reflect Share Consolidation)	18 December 2017
Trading on deferred settlement basis ends	18 December 2017
Send notice to Shareholders of number of Shares held pre and post-Share Consolidation	18 December 2017
Normal trading in Shares commences	19 December 2017
Second Court Date for approval of Senior Lender Scheme and Shareholder Claimant Scheme	14 December 2017

If the Recapitalisation Resolution is passed, the Shareholder Claimant Scheme and the Senior Lender Scheme are approved and certain other conditions are satisfied:

Second Court Orders lodged with ASIC for both Schemes	No earlier than 10.00 am on the Business Day after the day on which the Court makes the orders approving the Schemes.
Implementation Date ¹²	5 Business Days after the Effective Date.

Dates and times are indicative only and may be subject to change. Any changes to the above timetable will be announced through ASX and notified on Slater and Gordon's website at www.slatergordon.com.au. Unless otherwise specified, all dates refer to Melbourne time.

¹² If the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), the Implementation Date will be 5 January 2018.

KEY STATISTICS

Current number of Shares on issue	347,245,601
Number of Shares on issue following the Share Consolidation (after rounding) but prior to the Implementation Date ¹³	3,476,483
Number of Shares to be issued under Senior Lender Scheme (on a post-Share Consolidation basis)	66,053,195
Total number of Shares on issue following the Implementation Date (on a post-Share Consolidation basis)	69,529,678
Senior Lenders' interest in Slater and Gordon following the Implementation Date	95%
Existing Shareholders' interest in Slater and Gordon following the Implementation Date	5%
Slater and Gordon's secured debt immediately following completion of the Recapitalisation ¹⁴	Up to \$125 million

¹³ All figures relating to Shares on issue following the Share Consolidation are approximate and take into account adjustments for rounding up any fractional Shares to the nearest whole number.

¹⁴ This figure is the aggregate of the amounts owing by Slater and Gordon under the Restated SFA following the Recapitalisation and the total amount available to Slater and Gordon under the New AUD Super Senior Facility. The amount relates to the debt owed to the Senior Lenders only and does not include any other debts owed by Slater and Gordon (including under the Transactional Facilities).

STEPS FOR SHAREHOLDERS

1.1 Step 1: Carefully read this Explanatory Memorandum

You should read the Explanatory Memorandum and the Independent Expert's Report in full prior to deciding how you will vote on the Resolutions.

The Notice of Meeting annexed to this Explanatory Memorandum at **Annexure A** sets out the Resolutions on which Shareholders are being asked to vote, and the Explanatory Memorandum sets out further details of the matters to which the Resolutions relate.

It is important that you consider the information disclosed in light of your own particular investment needs, objectives and financial circumstances. If you are undecided as to how you should vote in respect of the Resolutions or are otherwise unsure how to proceed in relation to your Shares, you should consult your professional adviser(s).

1.2 Step 2: Vote on the Resolutions

As a Shareholder, it is your right to vote on the Resolutions and determine whether the Resolutions are passed.

Eligible Shareholders may vote on the Resolutions by doing one of the following:

- **in person:** attend the Meeting in person at the Marriott Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne Victoria 3000 on 6 December 2017 commencing at 10.00 am;
- **by proxy:** complete and return the Proxy Form accompanying this Explanatory Memorandum so that it is received by the Share Registry by no later than 10.00 am on 4 December 2017;
- **by attorney:** duly execute a power of attorney, which must be received by the Share Registry no later than 10.00 am on 4 December 2017; or
- **by corporate representative:** if you are a body corporate you can appoint a corporate representative to attend and vote on your behalf. The corporate representative must bring evidence of their appointment to the Meeting.

The Independent Expert has concluded that the Recapitalisation is fair and reasonable, in the absence of a superior proposal.

The Directors unanimously recommend that Shareholders **vote in favour** of the Recapitalisation Resolution in the absence of a Superior Proposal.

2 Frequently asked questions

This section answers some frequently asked questions about the Recapitalisation, the Share Consolidation and the Meeting only. It is not intended to address all the relevant issues in relation to the Recapitalisation, the Share Consolidation or the Meeting for Shareholders. Shareholders should read this Explanatory Memorandum in its entirety and, in particular, this **Section 2** should be read in conjunction with the other sections of this Explanatory Memorandum.

Question and answer	Where can I find more information?
<p><i>Why have I received this Explanatory Memorandum?</i></p> <p>This Explanatory Memorandum has been sent to you because you are a Shareholder and you are being asked to vote on the Resolutions. The Resolutions relate to the ordinary business to be considered at Slater and Gordon's annual general meeting, the Recapitalisation and the Share Consolidation.</p> <p>This Explanatory Memorandum is intended to help you to decide how to vote on the Resolutions. The Recapitalisation Resolution needs to be approved by a simple majority of Shareholders at the Meeting to allow the Recapitalisation to proceed.</p> <p>The Board recommends that you read this Explanatory Memorandum and its annexures and, if necessary, consult your legal, investment or other professional adviser before voting on the Resolutions.</p>	<p>N/A</p>
<p><i>What is the ordinary business being considered by Shareholders at the Meeting?</i></p> <p>Shareholders are being asked to vote on the Ordinary Business Resolutions as the ordinary business of the annual general meeting.</p> <p>The Ordinary Business Resolutions relate to:</p> <ul style="list-style-type: none"> • receiving and considering Slater and Gordon's Financial Report, Directors' Report and Auditor's Report for the Financial Year ended 30 June 2017; • receiving, considering and adopting the Remuneration Report (as a non-binding resolution); • the re-election of Mr Skippen as a Director until such time as the Recapitalisation is implemented; • the election of Mr Stephens as a Director; • the election of Messrs Howes, Stoesser and MacKenzie as Directors, with effect from the Implementation Date;¹⁵ and • if required, considering whether to convene a Spill Meeting. 	<p>Section 3 and Annexure A (Notice of Meeting)</p>

¹⁵ As Messrs Howes, Stoesser and MacKenzie have been nominated for appointment to the Board by Anchorage, pursuant to rights granted under the Restructuring Support Deed, they will only be appointed as Directors if the Recapitalisation is implemented and with such appointment to take effect from the date on which that occurs. Despite this, the resolutions relating to their proposed appointment still form part of the ordinary business of the annual general meeting because electing directors is deemed to be ordinary business under the terms of the Constitution.

Question and answer	Where can I find more information?
<p><i>What is the special business being considered by Shareholders at the Meeting?</i></p> <p>Shareholders are being asked to vote on the Special Business Resolutions as special business of the annual general meeting. The Special Business Resolutions are comprised of the Recapitalisation Resolution and the Share Consolidation Resolution.</p> <p>The Recapitalisation Resolution needs to be approved by Shareholders to implement the Recapitalisation and relates to the issuance of Shares to Senior Lenders.</p> <p>The Recapitalisation of Slater and Gordon is only possible if all the Recapitalisation Resolution is passed at the Meeting.</p> <p>The Share Consolidation Resolution needs to be approved by Shareholders for Slater and Gordon to be able to undertake the Share Consolidation. The Share Consolidation Resolution relates to converting the current number of Shares on issue into a smaller number of Shares.</p> <p>The Share Consolidation will proceed whether or not the Recapitalisation is implemented, and consequently, approval of the Share Consolidation is not a condition to the Recapitalisation proceeding. Therefore, if the Recapitalisation Resolution is approved but the Share Consolidation Resolution is not, the Recapitalisation will still be implemented, subject to the satisfaction of all other Conditions Precedent.</p> <p>Conversely, if the Recapitalisation Resolution is not approved but the Share Consolidation Resolution is approved, the Share Consolidation will still be implemented, but the Recapitalisation will not.</p>	<p>Section 4 and Annexure A (Notice of Meeting)</p>
Overview of the Recapitalisation	
<p><i>What is the background to the Recapitalisation?</i></p> <p>On 31 August 2017, Slater and Gordon announced that it had entered into a Restructuring Support Deed with all of its Senior Lenders in relation to the Recapitalisation.</p> <p>The Recapitalisation is intended to provide Slater and Gordon with a sustainable level of senior secured debt and a stable platform for its future operations.</p> <p>If the Recapitalisation is not implemented, the Board expects that it would appoint an external administrator, which it believes would be followed by the Senior Lenders appointing a receiver, or a receiver and manager, to Slater and Gordon.</p>	<p>Section 4.1</p>
<p><i>What is the Recapitalisation?</i></p> <p>The Recapitalisation involves Slater and Gordon undertaking a creditors' scheme of arrangement with the Senior Lenders. The primary purpose of the Senior Lender Scheme is to reduce Slater and Gordon's debt liabilities owed to the Senior Lenders.</p> <p>The Recapitalisation includes:</p> <ul style="list-style-type: none"> • a net reduction in the Secured Debt owed to the Senior Lenders under the Syndicated Facility Agreement such that Slater and Gordon (in respect of the Australian Operations) 	<p>Section 5</p>

Question and answer	Where can I find more information?
<p>will have aggregate secured facilities not exceeding \$125 million immediately following the Implementation Date (excluding the Transactional Facilities);</p> <ul style="list-style-type: none"> the issue of such number of Shares to Senior Lenders equivalent to 95% (in aggregate) of Slater and Gordon's equity immediately following the Implementation Date;¹⁶ the transfer of the UK Operations by Slater and Gordon to UK HoldCo, which will be wholly owned by the Senior Lenders on and from the Implementation Date; Slater and Gordon being granted the right to receive the first \$40 million of any proceeds received in relation to claims made against Watchstone in connection with the Watchstone Acquisition; certain mutual releases between the Senior Lenders, Slater and Gordon, its Subsidiaries and its current and former Officers; and certain other matters and financing arrangements relating to the UK Operations which will not impact Shareholders (as those operations will be wholly owned by an entity owned by the Senior Lenders). <p>No part of the Recapitalisation can proceed unless the Recapitalisation Resolution is passed.</p>	
<p><i>What do your Directors recommend?</i></p> <p>Your Directors unanimously recommend that you vote in favour of the Recapitalisation Resolution, in the absence of a Superior Proposal.</p> <p>Each Director intends to vote the Shares they hold and those in which the Director has a Relevant Interest in favour of the Recapitalisation Resolution, in the absence of a Superior Proposal.</p>	<p>Section 10.2</p>
<p><i>What is the Independent Expert's conclusion?</i></p> <p>The Independent Expert has concluded that the Recapitalisation is fair and reasonable, in the absence of a superior proposal.</p> <p>The Independent Expert has stated in the Independent Expert's Report that:</p> <ul style="list-style-type: none"> the Recapitalisation is the most superior option currently available to Shareholders; it is not possible to maintain the status quo without a restructure of Slater and Gordon; if the Recapitalisation is not approved, Slater and Gordon is at risk of becoming insolvent by May 2018 when some of the amounts owing under the Syndicated Facility 	<p>Section 4.9 and Annexure B</p>

¹⁶ This is not on a fully diluted basis and does not include Shares that could be issued pursuant to the existing warrants in Slater and Gordon. Refer to **Section 7.4(c)** for further details about the warrants.

Question and answer	Where can I find more information?
<p>Agreement fall due; and</p> <ul style="list-style-type: none"> no value is currently attributable to Shares (as the equity value of Slater and Gordon prior to the Recapitalisation is materially negative) however following the Recapitalisation the value of Shares will be between \$0.003 and \$0.011 per Share. <p>A complete copy of the Independent Expert's Report is included at Annexure B to this Notice of Meeting and Explanatory Memorandum.</p>	
<p><i>What alternatives to the Recapitalisation has the Board considered?</i></p> <p>The Board believes there are no other feasible alternatives to reduce Slater and Gordon's Secured Debt.</p> <p>In reaching their recommendation, the Directors have assessed the Recapitalisation having regard to a range of alternatives to address Slater and Gordon's debt, including a consensual restructuring, sale of assets and refinancing.</p> <p>In the opinion of the Directors, the Recapitalisation represents the only executable option for Slater and Gordon to create a more sustainable capital structure while providing potential for future value recovery for Shareholders and other stakeholders.¹⁷</p>	<p>Section 4.7 and Section 10.3(d)</p>
<p><i>What fees are paid in connection with the Recapitalisation?</i></p> <p>Total fees incurred by Slater and Gordon in relation to the Recapitalisation are expected to total approximately \$15.0 million (excluding GST). This estimate includes fees payable to legal, financial, tax and accounting advisers, independent experts, and other costs relating to the Recapitalisation.</p>	<p>Section 13.9</p>
<p><i>Impact of the Recapitalisation on Shareholders</i></p>	
<p><i>What will be the impact on Shareholders if the Recapitalisation Resolution is approved?</i></p> <p>If the Recapitalisation Resolution is passed by Shareholders, and the other Conditions Precedent are satisfied, then the Recapitalisation can be implemented. If this occurs, the potential for Slater and Gordon to continue to trade and operate its business will be improved by a lower debt burden. The resulting financial and operational stability may result in an uplift in value for Shareholders over time.¹⁸</p>	<p>Section 7, Section 9.5 and Section 10.5</p>

¹⁷ Shareholders should note that they will only benefit from any future value recovery if they continue to hold Shares. Refer to **Section 7.4(d)** and **Section 7.5** for a discussion of the circumstances in which Shareholders may cease to hold Shares following the Recapitalisation.

¹⁸ Shareholders should note that they will only benefit from an uplift in value if they continue to hold Shares. Refer to **Section 7.4(d)** and **Section 7.5** for a discussion of the circumstances in which Shareholders may cease to hold Shares following the Recapitalisation.

Question and answer	Where can I find more information?
<p>However, the Recapitalisation will dilute existing Shareholders' interests in Slater and Gordon to 5% (in aggregate) of Slater and Gordon's total issued share capital following implementation of the Recapitalisation.¹⁹</p> <p>In addition, Shareholders will no longer hold any interest in Slater and Gordon's UK Operations as these will be wholly owned by UK HoldCo post-implementation of the Senior Lender Scheme, which, in turn, will be wholly owned by the Senior Lenders.</p>	
<p><i>What is the impact on Shareholders of separating the UK Operations and the Australian Operations?</i></p> <p>The separation of UK Operations will be effected by way of Slater and Gordon transferring 100% of the shares in two of its Subsidiaries, S&G UK and Walker Smith Way, to UK HoldCo (which will be wholly owned by the Senior Lenders). Slater and Gordon and S&G UK also propose to enter into a Business Separation Agreement which will govern the separation and certain transitional arrangements (refer to Section 10.3(g) and Section 13.2 for further information).</p> <p>As a result:</p> <ul style="list-style-type: none"> • Shareholders will have no interest in the UK Operations, and the separation will reduce the size of Slater and Gordon's business following implementation of the Recapitalisation; and • notwithstanding that the UK Operations have underperformed and have continued to generate material losses for the Group, Shareholders will not have the opportunity to benefit from any future recovery or turnaround in the performance of these operations in the long-term, or value realisation in any asset sales, if such a scenario was (or scenarios were) to be achieved under UK HoldCo ownership. <p>The Board believes that the separation will enable the reconstituted Board and management to focus their time solely on improving the Australian Operations. Apart from a shared brand and corporate history, and certain arrangements which are referred to in Section 13.2, the UK Operations are largely independent of the Australian Operations. The UK Operations compete in a different market landscape and regulatory environment. While there are some similarities in the range of strategic and operational challenges faced by Slater and Gordon's Australian Operations and UK Operations, the strategic plan and turnaround initiatives for each are distinct and are not interrelated. As such, there is expected to be minimal disruption to the Australian Operations from separating the UK Operations.</p> <p>In addition, as Shareholders will have no interest in the UK Operations following the Recapitalisation:</p> <ul style="list-style-type: none"> • Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their 	<p>Section 7 and Section 9.5</p>

¹⁹ This is not on a fully diluted basis and does not include Shares that could be issued pursuant to the existing warrants in Slater and Gordon. Refer to **Section 7.4(c)** for further details about the warrants.

Question and answer	Where can I find more information?
<p>guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay, or guarantee or secure the payment of, any secured debt in respect of the UK Operations. This effectively means a reduction in the Secured Debt owed by Slater and Gordon and the Australian Subsidiaries of \$636.6 million on implementation of the Recapitalisation;²⁰ and</p> <ul style="list-style-type: none"> Shareholders will have limited exposure to the risks associated with the UK Operations, which have been generating material losses for the Group. These are intended to be addressed in the transitional arrangements to be entered into between Slater and Gordon and S&G UK (refer to Section 10.3(g) and Section 13.2 for further information). <p>The Board also believes that the separation will enable Slater and Gordon to develop a streamlined organisational and operating structure that best supports the Australian Operations. Separating the UK Operations will enable management of the Australian Operations to focus on restoring earnings and cash flow. Refer to Section 9.5 for further details regarding the financial impact of separating the businesses.</p>	
<p><i>What conditions need to be satisfied before the Recapitalisation can proceed?</i></p> <p>The Recapitalisation Resolution must be approved in order for the Recapitalisation to proceed. Section 5.7 describes a number of other Conditions Precedent that will need to be satisfied or waived (as applicable) before the Recapitalisation can be implemented.</p>	Section 5.7
<p><i>What will happen if the Recapitalisation is approved?</i></p> <p>The effect of the Recapitalisation on Slater and Gordon's corporate structure, financial position, equity capital and governance structure is set out in Section 7 and Section 9.5.</p>	Section 7 and Section 9.5

²⁰ Calculated as total Secured Debt of \$761.6 million as at 30 June 2017 less Slater and Gordon's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

Question and answer	Where can I find more information?									
<p><i>What is the impact of the Recapitalisation on Slater and Gordon's share capital structure?</i></p> <table><tr><th></th><th>Prior to implementation of the Recapitalisation</th><th>Following implementation of the Recapitalisation</th></tr><tr><td>Existing Shareholders' interest in Shares</td><td>100%</td><td>5%</td></tr><tr><td>Senior Lenders' interest in Shares</td><td>0%</td><td>95%</td></tr></table> <p>Refer to Section 7.4(c) for details regarding the nature of the warrants issued in June 2016 in connection with an amendment in 2016 to the Syndicated Facility Agreement.</p>		Prior to implementation of the Recapitalisation	Following implementation of the Recapitalisation	Existing Shareholders' interest in Shares	100%	5%	Senior Lenders' interest in Shares	0%	95%	Section 7.4
	Prior to implementation of the Recapitalisation	Following implementation of the Recapitalisation								
Existing Shareholders' interest in Shares	100%	5%								
Senior Lenders' interest in Shares	0%	95%								
<p><i>What is the impact of the Recapitalisation on the control of Slater and Gordon?</i></p> <p>Due to the number of Shares to be issued to Senior Lenders as part of the Recapitalisation, one of Slater and Gordon's Senior Lenders, Anchorage, will hold 53% of Slater and Gordon's total share capital immediately following the Recapitalisation.</p> <p>Under the Senior Lender Scheme, each Senior Lender will enter into a Voluntary Escrow Deed with Slater and Gordon to restrict the disposal of their Shares for a period of time. In addition to restricting the Senior Lenders' disposal of their Shares, Senior Lenders will also only be allowed to trade their debt and equity interests in Slater and Gordon among the group of Senior Lenders. As a result, Slater and Gordon will, and each of the Senior Lenders may, acquire a Relevant Interest in Slater and Gordon. The purpose of these restrictions under the Voluntary Escrow Deed is to promote the successful implementation of the strategic plan and turnaround initiatives for Slater and Gordon.</p> <p>Refer to Section 7.4(d) and Section 7.4(e) for further details about the acquisition of a Relevant Interest by Slater and Gordon, Anchorage and potentially the other Senior Lenders under the Senior Lender Scheme.</p> <p>Shareholders should refer to Section 8 for an overview of Anchorage and its future intentions for Slater and Gordon.</p>	Section 5.5, Section 7.4 and Section 8									
<p><i>What is the impact of the Recapitalisation on the debt owed by Slater and Gordon?</i></p> <p>The following illustrates the total aggregate debt owed by Slater and Gordon and the Group (and the primary borrowers of that debt) to the Senior Lenders prior to the Recapitalisation.</p> <p>It also illustrates the secured debt that will be owing by each of Slater and Gordon and S&G UK to the Senior Lenders following implementation of the Recapitalisation.</p> <p>As noted above, the UK Operations will be separated from the Australian</p>	Section 5.2 and Section 7.2									

Question and answer					Where can I find more information?
<p>Operations. As such, Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay, or guarantee or secure the payment of, any secured debt in respect of the UK Operations. This effectively means a reduction in the Secured Debt owed by Slater and Gordon and the Australian Subsidiaries of \$636.6 million on implementation of the Recapitalisation.²¹</p>					
Pre-implementation of the Recapitalisation			Post-implementation of the Recapitalisation		
Amount owed by Slater and Gordon to the Senior Lenders as Primary Borrower	Amount owed by S&G UK to the Senior Lenders as Primary Borrower	Aggregate amount owed by each member of the Group to the Senior Lenders	Amount owed (in any capacity) by Slater and Gordon to the Senior Lenders ²²	Amount owed (in any capacity) by S&G UK to the Senior Lenders ²³	
\$119.2 million	£379.8 million	\$761.6 million ²⁴	\$125 million ²⁵	GBP equivalent of up to \$25 million plus £250 million of convertible notes ²⁶	
<p><i>What are the consequences if the Recapitalisation Resolution is rejected?</i></p> <p>If the Recapitalisation Resolution is not passed and consequently the Recapitalisation is not implemented:</p> <ul style="list-style-type: none">the Board will be placed in a position where it will have to re-assess the solvency of Slater and Gordon as its level of debt will be unsustainable;it is likely that an insolvency event will occur in relation to Slater and Gordon;there may be a diminution in the value of Slater and Gordon’s business (including the UK Operations) due to entering an insolvency process through the loss of current					<p>Section 4.8 and Section 10.6</p>

²¹ Calculated as total Secured Debt of \$761.6 million as at 30 June 2017 less Slater and Gordon's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

²² This reflects the debt owed to the Senior Lenders only and does not include any amounts owed under the Transactional Facilities following implementation of the Recapitalisation, or any other debts owed by Slater and Gordon. Shareholders should refer to **Section 13.4(b)** for further details about the Transactional Facilities.

²³ Following implementation, Slater and Gordon and the other entities in the Australian Group will not have any obligations in respect of amounts that remain owing by the UK Operations to the Senior Lenders. The Senior Lenders will not have any security over the assets of the Australian Operations in respect of debts owing by the UK Operations.

²⁴ As at 30 June 2017 and assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

²⁵ Comprised of amounts owing under the Restated SFA following the Recapitalisation and the total amount available to Slater and Gordon under the New AUD Super Senior Facility.

²⁶ The convertible notes will only be repayable from specific proceeds, including Watchstone Proceeds in excess of the first \$40 million received.

Question and answer	Where can I find more information?
<p>employees and clients;</p> <ul style="list-style-type: none"> Shareholders are expected to receive nothing because the assets of Slater and Gordon are not sufficient to fully satisfy its Secured Debt obligations, let alone the claims of other secured creditors, unsecured creditors or any interests of Shareholders; and Slater and Gordon will have to pay the transaction costs it has incurred or committed in relation to the Recapitalisation regardless of whether the Recapitalisation is implemented. Slater and Gordon estimates that it has incurred \$11.5 million in transaction costs that will be implemented regardless of whether the Recapitalisation proceeds. <p>In addition, there is a risk that Slater and Gordon would not be able to satisfy ASX that its financial condition is sufficient to permit continued trading of its Shares on ASX. Consequently, Slater and Gordon's Shares may be suspended from trading on ASX until a revised debt recapitalisation is proposed and implemented (if any).</p>	
Overview of the Share Consolidation	
<p><i>What is the Share Consolidation?</i></p> <p>The Share Consolidation will result in a reduction in the number of Shares on issue. It will take effect on the basis that all Shares held by each Shareholder at that time will be converted into a smaller number of shares equal to one-one hundredth of the number of the Shares currently held by each Shareholder. While Shareholders will hold fewer Shares post-Share Consolidation, there will be no change to each Shareholder's proportion of the total Shares on issue prior to the issue of Shares pursuant to the Senior Lender Scheme.</p> <p>As such, while the Share Consolidation will reduce the number of Shares held by each Shareholder, it will not dilute each Shareholder's overall interest in Slater and Gordon, which will remain unchanged until the Recapitalisation is implemented.</p> <p>For further details on the impact on your shareholding from the Share Consolidation, refer to Section 11.3.</p>	<p>Section 11.3 and Annexure A (Notice of Meeting)</p>
<p><i>What happens if the Share Consolidation Resolution is rejected?</i></p> <p>If the Share Consolidation Resolution is not passed by the requisite majority of Shareholders, then the Share Consolidation will not be undertaken and the number of Shares on issue in Slater and Gordon will remain the same. As the Recapitalisation Resolution is not conditional upon the Share Consolidation Resolution being approved, the Recapitalisation can still be implemented, provided the other Conditions Precedent are satisfied or (if permitted) waived.</p> <p>However, if the Share Consolidation is not undertaken to reduce the number of Shares on issue prior to the Recapitalisation, the number of Shares to be issued to Senior Lenders will be increased by 100 times and, accordingly, the value per Share will be significantly reduced.</p>	<p>N/A</p>

Question and answer	Where can I find more information?
<p><i>What happens if both the Share Consolidation Resolution and the Recapitalisation Resolution is approved?</i></p> <p>If both the Recapitalisation Resolution and the Share Consolidation Resolution are approved by a simple majority of Shareholders, and all other Conditions Precedent to the Recapitalisation are satisfied (or, if permitted, waived), then both the Share Consolidation and the Recapitalisation will be implemented.</p> <p>Once the Share Consolidation is undertaken, the number of Shares held by each Shareholder will be reduced by a ratio of 100:1 with each Shareholder's proportion of the total Shares on issue prior to the Recapitalisation remaining the same.</p> <p>However, once the Recapitalisation is implemented, Shareholders will be diluted such that, collectively, Shareholders will only have an interest in 5% of Slater and Gordon. Following the Recapitalisation, to the extent that Slater and Gordon determines that there are unmarketable parcels of Shares (being parcels worth less than \$500), it may clean up its Share Register by undertaking a buy-back of those unmarketable parcels. If Slater and Gordon elects to do this, then:</p> <ul style="list-style-type: none"> • Slater and Gordon would be required to make an offer to Shareholders to buy-back their Shares, and provide Shareholders a reasonable opportunity to accept the buy-back offer. As a result of the current operation of Slater and Gordon's constitution, a Shareholder can only have its Shares bought back by Slater and Gordon if the Shareholder accepts the buy-back offer made. If a Shareholder does accept the buy-back offer, it would at that point cease to be a Shareholder and, as such, would no longer hold any interest in Slater and Gordon; and • Senior Lenders' voting power may increase relative to the number of Shares bought-back. <p>For a worked example of the impact of both the Share Consolidation and the Recapitalisation on individual Shareholders, refer to Section 7.5.</p>	<p>Section 7.5</p>
<p><i>Meeting, voting and approvals</i></p>	
<p><i>Why is the Meeting being held?</i></p> <p>The Meeting is being held for Shareholders to consider the Resolutions.</p> <p>The Resolutions comprise the Ordinary Business Resolutions and the Special Business Resolutions.</p> <p>The Ordinary Business Resolutions relate to the ordinary business of Slater and Gordon's annual general meeting.</p> <p>The Special Business Resolutions are comprised of the Recapitalisation Resolution and the Share Consolidation Resolution.</p> <p>The Recapitalisation Resolution needs to be approved by Shareholders to implement the Recapitalisation and relates to the issuance of Shares to Senior Lenders.</p> <p>The Recapitalisation of Slater and Gordon is only possible if the Recapitalisation Resolution is passed at the Meeting.</p>	<p>Section 3 and Section 4</p>

Question and answer	Where can I find more information?
<p>The Share Consolidation Resolution needs to be approved by Shareholders to undertake the Share Consolidation.</p> <p>Details of the Resolutions are set out in the Notice of Meeting and this Explanatory Memorandum.</p>	
<p><i>Where and when will the Meeting be held?</i></p> <p>The Meeting will be held at 10.00 am (Melbourne time) on 6 December 2017 at the Marriott Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne Victoria 3000.</p>	<p>Annexure A (Notice of Meeting)</p>
<p><i>Who can vote?</i></p> <p>If you are a Shareholder on the Meeting Record Date, being 7.00 pm (Melbourne time) on 4 December 2017, you will be entitled to vote on the Resolutions, subject to the voting exclusion requirements described in the Notice of Meeting.</p>	<p>Annexure A (Notice of Meeting)</p>
<p><i>Why should you vote?</i></p> <p>Voting is not compulsory. However, your vote will be important in determining whether the Recapitalisation proceeds. The Recapitalisation can only proceed if Shareholders approve the Recapitalisation Resolution.</p> <p>The Board encourages you to read this Explanatory Memorandum carefully and in full, and recommends that you vote in favour of the Recapitalisation Resolution in the absence of a Superior Proposal.</p>	<p>N/A</p>
<p><i>How do I vote?</i></p> <p>You can vote at the Meeting:</p> <ul style="list-style-type: none"> • in person; • by completing the Proxy Form that is enclosed with this Explanatory Memorandum; • by attorney; or • in the case of a body corporate, by corporate representative. 	<p>Annexure A (Notice of Meeting)</p>
<p><i>What voting majority is required to approve the Resolutions?</i></p> <p>The Resolutions must be passed at the Meeting by more than 50% of the votes cast by Eligible Shareholders entitled to vote on the Resolutions (whether in person or by proxy, attorney or corporate representative). Details of the voting exclusions for each Resolution are set out in the Notice of Meeting.</p>	<p>Annexure A (Notice of Meeting)</p>
<p><i>What happens if I vote against the Resolutions or do not vote?</i></p> <p>If you do not vote, or if you vote against the Resolutions, then the Resolutions may not be approved. The Recapitalisation will not proceed if the Recapitalisation Resolution is not approved. The Share Consolidation will also not proceed if the Share Consolidation Resolution is not approved.</p> <p>While it is not possible to predict the future performance of Slater and</p>	<p>Section 4.8 and Section 10.6</p>

Question and answer	Where can I find more information?
<p>Gordon, there may be adverse implications for Slater and Gordon and its Shareholders if the Recapitalisation is not implemented, details of which are set out in Section 4.8 and Section 10.6.</p> <p>However, if the Recapitalisation Resolution is passed by a simple majority of Shareholders (even if you did not vote, or voted against the Recapitalisation Resolution) and the other Conditions Precedent are satisfied, then the Recapitalisation will be implemented.</p> <p>If the Share Consolidation Resolution is also passed by a simple majority of Shareholders (even if you did not vote, or voted against the Share Consolidation Resolution) then the Share Consolidation will be undertaken (regardless of whether the Recapitalisation is implemented) and the number of Shares held by each Shareholder will be reduced in the same proportion. Each Shareholder's proportion of Slater and Gordon's total share capital will however remain the same following the Share Consolidation and will remain unchanged until the Recapitalisation is implemented.</p>	
<i>Reasons to vote for, reasons to vote against, and key risks of the Recapitalisation</i>	
<p><i>What are the reasons to vote in favour of the Recapitalisation Resolution?</i></p> <p>The Board unanimously recommends that you vote in favour of the Recapitalisation Resolution, in the absence of a Superior Proposal.</p> <p>The reasons why you should vote in favour of the Recapitalisation Resolution are set out in Section 10.3.</p>	Section 10.3
<p><i>What are the reasons you may consider voting against the Recapitalisation Resolution?</i></p> <p>The reasons why you may choose to vote against the Recapitalisation Resolution are set out in Section 10.4.</p>	Section 10.4
<p><i>What are the key risks associated with the Recapitalisation?</i></p> <p>The key risks associated with the Recapitalisation include:</p> <ul style="list-style-type: none"> • Execution risks: even if the Recapitalisation Resolution is approved by Shareholders, implementation of the Recapitalisation is subject to a number of conditions and approvals. • Intervention risk: the Recapitalisation faces the risk of intervention from Slater and Gordon stakeholders and other interested parties, even if it receives all necessary approvals. • Triggering change of control provisions: implementation of the Recapitalisation may give rise to contractual consequences under material contracts to which Slater and Gordon is a party, including rights for the contractual counterparty to review or terminate the contractual arrangements. • Failure to realise anticipated benefits: Slater and Gordon may fail to realise any or all of the anticipated 	Section 12

Question and answer	Where can I find more information?
<p>benefits of separating the UK Operations from the Australian Operations, either in a timely manner or at all.</p> <ul style="list-style-type: none"> • Indebtedness: while the Recapitalisation will significantly reduce Slater and Gordon's level of debt, it will continue to have a level of indebtedness following implementation of the Recapitalisation, which will have consequences for both Slater and Gordon and its Shareholders. These include reducing the cash flow available to fund working capital, capital expenditures and development activity, placing Slater and Gordon at a competitive disadvantage compared to its competitors that have less debt and also increasing its vulnerability to adverse general economic or industry conditions, among other consequences. <p><u>Risks if the Recapitalisation is not implemented:</u></p> <p>The Board expects that if the Recapitalisation is not implemented and the financial position of Slater and Gordon remains unchanged, it would appoint an external administrator, which the Board believes would be followed by the Senior Lenders appointing a receiver, or a receiver and manager, to Slater and Gordon.</p> <p>In addition, due to the inter-conditionality of the Senior Lender Scheme and the Shareholder Claimant Scheme, the Shareholder Claimant Scheme would not be implemented and Slater and Gordon would continue to be exposed to ongoing liability and litigation in relation to the trading in its Shares during the previous six years. The ongoing and threatened litigation, discussed in Section 13.7, would also not be resolved.</p>	
Information about Slater and Gordon	
<p><i>What is Slater and Gordon?</i></p> <p>Slater and Gordon is a consumer legal services organisation operating across Australia and the United Kingdom. Slater and Gordon provides legal services in two main areas of consumer law:</p> <ul style="list-style-type: none"> • personal injury law (including motor vehicle accidents, workers' compensation/employers liability, industrial disease and civil liability law); and • general law (including family and relationship law, wills, estate planning, probate, business and specialised litigation, class actions, real estate, crime and regulation and employment). 	Section 6
Other questions	
<p><i>What are the prospects of Slater and Gordon receiving a Superior Proposal in the future?</i></p> <p>The Board believes that there are no other feasible alternatives to reduce Slater and Gordon's current Secured Debt, and therefore the possibility of a proposal that could give rise to a Superior Proposal emerging in the foreseeable future is low.</p>	Section 10.3(d) and Section 10.4(g)

Question and answer	Where can I find more information?
<p><i>What if I have further questions about the Recapitalisation?</i></p> <p>If after reading this Explanatory Memorandum you have any questions about the Resolutions, the Recapitalisation or the Share Consolidation, you should call 1300 393 803 from within Australia, or +61 3 9415 4050 outside of Australia.</p> <p>If you are in doubt as to what you should do, you should consult your financial, legal or other professional adviser.</p>	<p>N/A</p>

3 Ordinary Business of the Meeting

3.1 Overview

Resolutions 1 - 7 form part of the ordinary business of the Meeting (**Ordinary Business Resolutions**). Each Ordinary Business Resolution is outlined in further detail below.

3.2 Item 1: Financial Reports

The Corporations Act requires that the Financial Report, Directors' Report and Auditor's Report of Slater and Gordon for the most recent Financial Year be considered at the Meeting. While this item of business does not require a formal resolution to be put to Shareholders, the Chairperson will give Shareholders a reasonable opportunity to raise questions on these reports at the Meeting.

A copy of the Financial Report, Directors' Report and Auditor's Report is available on Slater and Gordon's website at <https://www.slatergordon.com.au/investors/reports-and-presentations>.

As required under the Corporations Act, the Chairperson will also allow time during the Meeting for Shareholders to ask the Auditor questions about, and make comments on, the reports and Slater and Gordon's management, business, operations, financial performance and business strategies. If a Shareholder prefers to put written questions to the Auditor, a Shareholder may submit questions relevant to the content of the Auditor's Report or the conduct of the audit in writing to Slater and Gordon, up to five Business Days prior to the Meeting. Slater and Gordon will pass the questions on to the Auditor prior to the Meeting. The Auditor may, but is not obligated to, answer any written or oral questions that are put to it by Shareholders.

3.3 Item 2: Resolution 1 - Remuneration Report

The Remuneration Report (which forms part of the Directors' Report) is required to include discussion on a number of issues relating to remuneration policy and its relationship to Slater and Gordon's performance.

As required under section 250R(2) of the Corporations Act, a resolution will be put to Shareholders to adopt the Remuneration Report. Shareholders should note that the vote on this Resolution 1 is advisory only and is not binding on the Board.

Shareholders should, however, be aware of the "two strikes rule". Under Part 2G.2 of the Corporations Act, a spill resolution must be put to Shareholders if:

- (a) at an annual general meeting 25% or more of the votes cast were against the adoption of the remuneration report; and
- (b) at the next annual general meeting, 25% or more of the votes cast are also against the adoption of the remuneration report.

At Slater and Gordon's 2016 annual general meeting, 44.8% of the votes cast by Shareholders were cast against the adoption of the 2016 remuneration report and Slater and Gordon received its 'first strike'. While the resolution was passed by the majority of Shareholders, the Board noted the concerns of Shareholders and has implemented a number of changes, further details of which are included in the Annual Report.

If at this Meeting at least 25% of the votes cast by Shareholders are also cast against the adoption of the Remuneration Report, Slater and Gordon will receive its 'second strike' and will be required to put a spill resolution, Resolution 1, to Shareholders.

If more than 50% of votes are cast in favour of this spill resolution, Slater and Gordon will be required to hold a Spill Meeting at which the Directors (excluding the managing director) who were in office at the date of the Directors' Report will be required to stand for re-election.

Directors' recommendation

The Directors unanimously recommend Shareholders **vote in favour** of adopting the Remuneration Report. As stated in the Notice of Meeting, each of the KMPs whose remuneration is included in the Remuneration Report, and closely related parties of those KMPs, are not eligible to vote on this resolution except as outlined in the Notice of Meeting.

3.4 Item 3: Resolution 2 - Spill Meeting

Shareholders will only be asked to vote on this Resolution 2 if the outcome of Resolution 1 is such that at least 25% of the votes cast are against the adoption of the Remuneration Report.

If more than 50% of votes cast are in favour of this Resolution 2, Slater and Gordon must convene the Spill Meeting. All of the Directors (other than the managing director) who were Directors at the date of the Directors' Report considered at the Meeting will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting, those persons whose election or re-election as Directors is approved will be the Directors of Slater and Gordon. If a Director is re-appointed at the Spill Meeting, the appointment continues as if the cessation and re-appointment had not happened.

The Corporations Act includes a mechanism to ensure that Slater and Gordon will have at least three directors (including the managing director) after the Spill Meeting, as is required for a public company. If at least two non-executive directors are not appointed by ordinary resolution at the Spill Meeting, those persons with the highest percentage of votes in favour of their appointment will be taken to be appointed (even if less than half of the votes cast on the resolution were in favour of their appointment).

Directors' recommendation

The Directors unanimously recommend that Shareholders **vote against** this resolution. As provided in the Notice of Meeting, each of the KMPs whose remuneration is included in the Remuneration Report, and closely related parties of those KMPs, are not eligible to vote on the resolution, except as stated in the Notice of Meeting.

However, as outlined in **Section 3.5** and **Section 7.6** of this Explanatory Memorandum, it is proposed that the current Directors will be removed and replaced by a new Board, if the Recapitalisation proceeds. It is therefore unlikely that a Spill Meeting will be held even if 25% of the votes cast are against the adoption of the Remuneration Report, and this Resolution 2 is approved by Shareholders. Per section 250W(4) of the Corporations Act, because the Directors who were in office at the time the Directors' Report was resolved will cease to hold their positions during the 90 days following the Meeting, Slater and Gordon would not be required to hold the Spill Meeting.²⁷

The Chairperson intends to vote all undirected proxies against this Resolution 2.

3.5 Item 4: Resolutions 3, 4, 5, 6 and 7- Election of Directors

At this Meeting, Shareholder approval is being sought for the election of John Skippen and Hayden Stephens to the Board.

John Skippen's re-election is being sought as part of the rotation requirements under the Constitution and the ASX Listing Rules. If elected, John will remain as a Director and Board Chair until the Recapitalisation has been implemented.

Shareholder approval is also being sought for the election of Hayden Stephens as a Director, who, if elected, will fill the role of legal practitioner director as required under the *Legal Profession Act 2007* (Queensland) and equivalent provisions in the jurisdictions in

²⁷ This is based upon the current timetable for implementation of the Recapitalisation.

which Slater and Gordon conducts its legal practices. This is required as Andrew Grech, the current legal practitioner director, will resign immediately following the close of the Meeting (subject to Resolution 4 being successful). The other current Directors who are not up for re-election at this Meeting will remain Directors until the Recapitalisation is implemented. Shareholders should refer to **Section 7.6** for further details about the composition of the Board following the Recapitalisation.

Resolution 3 - Retirement and re-election of Director - John Skippen

John has been a Board member since 2010 and chair of the Board since 2012. John has over 30 years' experience as a chartered accountant and was the former Executive Finance Director of Harvey Norman Holdings Ltd. John brings to the Board extensive financial, public company and retail experience and skills in financial management, mergers and acquisitions, and strategy.

In addition to serving as chair of the Board, John is a member of Slater and Gordon's Audit, Compliance and Risk Management Committee, Remuneration Committee and the chair of its Nomination Committee.

John is currently also a non-executive director of Flexigroup Limited. Previously, John was a non-executive director of Super Retail Group Ltd.

Directors' recommendation

The Directors unanimously recommend Shareholders **vote in favour** of this resolution.

The Chairperson intends to vote all undirected proxies in favour of this Resolution 3.

Resolution 4 - Election of Director - Hayden Stephens

Hayden is the current Chief Executive Officer of Slater and Gordon, having commenced his role in January 2016. Prior to this appointment, Hayden held leadership positions in both Slater and Gordon's personal injury law and general law divisions.

Hayden started at Slater and Gordon in 1993 in Melbourne. In the decade that followed, Hayden specialised in personal injury law and was involved in a number of ground breaking legal cases. His work included public and product liability law, class actions, assisting asbestos disease sufferers and specialising in acting for victims of child sex abuse in clergy institutions. His work involved litigation in the Federal Court, State Supreme Courts across the country and the High Court of Australia.

Previously, Hayden served as a director on the board of the Western Bulldogs Football Club between 1994 and 1996.

In late 1999, Hayden was appointed leader of the Slater and Gordon operations in Western Australia and remained in this role until 2004. In those years, Hayden also served as Trustee of the WA Reconciliation Trust established to offer redress to victims of clergy abuse.

Between 2004 and 2009, Hayden held leadership positions in Slater and Gordon's National Workers' Compensation practice groups. Among his achievements in this role, Hayden worked proactively with industry stakeholders to help shape legislative reform of injuries compensation schemes. Hayden has since continued his work with key stakeholders, State and Federal Government and regulatory bodies in areas of legislative reform and claimant advocacy.

Directors' recommendation

The Directors unanimously recommend Shareholders **vote in favour** of this resolution.

The Chairperson intends to vote all undirected proxies in favour of this Resolution 4.

Resolutions 5, 6 and 7 - Election of Directors to be appointed following the Recapitalisation

In connection with the Recapitalisation and, as described below in **Section 7.6**, Anchorage and the other Senior Lenders party to the Restructuring Support Deed have the right to appoint nominees to the Board, with such appointments to have effect on and from the Implementation Date. Anchorage nominates each of Merrick Howes, Nils Stoesser and James MacKenzie to be elected or appointed to the Board. For the avoidance of doubt, Messrs Howes, Stoesser and MacKenzie will only become Directors if the Recapitalisation is implemented and their appointment will only take effect from the date on which the Recapitalisation is implemented. During the period following the Meeting, if Resolution 3 and Resolution 4 are approved, the current Directors will remain as the Directors, with the exception of Andrew Grech, who will resign from his position as a non-executive Director at the close of the Meeting.

Resolutions 5, 6 and 7 seek approval from Shareholders for the election of each of Messrs Howes, Stoesser and MacKenzie. However, Shareholders should note that the nomination rights referred to above may be exercised even if Resolutions 5, 6 and 7 are not approved by Shareholders.

Resolution 5 - Election of Director - Merrick Howes

Merrick is a managing director and head of ACPA Pty Ltd, an Australian affiliate of Anchorage Capital Group, L.L.C. He has led various investments and restructures for Anchorage in Australia and New Zealand. Before joining ACPA Pty Ltd he was a co-founder of Shearwater Capital. Previously, Merrick has held senior positions at Goldman Sachs in Australia, Merrill Lynch in Asia and Europe and Macquarie Bank in Australia and Asia.

Merrick received a B.A. in Accounting and a Bachelor of Laws from the Australian National University.

Directors' recommendation

The Directors unanimously recommend Shareholders **vote in favour** of this resolution.

The Chairperson intends to vote all undirected proxies in favour of this Resolution 5.

Resolution 6 - Election of Director - Nils Stoesser

Nils is a managing director of Anchorage Capital Europe, LLP, an affiliate of Anchorage Capital Group, L.L.C. He represents Anchorage on the board of a number of European based investments. Before joining Anchorage Capital Europe, LLP, he was Vice Chairman of the Supervisory Board and Advisor to the CEO and Board of Management at Fokker Technologies Group. Prior to that Nils was a founding partner of Arle Capital Partners, where he led and was responsible for a number of corporate investments, having commenced his career at Arthur Andersen.

Nils received a Master's in Mechanical Engineering from the University of Newcastle upon Tyne and is a member of the Institute of Chartered Accountants in England and Wales (ICAEW).

Directors' recommendation

The Directors unanimously recommend Shareholders **vote in favour** of this resolution.

The Chairperson intends to vote all undirected proxies in favour of this Resolution 6.

Resolution 7 - Election of Director - James MacKenzie

James is an experienced Australian company director. He currently serves as Chairman of the Victorian Funds Management Corporation, Chairman of Development Victoria, President of the Victorian Arts Centre Trust, director of Building Queensland and is a consultant to Anchorage.

James has a Bachelor of Business from Swinburne University, and is a Fellow of both the Chartered Accountants Australia & New Zealand and Australian Institute of Company Directors.

In 2001, he was awarded the Centenary Medal for services to Public Administration.

Directors' recommendation

The Directors unanimously recommend Shareholders **vote in favour** of this resolution.

The Chairperson intends to vote all undirected proxies in favour of this Resolution 7.

4 Special Business related to the Recapitalisation

4.1 Background to the Recapitalisation

On 31 August 2017, Slater and Gordon announced that it had entered into an amended Restructuring Support Deed with all of its Senior Lenders in relation to the Recapitalisation.

The Recapitalisation is intended to provide Slater and Gordon with a sustainable level of senior secured debt and a stable platform for its future operations.

Without the Recapitalisation, which provides the prospect of a solvent outcome, the Board would be placed in a position where it would have to re-assess the solvency of Slater and Gordon. If the Recapitalisation is not implemented, the Board expects that it would appoint an external administrator, which it believes would be followed by the Senior Lenders appointing a receiver, or a receiver and manager, to Slater and Gordon.

There are no other feasible options currently available to Slater and Gordon to restructure its secured debt liabilities and remain solvent.

If administration and receivership of Slater and Gordon were to occur, it is expected that Shareholders would receive nothing because the assets of Slater and Gordon are not sufficient to fully satisfy its Secured Debt obligations, let alone the claims of other secured creditors, unsecured creditors or any interests of Shareholders. Entering such a process may also erode the remaining value in Slater and Gordon's business through the negative perception of insolvency and the impact this would have on Slater and Gordon's ability to retain and attract employees and clients. Due to the nature of Slater and Gordon's business, in the event of an administration, there is also a risk of intervention by regulators to protect the interests of Slater and Gordon's clients. If this were to occur, the administrator would not have control over the realisation of assets, and as such, the regulator's involvement could further diminish the realisable value of Slater and Gordon's assets.

The Recapitalisation Resolution must be approved by Shareholders in order for the Recapitalisation to proceed.

4.2 What is the Recapitalisation?

The Recapitalisation involves Slater and Gordon undertaking a creditors' scheme of arrangement with the Senior Lenders. The primary purpose of this Senior Lender Scheme is to reduce Slater and Gordon's debt liabilities owing to the Senior Lenders. Further details of the Senior Lender Scheme, to the extent they are material to Shareholders, are provided in **Section 5**.

4.3 Why is the Recapitalisation required?

As of 30 June 2017, Slater and Gordon owes a total of \$761.6 million²⁸ to its Senior Lenders under the Syndicated Facility Agreement, which is the primary source of Slater and Gordon's and S&G UK's indebtedness. A large portion of this debt (approximately \$375 million) was drawn to partially fund the acquisition of Quindell Plc's Professional Services Division in 2015.

Slater and Gordon's and S&G UK's obligations under the Syndicated Facility Agreement are secured against all the assets of Slater and Gordon, S&G UK and Slater and Gordon's other Subsidiaries, who have guaranteed all of Slater and Gordon's and S&G UK's obligations under the Syndicated Facility Agreement. As the UK Operations will be separated from the Australian Operations, Slater and Gordon and the Australian

²⁸ Assumes a AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million and £379.8 million, which is owed by Slater and Gordon and each of its subsidiaries as joint and several guarantors of the total Secured Debt.

Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay or guarantee or secure the payment of any secured debt in respect of the UK Operations. This effectively means a reduction in the Secured Debt owed by Slater and Gordon and the Australian Subsidiaries of \$636.6 million upon implementation of the Recapitalisation.²⁹

Slater and Gordon considers that if the Recapitalisation is not implemented, it will not be in a position to repay any amounts due under the Syndicated Facility Agreement when they become payable. The Directors consider that, without the implementation of the Recapitalisation, Slater and Gordon will likely become insolvent.

The Senior Lenders have entered into a standstill arrangement as part of the Restructuring Support Deed which provides for, among other things, a temporary moratorium on certain agreed enforcement actions against Slater and Gordon in order to allow the Recapitalisation to be implemented. For a summary of the standstill arrangement, please refer to Slater and Gordon's recapitalisation announcement to the ASX on 31 August 2017.

Slater and Gordon also has in place other secured facilities, being the Super Senior Facilities, for an aggregate AUD amount of \$65 million, and certain Transactional Facilities. If the Recapitalisation is implemented the Super Senior Facilities will be refinanced under the Senior Lender Scheme, while amounts owing under the Transactional Facilities will not be compromised by the Senior Lender Scheme. Creditors under the Transactional Facilities will be provided a first ranking priority status over enforcement proceeds received in respect of Slater and Gordon or any Australian Subsidiary up to a maximum aggregate exposure of \$10 million (or its equivalent). See **Section 13.4(a)** and **Section 13.4(b)** for further information about these facilities.

4.4 Recapitalisation Resolution

The Recapitalisation has various components, such as the issuance of Shares to Senior Lenders. The issuance of Shares to Senior Lenders requires Shareholder approval pursuant to the ASX Listing Rules.

Further details of the Recapitalisation Resolution that needs to be passed for the Recapitalisation to proceed are provided in **Section 11** of this Explanatory Memorandum.

4.5 Share Consolidation

If the Recapitalisation Resolution is approved by Shareholders, Slater and Gordon proposes to undertake the Share Consolidation by reducing the number of Shares on issue by a ratio of 100:1 (subject to the rounding up of fractional entitlements). The Share Consolidation is being undertaken given the large number of Shares that will be issued under the Recapitalisation.

All things being equal, Slater and Gordon's share price is expected to increase in inverse proportion to the share consolidation ratio (subject to the rounding up of fractional entitlements) following the Share Consolidation being implemented.

Shareholder approval is required pursuant to the ASX Listing Rules and the Corporations Act to effect the Share Consolidation.

Further details are set out in **Section 11.3** of this Explanatory Memorandum.

²⁹ Calculated as total Secured Debt of \$761.6 million as at 30 June 2017 less Slater and Gordon's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

4.6 Other matters - Shareholder Claimant Scheme

As at the date of this Explanatory Memorandum, two shareholder representative proceedings have been filed against Slater and Gordon in the Federal Court of Australia. Slater and Gordon has also been notified of a further potential shareholder class action claim.

Slater and Gordon is also proposing a creditors' scheme of arrangement with its Shareholder Claimants as part of a comprehensive solution to resolve and compromise all potential Shareholder Claims by Shareholder Claimants against Slater and Gordon and other Released Persons on terms by which the benefit of relevant insurance policies held by Slater and Gordon are shared rateably amongst all Shareholder Claimants whose Shareholder Claims have been proved.

The Shareholder Claimant Scheme forms part of the proposed solvent restructure of Slater and Gordon, the purpose of which is to protect the interests of Slater and Gordon's clients, creditors, current and future Shareholders, and other stakeholders having regard to the current financial position of Slater and Gordon.

The right and entitlement of each Shareholder Claimant to bring or enforce any Shareholder Claim against Slater and Gordon or the Released Persons will be extinguished under the Shareholder Claimant Scheme, and any such claim will be limited to the Shareholder Claimant's entitlement (if any) under a scheme fund to be established pursuant to the Shareholder Claimant Scheme, with funds made available by agreement under applicable insurance policies with Slater and Gordon's relevant insurers. The ability of Shareholder Claimants to pursue Shareholder Claims against third parties other than the Released Persons will also be reduced.

Shareholder approval at this Meeting is not required for Slater and Gordon to implement the Shareholder Claimant Scheme. However, Shareholders should note that the Recapitalisation and the Shareholder Claimant Scheme are inter-conditional. This means that the Shareholder Claimant Scheme cannot be implemented unless the Recapitalisation Resolution is approved by Shareholders, amongst other conditions to the Recapitalisation.

A summary of the Shareholder Claims made or asserted against Slater and Gordon, and which are within the knowledge of Slater and Gordon as at the date of this Explanatory Memorandum, are outlined in **Section 13.7**.

If Shareholders would like further information relating to the Shareholder Claimant Scheme, Shareholders should refer to Slater and Gordon's announcement to ASX on 30 October 2017.

4.7 Alternatives considered

Slater and Gordon, with its financial advisers, has considered and investigated a number of alternatives to the Recapitalisation that could have provided a way to repay the Secured Debt. These included:

- (a) a sale of some or all of its assets, together with the undertaking of the performance improvement plan to increase revenue and reduce costs for Slater and Gordon (which, given the state of the Group, and the value attributed to key assets, was, in the view of the Directors, insufficient to reduce the debt to a sustainable level); and
- (b) a refinance of all amounts outstanding under the Syndicated Facility Agreement and other finance documents on more favourable terms (which, in the view of the Directors, was not possible given the amount of debt to be refinanced, and the current earnings of the Group).

The Recapitalisation is being proposed because none of the options investigated, as outlined above, provided, or would provide, a solution which would enable repayment of the Secured Debt.

Further, the Board does not consider that taking time to investigate any of these options further is likely to provide a proposal which would allow for repayment of the Secured Debt by the due date. Given the approaching repayment date for the Secured Debt (being May 2018 for certain tranches) and Slater and Gordon's current unsustainable level of debt, the Board considers that the Recapitalisation is the only way to satisfy its obligations to its Senior Lenders.

4.8 Consequences if the Recapitalisation Resolution is not passed

If the Recapitalisation Resolution is not passed and consequently the Recapitalisation is not implemented:

- (a) the Board will be placed in a position where it will have to re-assess the solvency of Slater and Gordon as its level of debt will be unsustainable;
- (b) it is likely that Slater and Gordon will become insolvent;
- (c) there may be a diminution in the value of Slater and Gordon's business (including the UK Operations) due to entering an insolvency process through the loss of current employees and clients;
- (d) Shareholders are expected to receive nothing because the assets of Slater and Gordon are not sufficient to fully satisfy its Secured Debt obligations, let alone the claims of other secured creditors, unsecured creditors or any interests of Shareholders; and
- (e) Slater and Gordon will have to pay the transaction costs it has incurred or committed in relation to the Recapitalisation regardless of whether the Recapitalisation is implemented. Slater and Gordon estimates that it has incurred \$11.5 million in transactions costs, which will be payable irrespective of whether the Recapitalisation is implemented.

4.9 Independent Expert's Report

Slater and Gordon commissioned the Independent Expert to prepare the Independent Expert's Report and provide an opinion on whether the Recapitalisation is, in the Independent Expert's opinion, fair and reasonable to Shareholders.

The Independent Expert has assessed the Recapitalisation and has concluded that it is fair and reasonable to Shareholders, in the absence of a Superior Proposal.

The Independent Expert has stated in the Independent Expert's Report that:

- the Recapitalisation is the most superior option currently available to Shareholders;
- it is not possible to maintain the status quo without a restructure of Slater and Gordon;
- if the Recapitalisation is not approved, Slater and Gordon is at risk of becoming insolvent by May 2018 when some of the amounts owing under the Syndicated Facility Agreement fall due; and
- Shareholders will be better off post the Recapitalisation as no value is currently attributable to Shares however following the Recapitalisation the value of Shares will increase from an implied negative value to between \$0.003 and \$0.011 per Share.

The Independent Expert's Report is set out in **Annexure B**. The Directors encourage Shareholders to read the Independent Expert's Report in full before deciding whether to vote in favour of the Recapitalisation Resolution.

4.10 Further information

If after reading this Explanatory Memorandum you have any questions about the Recapitalisation or how to vote at the Meeting, please call 1300 393 803 from within Australia, or +61 3 9415 4050 outside of Australia.

5 Description of the Recapitalisation

5.1 Senior Lender Scheme

The Recapitalisation will be implemented pursuant to the Senior Lender Scheme, a creditors' scheme of arrangement.

The key terms of the Senior Lender Scheme, to the extent material to Shareholders, are described below. This **Section 5** is a summary only and focuses on the impact of the Senior Lender Scheme on the Australian Operations. It does not describe all components of the Senior Lender Scheme.

If Shareholders would like further information relating to the Senior Lender Scheme, Shareholders should refer to Slater and Gordon's announcement to the ASX on 30 October 2017.

5.2 Debt reduction

Outstanding Secured Debt under the Syndicated Facility Agreement will be reduced under the Recapitalisation.

As the Recapitalisation will result in the separation of the UK Operations and the Australian Operations, Slater and Gordon will have in place secured debt facilities with the Senior Lenders which relate only to the Australian Operations (and which will be guaranteed by Subsidiaries within the Australian group). S&G UK will separately have in place secured debt facilities with the Senior Lenders in respect of the UK Operations (and which will be guaranteed by Subsidiaries within the UK group). As such, Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay, or guarantee or secure the payment of, any secured debt in respect of the UK Operations. This effectively means a reduction in the Secured Debt owed by Slater and Gordon and the Australian Subsidiaries of \$636.6 million upon implementation of the Recapitalisation.³⁰ The Senior Lenders will not have any security over the Australian Operations in respect of the secured facilities for the UK Operations.

Following implementation of the Recapitalisation, Slater and Gordon will have the following secured senior debt facilities in respect of the Australian Operations:

- (a) **(New AUD Super Senior Facility):** a \$65 million facility with a 3 year term which will be used to refinance the AUD-denominated amounts owing under the existing super senior facility and for general corporate purposes or such other purposes approved by the Senior Lenders; and
- (b) **(Restated SFA):** amounts owing under Slater and Gordon's existing Syndicated Facility Agreement will be refinanced such that, following implementation of the Recapitalisation, Slater and Gordon will owe a total of \$60 million on substantially the same terms as the existing Syndicated Facility Agreement (with the facility subordinated to the New AUD Super Senior Facility) but amended with a 5 year term and PIK interest not payable until the facility is repaid, amongst other changes.

A summary of the terms of the New AUD Super Senior Facility and the Restated SFA are set out in **Section 13.5**.

³⁰ Calculated as total Secured Debt of \$761.6 million as at 30 June 2017 less Slater and Gordon's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

The following illustrates the total aggregate debt owed by Slater and Gordon and the Group to the Senior Lenders prior to the Recapitalisation. It also illustrates the secured debt that will be owing by Slater and Gordon and S&G UK from implementation of the Recapitalisation.

Pre-implementation of the Recapitalisation			Post-implementation of the Recapitalisation	
Amount owed by Slater and Gordon to the Senior Lenders as Primary Borrower	Amount owed by S&G UK to the Senior Lenders as Primary Borrower	Aggregate amount owed by each member of the Group to the Senior Lenders	Amount owed (in any capacity) by Slater and Gordon to the Senior Lenders ³¹	Amount owed (in any capacity) by S&G UK to the Senior Lenders ³²
\$119.2 million	£379.8 million	\$761.6 million ³³	\$125 million ³⁴	GBP equivalent of up to \$25 million plus £250 million of convertible notes ³⁵

Slater and Gordon also has in place other secured facilities, being certain Transactional Facilities. Amounts owing under the Transactional Facilities will not be compromised by the Senior Lender Scheme and creditors under the Transactional Facilities will be provided a first ranking priority status over enforcement proceeds received in respect of Slater and Gordon or any Australian Subsidiary up to a maximum aggregate exposure of \$10 million (or its equivalent).

5.3 Separation of the UK Operations from the Australian Operations

On implementation of the Recapitalisation, all UK Operations and UK Subsidiaries (including S&G UK) will be separated from Slater and Gordon and transferred to UK HoldCo. UK HoldCo will be wholly owned by the Senior Lenders on and from implementation of the Recapitalisation. Following the separation, existing Shareholders will cease to have any interest in the UK Operations or UK Subsidiaries.

This separation will be effected through transferring 100% of the shares in S&G UK and Walker Smith Way from Slater and Gordon to UK HoldCo. Consequently, UK HoldCo will become the ultimate holding company of all of Slater and Gordon's current UK Subsidiaries.

Under the Recapitalisation, as partial consideration for the transfer of S&G UK shares from Slater and Gordon to UK HoldCo, Slater and Gordon will have recourse to the first \$40 million of any proceeds that S&G UK receives from any Watchstone-related claims. These proceeds will be applied first to a reduction of the New AUD Super Senior Facility

³¹ This reflects the debt owed to the Senior Lenders only and does not include any amounts owed under the Transactional Facilities following implementation of the Recapitalisation, or any other debts owed by Slater and Gordon. Shareholders should refer to **Section 13.4(b)** for further details about the Transactional Facilities.

³² Following implementation, Slater and Gordon and the other entities in the Australian Group will not have any obligations in respect of amounts that remain owing by the UK Operations to the Senior Lenders. The Senior Lenders will not have any security over the assets of the Australian Operations in respect of debts owing by the UK Operations.

³³ As at 30 June 2017 and assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

³⁴ Comprised of amounts owing under the Restated SFA following the Recapitalisation and the total amount available to Slater and Gordon under the New AUD Super Senior Facility.

³⁵ The convertible notes will only be repayable from specific proceeds, including Watchstone Proceeds in excess of the first \$40 million received.

and then, if any proceeds remain, to the Restated SFA. In addition, as part of the consideration paid by UK HoldCo for the transfer of the S&G UK shares, UK HoldCo will endorse a \$40 million promissory note (issued by the Senior Lenders) in favour of Slater and Gordon, which will be used by Slater and Gordon to reduce the amount it owes to the Senior Lenders under the Restated SFA. Following the releases of debt owed by Slater and Gordon and the application of the promissory note under the Recapitalisation, the principal amount of the Restated SFA will total \$60 million in aggregate. For further details of the consideration provided in relation to the transfer of S&G UK, refer to **Section 13.3**.

To effect the separation, the Business Separation Agreement will also be executed which will govern the separation and certain transitional arrangements. For a summary of the terms of this arrangement, see **Section 13.2** of this Explanatory Memorandum.

5.4 Issuance of Shares to Senior Lenders

Slater and Gordon will issue such number of Shares amounting to 95% (in aggregate) of the total share capital in Slater and Gordon immediately following implementation of the Recapitalisation.³⁶

The number of shares to be issued to each Senior Lender will depend on their commitments in respect of the Super Senior Incremental Facilities and the New Super Senior Facilities under the Recapitalisation.

5.5 Transfer restrictions with Slater and Gordon

Each Senior Lender will enter into a Voluntary Escrow Deed with Slater and Gordon, with the customary carve-outs in respect of control transactions effected by way of a takeover bid or scheme of arrangement (including a creditors' scheme of arrangement), pursuant to which the Senior Lenders will agree that the Shares issued to them under the Recapitalisation will be tradeable only if the transferee acquires the corresponding debt instruments under the New AUD Super Senior Facility (if applicable) and the Restated SFA.

These restrictions will apply until 24 hours after the earlier of:

- (a) in respect of all Senior Lenders other than Anchorage - the release of Slater and Gordon's FY19 half-year results and 28 February 2019; and
- (b) in respect of Anchorage and the Shares held by it only - the release of Slater and Gordon's FY19 full year results and 31 August 2019.

During the period outlined in **5.5(a)** above, each Senior Lender (or its nominee) will not be permitted to dispose of its Shares or interests under the New AUD Super Senior Facility and the Restated SFA, except to another Senior Lender (or its nominee) and which is also subject to a Voluntary Escrow Deed.

The transfer restrictions are expected to provide stability for Slater and Gordon in order to promote the successful implementation of the turnaround strategy for Slater and Gordon.

5.6 Releases

The Senior Lender Scheme will effect mutual releases of certain claims by the Senior Lenders, Slater and Gordon, its Subsidiaries, and current and former Officers of Slater and Gordon.

³⁶ This is not on a fully diluted basis and does not include Shares that could be issued pursuant to the existing warrants in Slater and Gordon. Refer to **Section 7.4(c)** for further details about the warrants.

5.7 Conditions Precedent

While the Recapitalisation Resolution need to be passed for the Senior Lender Scheme to be implemented, there are a number of other conditions that must also be satisfied, or if permitted, waived, in order for the Recapitalisation to be implemented.

The Recapitalisation is conditional upon, and will have no force or effect until the satisfaction of each of the following outstanding conditions precedent:

- (a) there are no objections under the FATA to the Senior Lender Scheme as at 8.00 am on the Second Court Date;
- (b) all necessary regulatory approvals in respect of the Senior Lender Scheme have been obtained by 8:00 am on the Second Court Date;
- (c) the Recapitalisation Resolution is passed by the requisite majorities of Shareholders;
- (d) each of the Senior Lender Scheme and the Shareholder Claimant Scheme are agreed to by the requisite majority required under section 411(4)(a)(i) of the Corporations Act;
- (e) receipt by Slater and Gordon of cash proceeds in relation to project litigation matters substantially in accordance with budgeted quantum and timing in the period between the date of the Restructuring Support Deed and the Scheme Meetings;
- (f) by 8.00 am on the Second Court Date, each party to the Business Separation Agreement in respect of the separation of the Australian Operations and the UK Operations has duly executed its counterpart, each of which is to be held in escrow and released in accordance with the terms of the Senior Lender Scheme;
- (g) by 8.00 am on the Second Court Date, the Senior Lenders have given written notice to Slater and Gordon that the tax opinion provided by PwC concerning tax affairs of the Group as a consequence of the Recapitalisation, including the tax consequences of the separation of the Group and all arrangements necessary or desirable to give effect to that separation, is in a form and substance reasonably acceptable to them;
- (h) as at 8.00 am on the Second Court Date, certain deeds poll in respect of the Senior Lender Scheme and the Shareholder Claimant Scheme come into, and remain, in effect (except those that are only executed or take effect on or after the Effective Date);
- (i) as at 8.00 am on the Second Court Date, each security trustee has received all instructions, consents, and directions that it requires from any beneficiary under the security trust deed or any person in an equivalent position with respect to the proposed new UK security documents, that is not a Senior Lender or a senior agent, and which is required to enable it to perform its obligations in accordance with the steps under the Senior Lender Scheme;
- (j) as at 8.00 am on the Second Court Date, Slater and Gordon and S&G UK have received all consents, releases and approvals that they require from any beneficiary under the security trust deed that is not a Senior Lender, a security trustee or a senior agent, and which is required in connection with:
 - (i) the release of Slater and Gordon and each Australian Subsidiary from its obligations under the UK finance documents that are ancillary to the Syndicated Facility Agreement and will remain in effect following the Recapitalisation; and
 - (ii) the release of S&G UK and each UK Subsidiary from its obligations under the Australian Transactional Facilities Documents (as defined in the Senior Lender Scheme) for the Australian Subsidiaries, and any Hedging

Agreements (as defined in the Syndicated Facility Agreement) entered into by an Australian Subsidiary in accordance with the Senior Lender Scheme;

- (k) as at 8.00 am on the Second Court Date, the IP Deed has been executed and remains in full force and effect;
- (l) as at 8.00 am on the Second Court Date, any approvals or consents, which are not otherwise described in **Section 5.7(a)** or **Section 5.7(b)** but which are required by law or by any government agency to have been obtained in order to implement the Senior Lender Scheme, have been obtained on an unconditional basis, or if they have been obtained on a conditional basis, such conditions have been satisfied or waived and the approvals or consents remain in full force and effect and have not been withdrawn, suspended or revoked;
- (m) as at 8.00 am on the Second Court Date:
 - (i) each of:
 - (A) such number of Senior Lenders whose claims as a Senior Lender represent at least 75% of the value of all claims held by the Senior Lenders against Slater and Gordon in their capacity as Senior Lenders;
 - (B) Slater and Gordon (on behalf of itself and each other Subsidiary); and
 - (C) the security trustees, the senior agents and/or the note trustee (UK),
has confirmed to Slater and Gordon and the senior agent that each new financing document to which it will be a party following implementation of the Senior Lender Scheme is in final form; and
 - (ii) each Senior Lender who elected to participate in the New Money Scheme has:
 - (A) confirmed to Slater and Gordon, the senior agent and the scheme administrators of the Senior Lender Scheme that it will make available to the senior agent its respective commitment in immediately available funds by no later than the second Business Day prior to the Implementation Date; and
 - (B) authorised the scheme administrators of the Senior Lender Scheme to execute and deliver the financing documents relating to the provision of the New Super Senior Facilities in accordance with the Senior Lender Scheme; and
 - (iii) Slater and Gordon (acting reasonably) has formed the view that each condition precedent to financial close under those new financing documents to be entered into under the Senior Lender Scheme will be satisfied or waived on or before the Implementation Date (other than conditions precedent that relate to the Senior Lender Scheme becoming Effective);
- (n) the Restructuring Support Deed has not been terminated and is still in full force and effect;
- (o) all necessary Court approvals are obtained for the Schemes and the Hall Proceeding Settlement;
- (p) there are no restraints to implementation of the Senior Lender Scheme;

- (q) consents have been obtained from persons who have a right under certain material contracts to terminate or modify such contracts due to the announcement or implementation of the Senior Lender Scheme;
- (r) all material authorisations to complete the Recapitalisation have been granted or obtained and remain in effect as at 8.00 am on the Second Court Date;
- (s) any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Schemes (which do not change the substance of the Schemes, including the steps to implement the Schemes, in any material respect) have been satisfied; and
- (t) the Senior Lender Scheme becomes Effective.

With the exception of the conditions outlined in:

- (u) **paragraph 5.7(p)**, which may be waived by Slater and Gordon and 75% by value of the Senior Lenders; and
- (v) **paragraphs 5.7(e), 5.7(f), 5.7(g), 5.7(q) and 5.7(r)**, each of which may be waived by 75% by value of the Senior Lenders only,

none of the above conditions can be waived by either Slater and Gordon and/or the Senior Lenders. If these conditions are not satisfied then the Senior Lender Scheme cannot be implemented.

If the Recapitalisation is not implemented on or before 11.59 pm on the Sunset Date, then, with effect from that time, the Recapitalisation will not be capable of implementation and will be of no further force or effect.

6 Overview of Slater and Gordon

This section provides an overview of Slater and Gordon, its principal activities and history.

Slater and Gordon is listed on ASX and is obliged to comply with the continuous disclosure requirements of ASX. As such, information on Slater and Gordon may also be obtained from ASX's website www.asx.com.au or from Slater and Gordon's website www.slatergordon.com.au.

6.1 Background

Slater and Gordon is a consumer legal services organisation operating across Australia and the United Kingdom. Slater and Gordon provides legal services in two main areas of consumer law:

- personal injury law (including motor vehicle accidents, workers' compensation/employers liability, industrial disease and civil liability law); and
- general law (including family and relationship law, wills, estate planning, probate, business and specialised litigation, class actions, real estate, crime and regulation and employment).

Slater and Gordon listed on the ASX in 2007 and expanded into the United Kingdom in 2012.

6.2 Current operations and strategy of the Group

Slater and Gordon's mission is to provide people with easier access to legal services. This is sought to be achieved by operating in segments of the legal market to which high levels of process and systems engineering can be applied to build operations of scale and capability that provide highly specialised services.

Revenue is generated from providing legal and associated services to individual clients across Australia and the United Kingdom annually. Revenue for the Group is not reliant on any one key customer or case outcome.

Slater and Gordon's business is currently comprised of the Australian Operations and the UK Operations.

(a) Australian Operations

Slater and Gordon's business, Slater and Gordon Lawyers, Australia is the Australian market leader in the provision of consumer legal services. As at 30 June 2017 the firm employed 1,140 staff.³⁷

The Australian Operations are primarily organised across two business units – personal injury law and general law. The business typically generates new matters through direct-to-consumer marketing and establishing and fostering client relationships with key strategic groups, such as unions.

The Australian Operations constitute one of the largest of three established national firms operating in the Australian consumer legal services market. The Australian Operations' major competitors include Maurice Blackburn and Shine Lawyers. While the market is fragmented outside the three major firms, competition remains strong due to a large number of capable, geographically focused small firms operating within the personal injury law and general law practice areas in Australia.

³⁷ This figure is calculated as at 30 June 2017 and does not include any of the redundancies (announced to the ASX on 31 August 2017) during the period from 30 June 2017 until the implementation of the Recapitalisation.

Details of the Australian Operations' personal injury law and general law practices are provided below.

(i) **Personal injury law**

The personal injury law division is a national practice which provides specialist legal services to individuals in a range of practice areas, including many areas of liability and compensation law.

Key practice groups include:

- motor vehicle accidents;
- workers compensation;
- dust diseases;
- public liability; and
- medical negligence.

The division handles files across Victoria, New South Wales, Queensland, Western Australia, South Australia, ACT and Tasmania. The Australian Operations generally provide services in the personal injury law division on a conditional, "No Win No Fee" (**NWNF**) basis.

(ii) **General law division**

Slater and Gordon's Australian general law practice comprises:

- personal legal services, including family and relationship law, wills, estate planning, probate, estate litigation and criminal law; and
- business and specialises litigation services, including project litigation (or class action matters), commercial litigation, commercial property and industrial law.

In the general law division, the Australian Operations typically conduct work on a fee for service basis, calculated by reference to either agreed hourly rates or agreed fixed or capped fees. However, some portion of work, including class actions, is conducted on a conditional, NWNF basis.

(b) **UK Operations**

Slater and Gordon currently operates two primary businesses in the UK:

- Slater and Gordon Lawyers UK (**SGL UK**); and
- Slater Gordon Solutions (**SGS**).

As at 30 June 2017, these two businesses employed 3,070 staff across 20 office locations.

Slater and Gordon entered the UK market in April 2012 through the acquisition of Russell Jones and Walker LLP and has since acquired and consolidated a number of other privately owned law firms.

The UK Operations, both in the SGL UK and SGS businesses, have materially underperformed in recent years. In FY17, the UK Operations recorded a net loss before tax and net finance expenses of \$433.2 million.

The key strategic focus of the UK Operations is to improve business operations through the development and execution of turnaround initiatives that include:

- streamlining organisational design and operation;
- improving the efficiency of marketing and new business investment;
- enhancement of process and systems; and
- maintaining communication and employee engagement to drive productivity.

Details of the work performed by SGL UK and SGS are provided below.

(i) **SGL UK**

SGL UK is similar in nature to the Australian Operations, as it is a consumer legal services firm comprising a personal injury law practice and a general law business.

SGL UK's personal injury law business focuses on legal claims in the consumer law market, such as road traffic accidents, employment accidents, public liability matters, clinical negligence, travel accidents and industrial diseases. The business typically focuses on 'multi track' matters, which are UK personal injury cases higher in value and complexity compared to 'fast track' claims. In the road traffic accident and employers and public liability practice groups, private 'fast track' matters are referred to SGS Claims, part of SGS (described below).

Client intake is typically driven by marketing and business development activity. Most personal injury law matters in SGL UK are undertaken on a conditional, NWNF basis.

SGL UK's general law business comprises personal legal services and group litigation (or class action) practice groups.

These practice groups typically generate work through relationship management and other business development activity, as well as benefiting from brand marketing across the UK Operations. Work is generally undertaken on a fee for service basis, other than in the group litigation practice, in which some matters are undertaken on a conditional, NWNF basis.

(ii) **SGS**

SGS's business includes the claimant personal injury legal services division that was formerly part of the professional services division of Watchstone, which was acquired by Slater and Gordon in May 2015 (now known as **SGS Claims**), as well as other complimentary businesses also acquired from Watchstone, including a motor services business (**SGS Motor**) and a medical reporting and rehabilitation business (**SGS Health**).

As previously mentioned, the SGS Claims business focuses on 'fast track' matters in the road traffic accidents, employers liability, public liability and noise induced hearing loss practice areas. The business is threatened by a number of foreshadowed regulatory reforms focused on reducing legal costs and damage claims associated with certain types of lower value personal injury matters in the UK.

Refer to **Section 7** for more information about how the Recapitalisation will impact upon the Australian Operations and the UK Operations.

6.3 Capital structure

Slater and Gordon is a limited company listed on ASX, incorporated in Victoria. As at 30 October 2017 (being the date of this Explanatory Memorandum), Slater and Gordon has the following securities on issue:

- (a) 347,245,601 fully paid ordinary Shares, which are quoted and tradeable on ASX; and
- (b) warrants issued in relation to the Syndicated Facility Agreement (for further details about these warrants refer to **Section 7.4(c)**).

For details on the impact of the Recapitalisation on Slater and Gordon's capital structure, refer to **Section 7.4**.

6.4 Dividend history

No dividends have been declared or paid since October 2015.

6.5 Current Directors' interests

The current Directors of Slater and Gordon, and their interests in Slater and Gordon, are as follows:

Director	Number of Shares	Percentage of Shares
John Skippen	100,000	0.03%
James M Millar	20,000	0.006%
Tom Brown	0	0.00%
Andrew Grech	7,000,656	2.02%
Total	7,120,656	2.05%

The Directors' Shares will be subject to the same dilution and will be treated the same as any other Shareholder under the proposed Recapitalisation and Share Consolidation.

7 Effect of the Recapitalisation

This **Section 7** sets out information in relation to Slater and Gordon if the Recapitalisation is implemented.

7.1 Effect on Slater and Gordon's corporate structure

Following the Recapitalisation, Slater and Gordon's corporate structure will be such that Slater and Gordon owns the Australian Operations and UK HoldCo owns the UK Operations. Post-implementation of the Recapitalisation, existing Shareholders will cease to have any interest in the UK Operations.

7.2 Effect on debt and liabilities

Slater and Gordon's outstanding Secured Debt will be reduced under the Recapitalisation. As of 30 June 2017, Slater and Gordon owes a total of \$761.6 million³⁸ to its Senior Lenders under the Syndicated Facility Agreement. Immediately following implementation of the Recapitalisation, the gross senior secured debt position of the Australian Operations (being the debt position of Slater and Gordon post the transfer of the UK Operations) will not exceed \$125 million (excluding the Transactional Facilities).

As noted above, the UK Operations will be separated from the Australian Operations. As such, Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay, or guarantee or secure the payment of, any secured debt in respect of the UK Operations. This effectively means a reduction in the Secured Debt owed by Slater and Gordon and the Australian Subsidiaries of \$636.6 million on implementation of the Recapitalisation.³⁹ The Senior Lenders will not have any security over the Australian Operations in respect of the secured facilities for the UK Operations.

The senior debt facilities of Slater and Gordon on implementation of the Recapitalisation will be as follows:

- (a) **New AUD Super Senior Facility (\$65 million):** a \$65 million facility that will have a 3 year term and will be used to refinance the AUD-denominated amounts owing under the existing super senior facility and for general corporate purposes or such other purposes approved by the Senior Lenders.
- (b) **Restated SFA (\$60 million):** amounts owing under Slater and Gordon's existing Syndicated Facility Agreement will be refinanced such that, following implementation of the Recapitalisation, Slater and Gordon will owe a total of \$60 million on substantially the same terms as the existing Syndicated Facility Agreement (with the facility subordinated to the New AUD Super Senior Facility) but amended with a 5 year term and PIK interest not payable until the facility is repaid, amongst other changes.

³⁸ Assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

³⁹ Calculated as total Secured Debt of \$761.6 million as at 30 June 2017 less Slater and Gordon's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

The following illustrates the total aggregate debt owed by Slater and Gordon and the Group to the Senior Lenders prior to the Recapitalisation. The following also illustrates the secured debt that will be owing by Slater and Gordon and S&G UK from implementation of the Recapitalisation.

Pre-implementation of the Recapitalisation			Post-implementation of the Recapitalisation	
Amount owed by Slater and Gordon to the Senior Lenders as Primary Borrower	Amount owed by S&G UK to the Senior Lenders as Primary Borrower	Aggregate amount owed by each member of the Group to the Senior Lenders	Amount owed (in any capacity) by Slater and Gordon to the Senior Lenders ⁴⁰	Amount owed (in any capacity) by S&G UK to the Senior Lenders ⁴¹
\$119.2 million	£379.8 million	\$761.6 million ⁴²	\$125 million ⁴³	GBP equivalent of up to \$25 million plus £250 million of convertible notes ⁴⁴

Further details about Slater and Gordon's pro-forma financial performance and pro-forma financial position following implementation of the Recapitalisation (excluding the UK Operations) are set out in **Section 9.5**.

7.3 Effect on future operations and strategy

Slater and Gordon's Australian and UK Operations operate largely independently of one another, apart from a group consolidation of accounts and certain arrangements which are referred to in **Section 13.2**.

The UK Operations compete in a different market landscape, regulatory environment and face a different range of strategic and operational challenges compared to Slater and Gordon's Australian Operations. The respective strategic plan and turnaround initiatives for each of the Australian Operations and UK Operations are distinct and not interrelated. Consequently, there is expected to be minimal disruption to the Australian Operations from the separation of the UK Operations.

Following the Recapitalisation, the Australian Operations will focus on restoring earnings and cash flow through strategic repositioning, operational effectiveness and cost rationalisation initiatives.

This includes:

- (a) improving internal processes, systems and case-handling efficiencies;
- (b) better leveraging brand and market position to improve performance of key personal injury practice groups and targeted general law practice groups;

⁴⁰ This reflects the debt owed to the Senior Lenders only and does not include any amounts owed under the Transactional Facilities following implementation of the Recapitalisation, or any other debts owed by Slater and Gordon. Shareholders should refer to **Section 13.4(b)** for further details about the Transactional Facilities.

⁴¹ Following implementation, Slater and Gordon and the other entities in the Australian Group will not have any obligations in respect of amounts that remain owing by the UK Operations to the Senior Lenders. The Senior Lenders will not have any security over the assets of the Australian Operations in respect of debts owing by the UK Operations.

⁴² As at 30 June 2017 and assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

⁴³ Comprised of amounts owing under the Restated SFA following the Recapitalisation and the total amount available to Slater and Gordon under the New AUD Super Senior Facility.

⁴⁴ The convertible notes will only be repayable from specific proceeds, including Watchstone Proceeds in excess of the first \$40 million received.

- (c) using Slater and Gordon's track record and expertise, with a stabilised balance sheet, to capitalise upon growth opportunities in strategically important practice areas;
- (d) better leveraging third party relationships and further enhancing referral networks;
- (e) resetting its national cost base to be fit for the Australian Operations' purpose and current outlook;
- (f) stabilising its operating performance and retaining key personnel;
- (g) returning the business to a steady operating platform; and
- (h) returning the business to profitability.

7.4 Effect on Slater and Gordon's capital structure

If the Recapitalisation is implemented, then approximately 66,053,195 Shares (on a post-Share Consolidation basis) will be issued under the Recapitalisation to Senior Lenders representing 95% (in aggregate) of the total Shares on issue following implementation.⁴⁵ This means that existing Shareholders' interests will be diluted to 5% of Slater and Gordon's total share capital following implementation. As such, the Shares that existing Shareholders will hold following implementation will represent a significantly lower proportion of the ownership of Slater and Gordon.

The issuance of Shares under the Senior Lender Scheme will also result in Anchorage obtaining control of Slater and Gordon. The tables below illustrate the impacts of the Recapitalisation on shareholdings in Slater and Gordon.

(a) Capital structure following implementation of the Recapitalisation

Security type	Number currently on issue	Number on issue post-Share Consolidation	Number on issue post-Recapitalisation
Shares	347,245,601	Approximately 3,476,483 ⁴⁶	Approximately 69,529,678 ⁴⁷
Warrants	Refer to Section 7.4(c)	Refer to Section 7.4(c)	Refer to Section 7.4(c)

(b) Total shareholding upon implementation of the Recapitalisation

	Prior to implementation of the Recapitalisation	Following implementation of the Recapitalisation
Existing Shareholders' interest in Shares	100%	5%
Senior Lenders' interest in Shares	0%	95%

⁴⁵ This is not on a fully diluted basis and does not include Shares that could be issued pursuant to the existing warrants in Slater and Gordon. Refer to **Section 7.4(c)** for further details about the warrants.

⁴⁶ After adjusting for rounding up fractional Shares to the nearest whole number.

⁴⁷ After adjusting for rounding up fractional Shares to the nearest whole number.

(c) **Warrants**

Certain Senior Lenders hold warrants in Slater and Gordon (issued in lieu of cash amendment fees, as announced to the market in June 2016), which upon exercise, entitle those Senior Lenders to be issued with Shares.

Pursuant to the Syndicated Facility Agreement, the holders of those warrants are entitled to be issued with Shares equal to 6.24% of the value uplift in Slater and Gordon, which is calculated by reference to the uplift in Slater and Gordon's market capitalisation from the date of issue of the warrants and a date close to when they can be exercised. For there to be any 'value uplift', Slater and Gordon's market capitalisation must exceed \$97 million. As such, Shares will only be issued to Senior Lenders pursuant to these existing warrants if Slater and Gordon's market capitalisation exceeds \$97 million on the date the facilities under the Syndicated Facility Agreement (which includes the Restated SFA) are either terminated, cancelled or repaid.

(d) **Senior Lenders' shareholdings and voting power following the Recapitalisation (other than Anchorage)**

The table below lists the Senior Lenders who will hold a greater than 5% shareholding in Slater and Gordon following implementation of the Recapitalisation.

Senior Lender	Shareholding in Slater and Gordon post-Recapitalisation
TCA Opportunity Investments S.A.R.L	8.9%
York Global Finance BDH, LLC	8.3%
Bank of America, N.A.	6.3%
Perpetual Corporate Trust as Custodian for Metrics Credit Partners Diversified Australian Senior Loan Fund	5.4%

It is also noted that pursuant to the Senior Lenders entering into the Voluntary Escrow Deeds under the Senior Lender Scheme (as described in **Section 5.5**) each Senior Lender may be considered to have acquired, and Slater and Gordon will acquire, a Relevant Interest in the Shares issued pursuant to the Senior Lender Scheme and therefore acquire voting power in 95% of Shares.

(i) **Senior Lender's Relevant Interest and voting power**

Through all Senior Lenders entering into the Voluntary Escrow Deeds with Slater and Gordon, each Senior Lender may be considered to have a Relevant Interest in each other Senior Lender's Shares to be issued pursuant to the Senior Lender Scheme. This is solely to the extent that section 608(2) of the Corporations Act may be considered to give rise to a technical acquisition of a Relevant Interest as a result of the Senior Lenders being able to trade their debt and equity interests in Slater and Gordon only within that group of Senior Lenders. Consequently, each Senior Lender may be considered to have voting power in 95% of Shares post-Recapitalisation until the earlier of the release of Slater and Gordon's FY19 half-year results, or 28 February 2019, when the transfer restrictions end (except in relation to the Shares issued to Anchorage under the Senior Lender Scheme, which will remain subject to these restrictions for an additional period of approximately six months).

In addition, as Senior Lenders may transfer their debt and equity interests in Slater and Gordon within the group of Senior Lenders only, a Senior Lender may be able to acquire a full beneficial interest in at least 90% of the Shares in Slater and Gordon until the end of the escrow period (noting that that Senior Lender would also have acquired the corresponding level of debt instruments under the New AUD Super Senior Facility and the Restated SFA). In those circumstances, that Senior Lender may proceed within 6 months to compulsorily acquire all Shares that it does not already own. If this were to occur, then pursuant to Part 6A.2 of the Corporations Act, Shareholders would, at that future time, be entitled to receive cash consideration for their Shares, cease to be Shareholders and would no longer hold any interest in Slater and Gordon. Shareholders would also be entitled to other statutory protections under Part 6A.2 of the Corporations Act, such as the entitlement to an expert's report regarding whether the consideration represents fair value for their Shares, and the right to object to the acquisition.

However, notwithstanding the existence of any such technical voting power of 95% in Slater and Gordon during this period, each Senior Lender will act independently of each other Senior Lender with respect to its investment in Slater and Gordon and will not have any power to control voting in respect of any other Senior Lender's Shares.

The transfer restrictions will be imposed in the interests of providing stability among the group of Senior Lenders in order to promote the successful implementation of the strategic plan and turnaround initiatives for Slater and Gordon.

While the acquisition of Relevant Interests which give rise to voting power of more than 20% in a listed company are normally prohibited under section 606(1) of the Corporations Act, to the extent such Relevant Interests are acquired by the Senior Lenders in the circumstances outlined above, those acquisitions will have occurred in accordance with item 17 of section 611 of the Corporations Act. This is because they will have resulted from the Senior Lender Scheme through the Senior Lenders entering into the Voluntary Escrow Deeds as a step to implement the Senior Lender Scheme. Consequently, the acquisitions would fall within an exception to the prohibition in section 606 of the Corporations Act.

(ii) **Slater and Gordon's Relevant Interest and voting power**

Through entering the Voluntary Escrow Deeds, pursuant to section 608(1)(c) of the Corporations Act, Slater and Gordon will acquire a Relevant Interest in each Senior Lender's Shares to be issued under the Senior Lender Scheme, and therefore, be considered to have voting power in 95% of Shares post-Recapitalisation for the same periods referred to above. This is because Slater and Gordon will control the Senior Lenders' power to dispose of their Shares. Section 608(9) of the Corporations Act also notes that a body corporate may have a Relevant Interest in its own securities.

Following the end of the transfer restrictions for all Senior Lenders except for Anchorage, Slater and Gordon will have a Relevant Interest in 53% of Shares post-Recapitalisation until the release of its FY19 full-year results or 31 August 2019.

Similarly to the Senior Lenders, while section 606(1) normally prohibits the acquisition of a Relevant interest, Slater and Gordon's acquisition of those Relevant Interests will also have occurred in accordance with item 17 of section 611 of the Corporations Act because they will have resulted

from the Senior Lender Scheme through Slater and Gordon entering into the Voluntary Escrow Deeds with the Senior Lenders as a step to implement the scheme. As such, Slater and Gordon's acquisitions are permitted under the Corporations Act.

(e) **Anchorage's shareholding and voting power upon implementation of the Recapitalisation**

Anchorage's current shareholding in Slater and Gordon	0%
Anchorage's shareholding in Slater and Gordon following implementation of the Recapitalisation	53%
Anchorage's voting power in Slater and Gordon following implementation of the Recapitalisation	95% ⁴⁸

In addition to the position set out in **Section 7.4(d)** regarding each other Senior Lender, Anchorage will also have a Relevant Interest in the Shares in which Slater and Gordon will have a Relevant Interest.

This is because, by virtue of the application of section 608(3) of the Corporations Act, because Anchorage will have a 53% shareholding in Slater and Gordon following implementation of the Recapitalisation, it will be taken to have a Relevant Interest in any Shares that Slater and Gordon has a Relevant Interest in. Consequently, Anchorage will have voting power in 95% of Shares following implementation of the Recapitalisation.

As with the other Senior Lenders and Slater and Gordon, Anchorage's acquisition of a Relevant Interest will have occurred in accordance with item 17 of section 611 of the Corporations Act because the acquisition will result from the Senior Lender Scheme, as entering into the Voluntary Escrow Deeds (described in **Section 5.5**) is one of the steps to implement the Senior Lender Scheme. Consequently, Anchorage's acquisition of a Relevant Interest will not contravene section 606(1) of the Corporations Act, as it falls within one of the exceptions to that provision.

Refer to **Section 8** for further information regarding Anchorage and its future intentions in relation to the Australian Operations.

(f) **Management incentive plan**

Following implementation of the Recapitalisation, Slater and Gordon and the Senior Lenders intend to implement a new management incentive plan for Slater and Gordon and its Australian Subsidiaries. The terms of the management incentive plan will be determined at the discretion of the Board following implementation of the Recapitalisation. It is the intention that the benefit to participants of the management incentive plan will not exceed the economic equivalent of 10% of Slater and Gordon's fully diluted share capital following implementation of the Senior Lender Scheme.

⁴⁸ As noted above, the extent of Anchorage's voting power in Slater and Gordon may be considered to have arisen due to the transfer restrictions contemplated by the Voluntary Escrow Deeds and also by reason of Anchorage controlling Slater and Gordon following implementation of the Recapitalisation.

7.5 Effect on individual Shareholders - Recapitalisation and Share Consolidation

The Share Consolidation and the Recapitalisation will impact Shareholders in different ways. The Share Consolidation will reduce the total number of Shares held by each Shareholder but it will not change Shareholders' overall interest in Slater and Gordon.

However, if the Recapitalisation is approved and implemented, a Shareholder's interest in Slater and Gordon will be significantly diluted through the issue of Shares to Senior Lenders.

The table below provides an example of the combined impact of the Share Consolidation and the Recapitalisation on Shareholders' interest in Slater and Gordon. The example shows what will happen to an existing Shareholder's interest in Slater and Gordon if they currently hold 10 million Shares.

	Number of Shares	Interest in Slater and Gordon
Current interest	10,000,000	2.88%
Interest post-Share Consolidation	100,000	2.88%
Interest following Recapitalisation	100,000	0.14%

As illustrated above, a Shareholder's current interest in Slater and Gordon will remain unchanged after the Share Consolidation as all Shares are being reduced by the same ratio.

If the Recapitalisation is implemented and the Shares are issued to Senior Lenders pursuant to the Senior Lender Scheme, then each existing Shareholder's interest will be diluted, despite the number of Shares held by each Shareholder remaining the same.

Following the Recapitalisation, to the extent that Slater and Gordon determines that there are unmarketable parcels of Shares (being parcels worth less than \$500), it may clean up its Share Register by undertaking a buy-back of those unmarketable parcels. If this occurs, then:

- (a) Slater and Gordon would be required to make an offer to Shareholders to buy-back their shares, and provide Shareholders a reasonable opportunity to accept the buy-back offer. As a result of the current operation of Slater and Gordon's constitution, a Shareholder can only have its Shares bought back by Slater and Gordon if the Shareholder accepts the buy-back offer made. If a Shareholder does accept the buy-back offer, it would at that point cease to be a Shareholder and, as such, would no longer hold any interest in Slater and Gordon; and
- (b) Senior Lenders' voting power may increase relative to the number of shares bought-back.

7.6 Governance matters

Under the Restructuring Support Deed, the Board has agreed to undertake a Board renewal process which will enable the Senior Lenders to elect new Directors. Subject to Resolution 4 being successful, following the close of the Meeting Andrew Grech will resign as a non-executive Director.

If Resolution 3 is successful, John Skippen will serve as non-executive Chairperson until he resigns in due course as new Directors are appointed. All other existing Directors will resign in due course as new Directors are appointed.

If Resolution 4 is successful, Hayden Stephens will serve as an executive legal practitioner Director on the Board.

Pursuant to the terms of the Restructuring Support Deed, immediately following implementation of the Senior Lender Scheme, the Board will be comprised of seven directors being:

- (a) four non-executive directors nominated by Anchorage:
 - (i) one of whom will be the chairperson of the Board; and
 - (ii) each of whom will not receive any remuneration if they are an employee of Anchorage or any of its affiliated entities;
- (b) two non-executive directors nominated by the Senior Lenders, other than Anchorage, each of whom will not receive any remuneration if they are employed by a Senior Lender or any affiliated entity of any Senior Lender; and
- (c) any other person that the Senior Lenders nominate to the Board, provided that nominating such a person will not result in Slater and Gordon having more than seven directors immediately following that person's appointment to the Board.

The Senior Lenders acknowledge that in exercising their rights with respect to board composition, that Slater and Gordon and the Group Entities domiciled in Australia must remain in compliance with all applicable laws regarding 'legal practitioner director' requirements and agree to not knowingly cause non-compliance with any such law as a result of the exercise of those rights.

The board nomination rights described above will be exercisable only once and prior to implementation of the Recapitalisation with any appointments to take effect from implementation of the Recapitalisation. The appointment of three of Anchorage's nominee directors will be considered at the Meeting. For the avoidance of doubt, Anchorage's nominees, being Messrs Howes, Stoesser and MacKenzie, will only become Directors if the Recapitalisation is implemented and their appointment will take effect from the date on which the Recapitalisation is implemented. Shareholders should note however that the nomination rights referred to in this **Section 7.6** may be exercised even if the appointment resolutions are not approved by Shareholders.

Details of three directors nominated by Anchorage are set out in **Section 3.5**.

8 Anchorage Information

This **Section 8** provides an overview of Anchorage and sets out its current intentions Anchorage regarding the future of Slater and Gordon if Shareholders approve the Recapitalisation Resolution and the Recapitalisation is implemented.

Slater and Gordon is not responsible for any statements made or information provided in this **Section 8**.

8.1 Overview of Anchorage

Anchorage is an SEC registered investment advisor based in New York. ACPA Pty Ltd., a wholly-owned Australian subsidiary of Anchorage, provides services to Anchorage. Anchorage manages private investment funds primarily in the credit, special situations, and illiquid investment markets of North America, Europe and Australasia using an active long and short basis, with particular focus on defaulted and leveraged issuers.

Anchorage manages the investment that has been made in Slater and Gordon on behalf of Anchorage Illiquid Opportunities V, L.P. and Anchorage Illiquid Opportunities Offshore V, L.P. (collectively, the **Funds**). The Funds are private investment vehicles that are investment managed by Anchorage.

Anchorage often works alongside management and other stakeholders to support the implementation of corporate turnaround plans and create value for stakeholders.

8.2 Acquisitions of Relevant Interests

As at the date of this Explanatory Memorandum, Anchorage does not have any voting power in Slater and Gordon.

If the Recapitalisation is implemented, Anchorage (through the Funds) will hold approximately 53% of Slater and Gordon's share capital immediately thereafter.

By reason of the share transfer restrictions described in **Section 5.5** of this Explanatory Memorandum, Anchorage (and the Funds) may be considered to have a Relevant Interest in the Shares that will be issued to each other Senior Lender as part of the Recapitalisation. As a result, Anchorage (and the Funds) may be considered to have voting power in Slater and Gordon of 95% immediately following completion of the Recapitalisation.

8.3 Future intentions

(a) Qualifications

The statements of intention in this **Section 8.3** must be read subject to the following:

- (i) the statements are based on the information concerning Slater and Gordon and the circumstances affecting the business of Slater and Gordon that are known to Anchorage as at the date of this Explanatory Memorandum;
- (ii) Anchorage is not aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out below. Accordingly, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change;
- (iii) if the Recapitalisation is implemented, then Anchorage will be entitled to nominate four persons to the Board;
- (iv) the Directors nominated by Anchorage will have a duty to act in good faith in the best interests of Slater and Gordon for a proper purpose, and in

doing so, will need to have regard to the interests of all Shareholders. They will also have a duty to avoid conflicts of interests; and

- (v) laws regarding related party transactions (particularly under the Corporations Act and ASX Listing Rules) may place restrictions on the ability of Slater and Gordon to enter into certain transactions with Anchorage or its associates.

(b) **Nature and conduct of business**

Anchorage will have influence over the nature and conduct of the business of Slater and Gordon. Anchorage does not have a present intention to make any changes to Slater and Gordon other than where this would be consistent with the turnaround strategy of the Board.

(c) **Injection of further capital**

Anchorage has no present intention to provide further additional capital to Slater and Gordon in the near term, other than to the extent disclosed in this Explanatory Memorandum.

(d) **Future employment of employees**

Anchorage does not presently intend to make any changes to the workforce other than where this would be consistent with the turnaround strategy of the Board.

(e) **Transfer of assets**

Anchorage does not presently intend to propose any transfer of assets between Slater and Gordon and Anchorage or any of Anchorage's associates. Slater and Gordon has however granted security over certain of its assets in favour of its lenders (including the Funds) to secure Slater and Gordon's obligations under existing loan facilities. In addition, Anchorage (through the Funds) will own a majority of the shares in UK HoldCo and there will be various legal arrangements between Slater and Gordon and UK HoldCo, in each case if the Recapitalisation occurs.

(f) **Redeployment of fixed assets**

Other than as disclosed in this Explanatory Memorandum, Anchorage has no current intention to redeploy any of the assets of Slater and Gordon.

(g) **Financial or dividend policies**

Anchorage intends to support the continuation of Slater and Gordon's efforts to restore financial stability, build a healthy balance sheet, maintain appropriate levels of debt capital, and dividend levels commensurate with the health and cash flow generation of Slater and Gordon (and any necessary changes to Slater and Gordon's financial and dividend policies to give effect to these things).

9 Financial Information

9.1 Contents of this section

This **Section 9** contains historical and pro forma financial information for Slater and Gordon.

The historical and pro forma financial information comprises:

- a summarised historical profit and loss statement for Slater and Gordon as at 30 June 2017;
- a summarised historical cash flow statement for Slater and Gordon as at 30 June 2017; and
- a summarised historical and pro forma balance sheet showing Slater and Gordon (including the UK Operations) as at 30 June 2017 and what Slater and Gordon will look like if the Recapitalisation is implemented.

The Financial Information contained in this **Section 9** should also be read in conjunction with the risk factors set out in **Section 12** and other information contained within this Explanatory Memorandum.

9.2 Basis of preparation

(a) Basis of preparation

The Financial Information included in this **Section 9** has been prepared and presented in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, except where otherwise disclosed.

Shareholders may obtain copies of Slater and Gordon's financial reports and statements from ASX's website at www.asx.com.au or from Slater and Gordon's website, www.slatergordon.com.au/investors.

(b) Historical financial information

The historical financial information of Slater and Gordon as at 30 June 2017 has been extracted from the Financial Report.

The historical financial information of Slater and Gordon presented in this Explanatory Memorandum does not contain all of the note disclosures required in statutory financial statements prepared in accordance with the Corporations Act.

(c) Pro forma financial information

The pro forma financial information has been prepared as if the Recapitalisation occurred on 30 June 2017 and is derived from the audited financial statements of Slater and Gordon. The pro forma financial information is based on the assumption that all necessary approvals are received and the Recapitalisation can be implemented without undue delay. The pro forma financial information is not represented as being indicative of Slater and Gordon's views on its future financial performance or position, and Shareholders should note that past financial performance is not a reliable indicator of future financial performance. It does not include all of the disclosures required in statutory financial statements prepared in accordance with the Corporations Act.

(d) Key accounting policies

Key accounting policies used in preparing the Financial Information are those policies that require management to make estimates or judgments that may significantly affect the reported amounts of assets, liabilities, revenues or expenses or the disclosure of contingent assets or liabilities. Such estimates are

based on judgments and assumptions that could potentially result in materially different results under different assumptions and conditions. The key accounting policies used in preparing the Financial Information are consistent with those applied by Slater and Gordon in its statutory financial statements for the Financial Year ended 30 June 2017.

9.3 Historical profit and loss statement

The historical profit and loss statement below presents the information for both the Group (which includes the UK Operations) and for the Australian Operations only, based on the two previous Financial Years.

	Group	Group	Australia	Australia
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Revenue				
Fee revenue	532,460	698,486	226,747	265,629
Net movement in work in progress	(51,845)	(41,318)	(15,474)	(27,848)
Services revenue	120,844	234,302	-	-
Revenue from contracts with customers	601,459	891,470	211,273	237,781
Other income	10,026	16,715	712	14,525
Total revenue and other income	611,485	908,185	211,985	252,306
Less expenses				
Salaries and employee benefit expense	325,304	416,294	137,378	146,693
Payments to former owners	4,453	18,529	3,875	12,687
Share based payment expense to former owners	7,170	14,699	4,439	8,541
Cost of sales	79,946	170,297	-	-
Rental expense	29,161	38,169	18,823	15,338
Advertising, marketing and new business development expense	87,850	136,596	15,928	20,239
Administration and office expense	90,290	92,528	32,673	27,874
Consultant fees	33,470	36,158	17,669	20,528
Finance costs	51,911	42,548	19,427	9,256
Bad and doubtful debts	47,885	39,342	14,439	17,027
Depreciation and amortisation expense	11,228	17,743	5,892	9,578
Other expenses	32,701	35,244	16,020	5,590
Impairment of intangible assets	361,265	879,506	10,959	55,803
Loss before income tax expense	(551,149)	(1,029,468)	(85,537)	(96,848)
Income tax benefit	(4,318)	(11,873)	(13,420)	2,460
Loss for the year after income tax	(546,831)	(1,017,595)	(72,117)	(99,308)

9.4 Historical cash flow statement

The cash flow statement presents the information for both the Group (which includes the UK Operations) and for the Australian Operations only, based on the two previous Financial Years.

	Group 2017 \$'000	Group 2016 \$'000	Australia 2017 \$'000	Australia 2016 \$'000
Cash flow from operating activities				
Receipts from customers	777,457	1,056,757	226,874	291,170
Payments to suppliers and employees	(803,574)	(1,135,083)	(235,185)	(275,607)
Payments to former owners	(17,657)	(14,211)	(9,000)	(6,380)
Interest received	339	381	221	116
Borrowing costs	(6,740)	(35,263)	(3,934)	(6,773)
Net income tax refunded	11,087	23,175	7,625	(8,386)
Net cash used in operating activities	(39,088)	(104,244)	(13,399)	(5,860)
Cash flow from investing activities				
Payment for software development	(5,959)	(5,314)	(3,147)	(1,433)
Payment for plant and equipment	(2,232)	(12,743)	104	(8,509)
Costs associated with acquisition of businesses	(3)	(738)	(2)	(234)
Proceeds from disposal of businesses	(1,501)	168	-	-
Repayment of cash consideration for acquisitions acquisition	-	2,386	-	-
Payment for acquisition of businesses – deferred consideration	(2,074)	(12,002)	(2,074)	(5,536)
Net cash used in investing activities	(11,769)	(28,243)	(5,119)	(15,712)
Cash flow from financing activities				
Costs of share registry management	(14)	(85)	(14)	(85)
Loans/payments to related parties and employees	(5,697)	(5,353)	1,547	3,731
Proceeds from borrowings	15,000	192,787	15,000	63,870
Repayment of borrowings	(3,640)	(44,759)	(3,556)	(29,293)
Dividends paid	-	(17,060)	-	(17,060)
Net cash provided by financing activities	5,649	125,530	12,977	21,163
Net decrease in cash held	(45,207)	(6,957)	(5,541)	(409)
Net foreign exchange differences	(3,984)	(7,534)	-	-
Cash at beginning of financial year	82,494	96,985	13,838	14,246
Cash at end of financial year	33,303	82,494	8,297	13,837

9.5 Historical and pro forma balance sheet

The balance sheet below presents the historical balance sheet for the Group and the pro forma balance sheet for Slater and Gordon following the Recapitalisation (being the Australian Operations only), based on the previous Financial Year.

The pro forma financial information illustrates the impact of the Recapitalisation on Slater and Gordon, including the separation of the UK Operations from the Australian Operations.

	Statutory 2017	Pro forma 2017
	\$'000	\$'000
Current assets		
Cash and cash equivalents	33,303	8,297
Receivables	395,466	79,076
Work in progress	294,871	113,511
Current tax assets	3	-
Other current assets	21,144	10,764
Total current assets	744,787	211,648
Non-current assets		
Property, plant and equipment	26,555	11,219
Receivables	91,492	28,393
Work in progress	220,094	127,245
Intangible assets	13,112	-
Deferred tax assets	34,718	26,286
Other non-current assets	536	536
Total non-current assets	386,507	193,679
Total assets	1,131,294	405,327
Current liabilities		
Payables	418,619	47,879
Short term borrowings	466,240	1,797
Current tax liabilities	8,250	2,916
Other current liabilities	1,815	2
Provisions	54,532	36,189
Total current liabilities	949,456	88,783
Non-current liabilities		
Long term borrowings	314,702	103,295
Deferred tax liabilities	93,361	93,361
Derivative financial instruments	1,419	913
Provisions	21,172	9,138
Total non-current liabilities	430,654	206,707
Total liabilities	1,380,110	295,490
Net (liabilities) /assets	(248,816)	109,837
Equity		
Total equity attributable to equity holders in Slater and Gordon	(248,639)	109,837
Non-controlling interest	(177)	-
Total equity	(248,816)	109,837

10 Key considerations in respect of the Recapitalisation Resolution

10.1 Rationale for the Recapitalisation

The Directors believe that the Recapitalisation provides a comprehensive recapitalisation solution that is the best available option to maximise long-term Shareholder value. The Directors believe that the Recapitalisation will improve Slater and Gordon's capital structure and provide improved financial flexibility to better position Slater and Gordon to sustain its operations. The resulting financial and operational stability may result in an uplift in value for Shareholders over time.

10.2 Directors' recommendation

The Directors unanimously recommend Shareholders **vote in favour** of the Recapitalisation Resolution, in the absence of a Superior Proposal. Each Director intends to vote in favour of the Recapitalisation Resolution in relation to Shares held by that Director, or those in which the Director has a Relevant Interest, in the absence of a Superior Proposal.

In making their recommendation and determining how to vote on the Recapitalisation Resolution, the Directors have considered the advantages and disadvantages of the Recapitalisation, including (but not limited to) the information in:

- (a) **Section 10.3** (*Why you should vote for the Recapitalisation Resolution*);
- (b) **Section 10.4** (*Why you may consider voting against the Recapitalisation Resolution*);
- (c) **Section 10.5** (*What happens if the Recapitalisation does proceed?*);
- (d) **Section 4.8** and **Section 10.6** (*What happens if the Recapitalisation does not proceed?*);
- (e) **Section 12** (*Risk factors*); and
- (f) **Annexure B** (*Independent Expert's Report*).

The Directors consider that the rationale for undertaking the Recapitalisation clearly outweighs the risks of the Recapitalisation and the risks for Slater and Gordon and Shareholders if the Recapitalisation does not proceed. The Directors believe that, despite Shareholders being significantly diluted and ceasing to have any interest in the UK Operations if the Recapitalisation is implemented, the risk of Slater and Gordon becoming insolvent and Shareholders having no return on their investment in Shares is sufficiently likely such that the interests of Shareholders would be better served by voting in favour of the Recapitalisation Resolution and retaining an interest in the Australian Operations only rather than by voting against the Recapitalisation and likely receiving nothing.

It is important for Shareholders to note that the Recapitalisation is subject to (among other things) the Recapitalisation Resolution being passed by a simple majority of Shareholders.

In considering whether to vote in favour of the Recapitalisation Resolution, the Directors encourage you to:

- (a) read this Explanatory Memorandum carefully and in its entirety;
- (b) have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- (c) obtain financial advice from your broker or financial adviser on the Recapitalisation.

10.3 Reasons Shareholders may vote FOR the Recapitalisation Resolution

(a) Independent Expert's Report

The Independent Expert has considered the Recapitalisation and has concluded that the Recapitalisation is fair and reasonable, in the absence of a superior proposal.

The Independent Expert's Report can be found in **Annexure B** to this Explanatory Memorandum, which you are encouraged to read in full and is also summarised in **Section 4.9** of this Explanatory Memorandum.

(b) Benefits from reducing Slater and Gordon's debt

If the Recapitalisation is implemented, Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay or guarantee or secure the payment of any secured debt in respect of the UK Operations. This effectively means a reduction in the Secured Debt owed by Slater and Gordon and the Australian Subsidiaries of \$636.6 million upon implementation of the Recapitalisation.⁴⁹

As such, the potential for Slater and Gordon to continue to trade and operate its business is improved by a lower debt burden. Over time, and subject to the risks and qualifications outlined in **Section 12**, Slater and Gordon could generate an uplift in value for all Shareholders.⁵⁰ The Recapitalisation will have the effect of significantly reducing Slater and Gordon's debt, reducing the financial pressure on Slater and Gordon and allowing the Directors to focus on Slater and Gordon's business and operations. Slater and Gordon will have a renewed ability to trade and operate its Australian Operations without the risk and uncertainties associated with unsustainable debt and ongoing litigation.

(c) Avoidance of insolvency (including material insolvency expenses)

If the Recapitalisation does not proceed, Slater and Gordon will likely become insolvent, and an administrator would likely be appointed. In this event, the Board believes that Shareholders would likely receive no return on their shareholding.

This opinion is supported by the Independent Expert's Report (provided at **Annexure B** to this Explanatory Memorandum), which concludes that the value of Slater and Gordon's equity prior to the Recapitalisation is negative, between (\$414.7 million) and (\$573.6 million). This is because Slater and Gordon's current debt is significantly greater than the value of its assets (prior to the Recapitalisation).

In addition, the legal, administrative and funding costs associated with the administration, liquidation or receivership and management of Slater and Gordon will be avoided if the Recapitalisation is approved and implemented.

(d) No other feasible alternatives

The Board believes there are no other feasible alternatives to reduce Slater and Gordon's level of debt without entering an insolvency process. The Board believes that the Recapitalisation represents the only executable option for Slater

⁴⁹ Calculated as total Secured Debt of \$761.6 million as at 30 June 2017 less Slater and Gordon's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

⁵⁰ Shareholders should note that they will only benefit from an uplift in value if they continue to hold Shares. Refer to **Section 7.4(d)** and **Section 7.5** for a discussion of the circumstances in which Shareholders may cease to hold Shares following the Recapitalisation.

and Gordon to create a more sustainable capital structure while providing potential for future value recovery for Shareholders and other stakeholders.⁵¹

In reaching their recommendation, the Directors assessed the Recapitalisation having regard to a range of alternatives to address Slater and Gordon's secured debt liabilities, including a consensual restructuring, a sale of assets and a refinancing.

(e) **Avoiding further erosion of value**

A formal insolvency process, such as administration, is the likely alternative to the Recapitalisation. Entering administration is likely to result in a significant diminution in the value of Slater and Gordon's business (including the UK Operations). Through the negative perception associated with entering administration, there is an increased risk that current Slater and Gordon personnel would seek employment elsewhere and that the client base of Slater and Gordon would be significantly reduced. A formal insolvency appointment would also have regulatory consequences both in the various states in Australia in which Slater and Gordon operates, as well as in the UK. The impact of regulatory involvement in the Group operations would have further negative impacts on Slater and Gordon's business (including the UK Operations).

The Recapitalisation provides a means of delivering a business with sustainable debt levels while avoiding the reputational damage and resulting erosion of value in Slater and Gordon's business. This contributes to the prospect of generating an uplift in value for Shareholders in the future.⁵²

(f) **Ability to focus on the Australian Operations**

Given their geographic locations, Slater and Gordon's Australian Operations and UK Operations largely operate as two distinct businesses. Because of the different regulatory environments, competitive landscapes and operating dynamics in the markets in which these businesses operate, they require different strategies and possess different investment risks and opportunities.

Separating the Australian Operations and the UK Operations allows the separate boards of directors and management teams of Slater and Gordon and UK HoldCo to focus solely on their respective businesses. It will also allow each business to pursue opportunities and develop strategies, capital structures, business processes and systems that are tailored to their specific operations, in their respective markets.

The Board believes that, as the UK Operations are already largely managed as a stand-alone group, separating the businesses will assist with Slater and Gordon's current turnaround strategy in Australia. The separation will enable management of the Australian Operations to focus on restoring earnings and cash flow through strategic repositioning, operational effectiveness and cost rationalisation initiatives targeted towards the specific requirements of Slater and Gordon's Australian businesses and practice groups.

The separation will also result in cost savings for the Australian Operations. Slater and Gordon currently incurs group management expenses for coordinating and consolidating its international platform. These will no longer be required follow the separation.

⁵¹ Shareholders should note that they will only benefit from any future value recovery if they continue to hold Shares. Refer to **Section 7.4(d)** and **Section 7.5** for a discussion of the circumstances in which Shareholders may cease to hold Shares following the Recapitalisation.

⁵² Shareholders should note that they will only benefit from an uplift in value if they continue to hold Shares. Refer to **Section 7.4(d)** and **Section 7.5** for a discussion of the circumstances in which Shareholders may cease to hold Shares following the Recapitalisation.

(g) **Limited exposure to the UK Operations**

The UK Operations have been underperforming and generating material losses for the Group. Through the separation of the UK Operations and the Australian Operations, Shareholders' exposure to the risks of the UK Operations and the losses that the business is currently incurring will be limited to certain parent guarantees which may remain in place and certain transitional arrangements to be entered into between Slater and Gordon and S&G UK under which the UK Operations will have an obligation to reimburse Slater and Gordon for their proportion of all expenditure related to these transitional arrangements. Further, Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay or guarantee or secure the payment of any secured debt in respect of the UK Operations.

For further details, Shareholders should refer to **Section 13.2** for a summary of the Business Separation Agreement.

(h) **Directors' recommendation**

For the reasons detailed in this Explanatory Memorandum, the Board unanimously recommends that you should **vote in favour** of the Recapitalisation Resolution to effect the Recapitalisation, in the absence of a Superior Proposal.

10.4 **Reasons Shareholders may vote AGAINST the Recapitalisation Resolution**

(a) **You may disagree with the recommendation of the Directors and the conclusion of the Independent Expert**

You may disagree with:

- (i) the Directors, who recommend that Shareholders **vote in favour** of the Recapitalisation Resolution, in the absence of a Superior Proposal; and/or
- (ii) the Independent Expert, who has concluded that the Recapitalisation is fair and reasonable, in the absence of a superior proposal.

(b) **The Recapitalisation significantly dilutes existing Shareholders' interest in Slater and Gordon**

The Recapitalisation, if implemented, involves Slater and Gordon issuing approximately 66,053,195 Shares to Senior Lenders (on a post-Share Consolidation basis), representing 95% (in aggregate) of the total Shares on issue in Slater and Gordon following implementation.⁵³ This means that existing Shareholders' interests will be diluted to 5% of Slater and Gordon's total capital following implementation.

(c) **Change of substantial shareholdings and future intentions**

Under the Recapitalisation, Anchorage will have a 53% shareholding in Slater and Gordon immediately following the Recapitalisation. Consequently, Anchorage will control Slater and Gordon, will be able to influence the management and operations of Slater and Gordon and will alone have the ability to approve ordinary resolutions at Shareholder meetings without needing the support of other Shareholders. For further details about Anchorage's intentions regarding the future of Slater and Gordon, Shareholders should refer to **Section 8.3**.

⁵³ This is not on a fully diluted basis and does not include Shares that could be issued pursuant to the existing warrants in Slater and Gordon. Refer to **Section 7.4(c)** for further details about the warrants.

(d) Board composition

Post implementation of the Recapitalisation, the Board will initially be comprised solely of Directors nominated by Anchorage and other Senior Lenders. Shareholders should refer to **Section 7.6** for further information.

(e) Separation of Australian and UK Operations

Under the Recapitalisation, the UK Operations will be transferred to UK HoldCo meaning that Slater and Gordon will no longer own the UK Operations. Consequently, Shareholders will cease to have any interest in the UK Operations as this will be a separate business to Slater and Gordon.

The UK Operations have underperformed and have continued to generate material losses for the Group (in FY17, the UK Operations recorded a net loss before tax and net finance expenses of \$433.2 million). Notwithstanding, due to the separation, Shareholders will not have the opportunity to benefit from any future recovery or turnaround in the performance of these operations in the long-term, or value realisation in any asset sales, if such a scenario was (or scenarios were) to be achieved under UK HoldCo ownership.

(f) Limited liquidity

Following implementation of the Recapitalisation, the Shares issued to the Senior Lenders will be subject to transfer restrictions under the Voluntary Escrow Deeds which will restrict the Senior Lenders from dealing in those Shares until they are released from escrow. During the escrow periods, these disposal restrictions may cause, or at least contribute to, limited liquidity in the market for Shares until such time as the Shares are released from escrow. This could affect the market price at which Shareholders are able to sell their Shares.

When the Shares are released from escrow, the sale of Shares, or the perception that such sales may have occurred or might occur, may adversely affect the price and demand for Shares. For further details on the Voluntary Escrow Deeds, Shareholders should refer to **Section 5.5** of this Explanatory Memorandum.

(g) Expectation of a Superior Proposal

You may consider that there is the potential for a Superior Proposal to emerge. However, the Board believes there are no other feasible alternatives to reduce Slater and Gordon's debt and therefore have taken the view that the possibility of a Superior Proposal emerging in the foreseeable future is low. No such Superior Proposal has been received as of the date of this Explanatory Memorandum.

10.5 What happens if the Recapitalisation does proceed?

If all Conditions Precedent are satisfied and the Recapitalisation is implemented, there will be a significant reduction in Slater and Gordon's debt. As of 30 June 2017, Slater and Gordon owes a total of \$761.6 million⁵⁴ to its Senior Lenders under the Syndicated Facility Agreement, which is the primary source of Slater and Gordon indebtedness. If the Scheme is implemented, Slater and Gordon's Secured Debt (in respect of the Australian Operations) will not exceed \$125 million⁵⁵ plus Transactional Facilities of approximately \$10 million.

Further details of Slater and Gordon's pro forma financial position if the Recapitalisation is implemented are set out in **Section 9.5**.

⁵⁴ Assumes an AUD:GBP exchange rate of 0.5912. Total Secured Debt of \$761.6 million comprises \$119.2 million AUD and £379.8 million GBP, which is owed by Slater and Gordon and each of its Subsidiaries as joint and several guarantors of the total Secured Debt.

⁵⁵ Being the amounts owing under the Restated SFA following the Recapitalisation and the total amount available to Slater and Gordon under the New AUD Super Senior Facility.

The UK Operations will also be transferred to UK HoldCo meaning that Slater and Gordon will no longer own the UK Operations and Shareholders will hold no interest in those operations. Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay or guarantee or secure the payment of any secured debt in respect of the UK Operations.

With less financial pressure, Slater and Gordon will be able to focus on its business and operations. In particular, the separation of the UK Operations and the Australian Operations will enable Slater and Gordon to focus on the strategies and opportunities that provide the most benefit to the Australian Operations, rather than needing to also consider the UK Operations which operate in a different market and environment. In addition, as the Schemes are inter-conditional, Slater and Gordon will no longer be exposed to the risks and uncertainties associated with ongoing and threatened litigation due to the implementation of the Shareholder Claimant Scheme. This will also reduce the financial pressure on Slater and Gordon as fewer resources will be diverted to litigation and there will no longer be the ongoing costs associated with defending proceedings. Upon implementation, Shares will be issued to Senior Lenders in consideration for the compromise of the portion of the Restated SFA which is owed to them by Slater and Gordon, and also for the participation of certain Senior Lenders in the Super Senior Incremental Facilities and the New Super Senior Facilities. Consequently, existing Shareholders' interests in Slater and Gordon will be diluted. For further details on Shareholder dilution, see **Section 7.4(b)**.

In addition, following the issue of Shares under the Scheme, Anchorage will obtain a controlling shareholding in Slater and Gordon. The Board of Slater and Gordon will also be replaced if the Recapitalisation occurs, further details of which are provided in **Section 7.6**.

If the Recapitalisation does proceed and the Share Consolidation Resolution is approved by a majority of Shareholders, then the Share Consolidation will be undertaken to reduce the number of Shares on issue, prior to the issue of the Shares under the Recapitalisation. While Shareholders will hold a smaller number of Shares, the Share Consolidation will have no impact on each Shareholder's proportion of the total Shares on issue prior to the issue of Shares pursuant to the Senior Lender Scheme. Refer to **Section 11.3** for further details about the Share Consolidation and to **Section 7.5** for an example of how the Share Consolidation will impact your shareholding.

10.6 What happens if the Recapitalisation does not proceed?

If the Recapitalisation is not implemented because the Recapitalisation Resolution is not approved by Shareholders, the other approvals required for the Recapitalisation to proceed are not received, or any of the other conditions precedent are not satisfied or (if permitted) waived, Slater and Gordon's Secured Debt will not be reduced and Slater and Gordon will not issue any Shares to the Senior Lenders. Further, Slater and Gordon's operations in Australia and the UK will not be separated. If the Share Consolidation Resolution is approved by a simple majority of Shareholders, then the Share Consolidation will still be undertaken, even if the Recapitalisation does not proceed.

The key assumption underlying the Board's assessment that Slater and Gordon remains solvent is the likely implementation of the Recapitalisation. Without the Recapitalisation, Slater and Gordon's level of debt will be unsustainable and the Board would be placed in a position where it would have to re-assess the solvency of Slater and Gordon. In those circumstances, the Board is unlikely to have a reasonable basis to believe that Slater and Gordon can meet its debts as and when they fall due.

It is expected that the Board would appoint an external administrator, which the Board believes would be followed by the Senior Lenders appointing a receiver, or a receiver and manager, to Slater and Gordon. If this were to occur, Shareholders are expected to

receive nothing because the assets of Slater and Gordon are not sufficient to fully satisfy its Secured Debt obligations, let alone any claims of any other secured creditors, unsecured creditors or any interests of Shareholders. This expectation is supported by the findings of the Independent Expert who opined that no value can currently be attributed to Shares because Slater and Gordon's debt is significantly greater than the value of its assets prior to the Recapitalisation.

In addition, there is a risk that Slater and Gordon would not be able to satisfy ASX that its financial condition is sufficient to permit continued trading of its Shares on ASX. Consequently, if the Recapitalisation is not implemented, the Shares may be suspending from trading on ASX until a revised debt recapitalisation is proposed and implemented (if any).

11 Shareholder approval requirements in respect of the Special Business Resolutions

11.1 Introduction

The Recapitalisation can only proceed if the Recapitalisation Resolution is passed at the Meeting and the other conditions set out in the Senior Lender Scheme and the Shareholder Claimant Scheme are satisfied or waived (as applicable). The Recapitalisation Resolution and the Share Consolidation Resolution are not inter-conditional. As such, the passing of the Share Consolidation Resolution is not a condition to the implementation of the Recapitalisation and conversely, the passing of the Recapitalisation Resolution is not a condition to undertaking the Share Consolidation.

All Special Business Resolutions must be passed as ordinary resolutions and will therefore be passed if supported by a simple majority of votes cast on the Special Business Resolutions. Each Special Business Resolution is explained in this **Section 11**. This explanation should be read together with the entirety of the Explanatory Memorandum.

11.2 Resolution 8 - Issue of Shares under the Senior Lender Scheme

ASX Listing Rule 7.1 imposes a limit on the number of equity securities which an ASX listed entity can issue without shareholder approval.

In general terms, an entity may not, without prior shareholder approval, issue, or agree to issue, equity securities if the equity securities will in themselves, or when aggregated with the securities issued by the entity during the previous 12 months, exceed 15% of the number of fully paid ordinary shares on issue at the commencement of that 12 month period, unless an exception applies.

Resolution 8 seeks Shareholder approval for the issuance of 66,053,195 Shares (on a post-Share Consolidation basis and taking into account adjustments for rounding up fractional entitlements) to the Senior Lenders under the Senior Lender Scheme for the purposes of ASX Listing Rule 7.1.

For the purposes of ASX Listing Rule 7.3, the following information is provided to Shareholders in relation to Resolution 8:

(a) **Maximum number of securities to be issued:**

The maximum number of Shares to be issued is 66,053,195 Shares (on a post-Share Consolidation basis)⁵⁶ which, following issuance, will comprise 95% (in aggregate) of Slater and Gordon's total issued ordinary share capital following implementation of the Recapitalisation.

As the Recapitalisation and Share Consolidation are not inter-conditional, if the Share Consolidation Resolution is not approved by a simple majority of Shareholders but the Recapitalisation Resolution is, then the maximum number of Shares to be issued will be 6,597,666,434 Shares, which will constitute 95% (in aggregate) of Slater and Gordon's total issued ordinary share capital following implementation of the Recapitalisation.

(b) **Date by which Slater and Gordon will issue the securities:**

The Implementation Date,⁵⁷ which will in any event be within 3 months of obtaining the Second Court Orders approving the Senior Lender Scheme.

⁵⁶ After adjusting for the rounding up of fractional entitlements to the nearest whole number.

⁵⁷ If the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), the Implementation Date will be 5 January 2018.

(c) The issue price of the securities:

The Senior Lender Scheme involves Slater and Gordon issuing approximately 66,053,195 Shares on a post-Share Consolidation basis (after adjusting for the rounding up of fractional Shares to the nearest whole number) to Senior Lenders in exchange for the partial release of the debt owed to the Senior Lenders by Slater and Gordon under the Restated SFA, participation in the Super Senior Incremental Facilities and participation in the New Super Senior Facilities.

If the Share Consolidation Resolution is not passed by a simple majority of Shareholders, then 6,597,666,434 Shares will be issued to Senior Lenders for the same consideration.

In either scenario, Slater and Gordon will not receive any cash for the issuance of the Shares.

(d) Names of allottees (if known) or the basis upon which those allottees will be identified or selected:

As described in further detail in **Section 5.4** the Shares will be issued to Senior Lenders on the basis of the proportion of the Secured Debt owed to each Senior Lender, the level of their commitment under the New AUD Super Senior Facility and the commitment they made (if any) under the Super Senior Incremental Facilities.

(e) Terms of securities:

Shares to be issued under the Recapitalisation will be issued on the same terms and rank equally with all other existing Shares from the date of issue.

(f) Intended use of the funds raised:

Slater and Gordon will not receive any funds from the issuance of the Shares.

(g) Voting exclusion statement:

A voting exclusion statement relating to this Resolution 8 is included in the Notice of Meeting accompanying this Explanatory Memorandum.

11.3 Resolution 9 - Share Consolidation

The Directors propose to consolidate Slater and Gordon's share capital on a 100 for 1 basis.

Section 254H of the Corporations Act states that a company may convert any or all of its shares into a smaller number of shares by an ordinary resolution of Shareholders passed at a general meeting.

If Resolution 9 is approved, the Share Consolidation will take effect at 9.00 am on the 8th Business Day following this Meeting, prior to the Recapitalisation. The Share Consolidation will take effect on the basis that all Shares in Slater and Gordon held by each Shareholder at that time will be converted into a smaller number of shares equal to one-one hundredth of the number of the Shares currently held by each Shareholder. For example, if you held 5,000 Shares before the Share Consolidation, you would hold 50 Shares following the Share Consolidation. The market will ultimately determine the price at which the Shares will trade upon recommencement of trading on ASX.

The Share Consolidation will take effect even if the Recapitalisation does not proceed.

There is not expected to be any material effect on the percentage interest of each individual Shareholder, or on the control of Slater and Gordon, as a consequence of the Share Consolidation alone (and prior to the issue of Shares pursuant to the Senior Lender Scheme).

From the date of the Share Consolidation, all existing holding statements for Shares will cease to have any effect, except as evidence of entitlement to a certain number of

Shares on a post-Share Consolidation basis. After the Share Consolidation becomes effective, Slater and Gordon will arrange for new holding statements to be issued to Shareholders.

Shareholders are advised to seek their own tax advice on the effect of the Share Consolidation and neither Slater and Gordon nor the Directors (nor Slater and Gordon's advisors) accept any responsibility for the individual taxation implications arising from the Share Consolidation.

For the purpose of ASX Listing Rule 7.20, the following information is provided to Shareholders in relation to Resolution 9:

(a) **Effect on number of securities**

The effect of the Share Consolidation on the number of Shares on issue is set out in the table below:

	Pre-Share Consolidation	Post-Share Consolidation
Shares	347,245,601	Approximately 3,476,483 (after adjusting for rounding up fractional Shares to the nearest whole number)

(b) **Fractional entitlements**

Not all Shareholders will hold a number of Shares that can be evenly divided by 100. Where a fractional entitlement occurs, Slater and Gordon will round that fraction up to the nearest whole number.

(c) **Treatment of convertible securities**

Per Listing Rule 7.22.1, the warrants currently on issue will be consolidated in the same ratio as Slater and Gordon's Shares, being 100:1, and the exercise price of these warrants will be amended in inverse proportion. However, as the current exercise price of the warrants is \$0.00, the exercise price will remain \$0.00 post-Share Consolidation.

11.4 Board recommendation and voting intentions

(a) **Recapitalisation Resolution**

Your Directors unanimously recommend that you **vote in favour** of the Recapitalisation Resolution, in the absence of a Superior Proposal. See **Section 10.2** for details of the reasons for the Directors' recommendation.

Each Director intends to vote in favour of the Recapitalisation Resolution in relation to any Shares held by them or those in which the Director has a Relevant Interest, in the absence of a Superior Proposal.

(b) **Share Consolidation Resolution**

Your Directors unanimously recommend that you **vote in favour** of the Share Consolidation Resolution.

Each Director intends to vote in favour of the Share Consolidation Resolution in relation to any Shares held by them.

12 Risks

12.1 General

This section sets out the risk factors considered by Slater and Gordon to be the material risks relating to implementation of the Recapitalisation.

The risk factors described in this **Section 12** are not an exhaustive list, and should be read in conjunction with the other information described in this Explanatory Memorandum. There may be additional risks and uncertainties not currently known that may also have an adverse effect on Slater and Gordon's business and the value of its Shares.

The risk factors described in this section do not take into account the investment objectives or financial circumstances of individual Shareholders. Shareholders should have regard to their own investment objectives and financial circumstances and seek professional advice from their legal, financial and other independent advisers before determining whether or not to vote in favour of the Recapitalisation Resolution.

For a discussion of general risks, which may, individually or in combination, adversely affect the business, future operating and financial performance, reputation or prospects of Slater and Gordon and/or the value of Shares, Shareholders should refer to the explanatory statement for the Senior Lender Scheme that is publicly available from ASX's website www.asx.com.au, or on Slater and Gordon's website, www.slatergordon.com.au.

12.2 Risks related to implementation of the Recapitalisation

(a) Execution risk

Even if the Recapitalisation Resolution is approved, the implementation of the Recapitalisation is subject to a number of other conditions, approvals and execution risks that may prevent the Recapitalisation from being undertaken. The Conditions Precedent that must be satisfied or, if permitted, waived in order to implement the Recapitalisation are set out in **Section 5.7**.

(b) Intervention risk

The Recapitalisation faces the risk of intervention from Slater and Gordon stakeholders and other interested parties.

(c) Triggering change of control provisions

The implementation of the Recapitalisation may give rise to contractual consequences under material contracts to which Slater and Gordon is a party, including rights for the contractual counterparty to review the contractual arrangements or exercise other rights such as termination rights. If a contractual counterparty elects to exercise such rights upon the implementation of the Recapitalisation, this may have an adverse effect on the financial performance of Slater and Gordon.

(d) Separation of the UK Operations from the Australian Operations may fail to realise anticipated benefits

Slater and Gordon may fail to realise any or all of the anticipated benefits of separating the UK Operations from the Australian Operations, either in a timely manner, or at all. Some of the potential benefits of the separation may not be achieved as a result of circumstances outside of Slater and Gordon's control.

(e) Indebtedness

While the Recapitalisation significantly reduces the amount of Slater and Gordon's debt, Slater and Gordon will continue to have a level of indebtedness following implementation of the Recapitalisation, requiring payment of interest.

The gross senior secured debt position of the Australian Operations (being the debt position of Slater and Gordon post the transfer of the UK Operations) will not exceed \$125 million following implementation of the Recapitalisation (excluding the Transaction Facilities). This amount is comprised of the amounts owed by Slater and Gordon under the Restated SFA following implementation of the Recapitalisation and the total amount available under the New AUD Super Senior Facility. While this is a reduction of Slater and Gordon's current total indebtedness from the levels prior to implementation of the Recapitalisation, this level of indebtedness still has important consequences for Slater and Gordon and its Shareholders, including the following:

- (i) requiring Slater and Gordon to dedicate a material portion of its cash flow from its operations to meet principal and interest payments thereby reducing the availability of cash flow to fund working capital, capital expenditures, development activity, acquisitions and other general corporate purposes;
- (ii) increasing Slater and Gordon's vulnerability to adverse general economic or industry conditions;
- (iii) subjecting Slater and Gordon to a number of covenants which reduce its flexibility in planning for, or reacting to, changes in Slater and Gordon's industry;
- (iv) placing Slater and Gordon at a competitive disadvantage compared to its competitors that have less debt or are not subject to similar covenants; and
- (v) as the new debt arrangements will also be secured, the debt holders have priority over Shareholders on an insolvency event.

While Slater and Gordon believes that the above consequences will, in part, be alleviated by the Recapitalisation (for example, ongoing principal and interest repayments will be materially reduced), there can be no guarantee that this will be the case.

12.3 Risks if the Recapitalisation is not implemented

The Board expects that if the Recapitalisation is not implemented and the financial position of Slater and Gordon remains unchanged, it would appoint an external administrator, which the Board believes would be followed by the Senior Lenders appointing a receiver, or a receiver and manager, to Slater and Gordon. As discussed in **Section 10.6**, Shareholders would likely receive nothing if that were to occur.

In addition, due to the inter-conditionality of the Senior Lender Scheme and the Shareholder Claimant Scheme, the Shareholder Claimant Scheme would not be implemented and Slater and Gordon would continue to be exposed to ongoing liability and litigation in relation to the trading in its Shares during the previous six years. The ongoing and threatened litigation, discussed in **Section 13.7** would also not be resolved.

In addition, Slater and Gordon will incur transaction costs associated with the Recapitalisation even if the Recapitalisation is not implemented, details of which are provided in **Section 13.9**.

13 Additional information

13.1 Restructuring Support Deed

On 31 August 2017 Slater and Gordon entered into an amended Restructuring Support Deed with its Senior Lenders with respect to effecting the Recapitalisation contemplated by the Restructuring Support Deed.

Shareholders should refer to the announcement dated 31 August 2017 for a summary of the key terms of the Restructuring Support Deed (as amended) including:

- exclusivity provisions;
- conditions precedent; and
- termination rights under the Restructuring Support Deed.

13.2 Separation of the UK Operations

On and from the Implementation Date, the UK Operations will be separate to the Australian Operations. The Business Separation Agreement will provide that, among other things:

- (a) following the separation of the UK Operations and the Australian Operations in accordance with the steps to implement the Senior Lender Scheme, Slater and Gordon and its Australian Subsidiaries (**Australian Group**) will have the entire economic benefit of the Australian Operations and will assume all risk in relation to the Australian Operations;
- (b) following the separation of the UK Operations and the Australian Operations in accordance with the steps to implement the Senior Lender Scheme, UK HoldCo and its Subsidiaries (**UK Group**) will have the entire economic benefit of and will assume all risk in relation to the UK Operations as if the UK Group, and not Slater and Gordon, had always owned those operations;
- (c) short-term transitional arrangements will be adopted, such that:
 - (i) the Australian Group shall continue to maintain various IT contracts for the benefit of both the Australian Operations and the UK Operations until December 2018, and the UK Group will reimburse the Australian Group for its proportion of the costs associated with those IT contracts; and
 - (ii) Slater and Gordon will make available certain employees to provide IT support to both the UK Group and the Australian Group;
- (d) the parties will seek to procure the release of parent guarantees and other forms of security and financial support provided by Slater and Gordon (such as parent guarantees in respect of UK leases and other material contracts) with effect from the Implementation Date, or as soon as reasonably practicable thereafter;
- (e) the Australian Group will arrange and hold PII top up insurance cover for both the Australian Group and the UK Group for the period commencing on the Implementation Date to the end of September 2018 and the parties will agree arrangements with respect to the sharing of costs in relation to that insurance policy;
- (f) Slater and Gordon will convert its current directors' and officers' insurance for the Group into a run-off policy; and
- (g) the Australian Group will be responsible for the production of a consolidated set of half-year accounts for the six month period ended 31 December 2017 and consolidation up until the date of separation.

In addition to the Business Separation Agreement, as part of the separation of the UK Operations from the Australian Operations, Slater and Gordon will enter into the IP Deed and grant a perpetual royalty-free licence to S&G UK over its trade marks and other intellectual property such that the UK Operations can use Slater and Gordon's brand name and intellectual property for the UK Operations, with UK HoldCo also permitted to use these trade marks in Europe and Ireland. In consideration for this perpetual licence, S&G UK will reduce the value of the intercompany loans owed by Slater and Gordon as at the date of the IP Deed by the value of the IP that is licensed to S&G UK. While the UK Operations will be able to use Slater and Gordon's brand name in the UK, Slater and Gordon will ultimately retain ownership of its trade marks, brand name and intellectual property.

13.3 Consideration for transfer of S&G UK to UK HoldCo

UK HoldCo will provide the following as consideration for acquiring 100% of the shares in S&G UK:

(a) Watchstone Entitlement Amount

UK HoldCo will be obliged to make a deferred cash payment of up to \$40 million to Slater and Gordon. This obligation will be contingent upon UK HoldCo or one of its Subsidiaries receiving Watchstone Proceeds, up to a maximum of the Watchstone Entitlement Amount. The Watchstone Proceeds are the cash proceeds received by S&G UK or any other member of the UK Group in respect of the Watchstone Acquisition after deducting reasonable expenses incurred by the UK Group to members outside of that group in recovering any such proceeds and also any tax required to be paid by a member of the UK Group.

S&G UK will guarantee UK HoldCo's obligation to pay this amount and will grant limited recourse security to the Senior Lenders over the first \$40 million of the Watchstone Proceeds.

(b) Promissory note

As discussed in **Section 5.3**, Slater and Gordon will also benefit from a \$40 million promissory note. Under the Senior Lender Scheme, this promissory note will be issued by the Senior Lenders to UK HoldCo who will then endorse the promissory note in favour of Slater and Gordon. Separately, Slater and Gordon will endorse the \$40 million promissory note in favour of the Senior Lenders, with the value of the note to be applied in repaying amounts outstanding under the Restated SFA, and therefore reducing the amount of Slater and Gordon's debt under that facility, such that upon completion of the steps to implement the Senior Lender Scheme, the principal amount of the Restated SFA will be \$60 million.

(c) Intercompany loans

In addition to the above, UK HoldCo will also assume the balance of all intercompany loans payable by Slater and Gordon to S&G UK as at the Implementation Date. Consequently, following the transfer of S&G UK to UK HoldCo, Slater and Gordon will not be liable to pay any amounts owing pursuant to these loans. As at 30 June 2017, the value of these loans was \$15.97 million.

13.4 Slater and Gordon's current secured debt facilities

In addition to the facilities under the Syndicated Facility Agreement, Slater and Gordon currently has the following debt facilities:

(a) Super Senior Facilities

On 5 May 2017, Slater and Gordon announced that it had entered into a \$40 million working capital facility with some of its Senior Lenders.

As announced on 31 August 2017, certain Senior Lenders consented to the provision of an additional \$50 million of funding under the Super Senior Incremental Facilities.

If the Recapitalisation is implemented, the Super Senior Facilities will be refinanced by the New Super Senior Facilities.

Senior Lenders who participated in the Super Senior Incremental Facilities will be entitled to the commitment fee payable in respect of the Super Senior Incremental Facilities, which is a fee equal to:

- (i) 10% of the total number of Shares on issue immediately following implementation of the Senior Lender Scheme; and
- (ii) 10% of the total number of shares in UK HoldCo on issue immediately following implementation of the Senior Lender Scheme,

allocated to the participating Senior Lenders pro-rata according to each participating Senior Lender's commitment under the Super Senior Incremental Facilities in relation to the total aggregate commitments made by the participating Senior Lenders under the Super Senior Incremental Facilities.

(b) Transactional Facilities

Slater and Gordon and each of its Subsidiaries have entered into a number of transaction banking facilities with Westpac Banking Corporation and National Australia Bank Limited. These transactional banking facilities include bank guarantee and performance guarantee facilities, credit card facilities, indemnity facilities, overdrafts, finance leases, hedging agreements and operating lease agreements. These transactional banking facilities will not be compromised by the Senior Lender Scheme, and if the Senior Lender Scheme is implemented, these transactional banking facilities will continue on their current terms other than being:

- (i) provided with a first ranking priority status over enforcement proceeds received in respect of:
 - (A) Slater and Gordon or an Australian Subsidiary up to a maximum aggregate exposure of \$10 million (or its equivalent); and
 - (B) any UK Subsidiary up to a maximum aggregate exposure of \$5 million (or its equivalent); and
- (ii) extended to have a 30 June 2018 termination date.

13.5 Slater and Gordon's secured debt facilities post-Recapitalisation

If the Recapitalisation is implemented, Slater and Gordon will have the following secured senior facilities:

(a) **Restated SFA**

The material terms of the Restated SFA are as follows:

- (i) **(principal amount)** a principal amount of \$60 million following implementation of the Recapitalisation to be made available under a new facility under the current Syndicated Facility Agreement (and replacing any amounts owing by Slater and Gordon under the existing tranches of the Syndicated Facility Agreement);
- (ii) **(purpose)** to refinance certain amounts owing by Slater and Gordon under the Syndicated Facility Agreement;
- (iii) **(maturity)** 5 years after the Effective Date;
- (iv) **(margin)** as per the Syndicated Facility Agreement with a margin of 2% PIK with any interest payments being subordinated to the New AUD Super Senior Facility and capitalised and added to principal amount of the loan to which the interest relates until all amounts owing under the New AUD Super Senior Facility have been fully and finally discharged;
- (v) **(default interest)** margin plus 2% p.a. on overdue amounts;
- (vi) **(repayment)** bullet repayment on the maturity date;
- (vii) **(mandatory prepayment)**
 - (A) 100% of the net proceeds (including net of legal fees and expenses) received by Slater and Gordon or an Australian Subsidiary in connection with all asset sales or disposals made by that entity must be applied in mandatory prepayment of the New AUD Super Senior Facility unless otherwise notified by the senior agent under the New AUD Super Senior Facility;
 - (B) 100% of the Watchstone Proceeds received by Slater and Gordon in respect of the Watchstone Entitlement Amount; and
 - (C) to the extent there is a surplus of proceeds after being applied in accordance with paragraphs (A) and (B) above, any such proceeds shall be applied as a mandatory prepayment of the Restated SFA;
- (viii) **(voluntary prepayment)** Slater and Gordon will be entitled to make voluntary prepayments (other than in respect of the mandatory prepayments) provided the Senior Agent (Aus) is given prior written notice of at least 5 Business Days;
- (ix) **(security)** same as existing security granted by the Australian Group under the Syndicated Facility Agreement;
- (x) **(ranking)** principal repayments subordinated to repayment of the New AUD Super Senior Facility until all amounts owing under the New AUD Super Senior Facility have been fully and finally discharged; and
- (xi) **(other terms)** as per the Syndicated Facility Agreement but with all financial covenants deleted.

(b) **New AUD Super Senior Facility**

In summary, the New AUD Super Senior Facility will have the following terms:

- (i) **(principal amount)** the aggregate principal amount will be \$65 million;
- (ii) **(purpose)** general corporate purposes or such other purposes approved by the Senior Lenders (including any costs and expenses incurred under or in connection with the Senior Lender Scheme, the separation of the UK Operations or the funding of any litigation involving Slater and Gordon or any Australian Subsidiary);
- (iii) **(maturity date)** 3 years after the Effective Date;
- (iv) **(margin)** 10% PIK;
- (v) **(interest periods and payment)**
 - (A) 6 months or any such other period as agreed with the consent of the Majority Super Senior Lenders (as defined in the New AUD Super Senior Facility); and
 - (B) PIK on the last day of each relevant interest period and shall be capitalised and added to the principal amount of the loan;
- (vi) **(default interest)** margin plus 2% p.a. on overdue amounts;
- (vii) **(repayment)** bullet repayment on the maturity date;
- (viii) **(mandatory prepayment)**
 - (A) 100% of the net proceeds (including net of legal fees and expenses) received by Slater and Gordon or an Australian Subsidiary in connection with all asset sales or disposals made by that entity must be applied in mandatory prepayment of the New AUD Super Senior Facility unless otherwise notified by the senior agent to the Senior Agent (Aus);
 - (B) 100% of the Watchstone Proceeds received by Slater and Gordon in respect of the Watchstone Entitlement Amount; and
 - (C) to the extent there is a surplus of proceeds after being applied in accordance with paragraphs (A) and (B) above, any such proceeds shall be applied as a mandatory prepayment of the Restated SFA;
- (ix) **(voluntary prepayment)** Slater and Gordon will be entitled to make voluntary prepayments (other than in respect of the mandatory prepayments) provided the Senior Agent (Aus) is given prior written notice of at least 5 Business Days. Any prepayment shall be made together with an amount equivalent to the net present value of the aggregate interest or fees which would have accrued on the principal amount prepaid for the period from the date of the prepayment up to the scheduled maturity date, together with any accrued and unpaid interest or fees on the amount prepaid;
- (x) **(security)** same as the existing security granted by Slater and Gordon and its Australian Subsidiaries to secure amounts owing under the Syndicated Facility Agreement;
- (xi) **(financial cash covenant)** Slater and Gordon must ensure that it and its Australian Subsidiaries have available cash of at least \$2.5 million (or its equivalent), tested at the end of each calendar month (on an actual basis until the maturity date);

- (xii) **(review events)** customary for facilities of this nature, including but not limited to:
 - (A) **(de-listing)** suspension of the Shares from the ASX for a continuous period of more than 10 Business Days or de-listing; and
 - (B) **(accounting methodology)** Slater and Gordon failing to notify the Senior Agent (Aus) in writing of any changes to the accounting measurement methodology (other than underlying assumptions) used for the preparation of its financial accounts including with respect to the calculation of work-in-progress.

Following the occurrence of a review event, Slater and Gordon and the Senior Agent (Aus) (acting on the instructions of the Majority Super Senior Lenders (as defined in the New AUD Super Senior Facility) will negotiate in good faith for a period of no less than 30 days (**Review Period**) with respect to the continuation of the New AUD Super Senior Facility (including any required amendments). If, following the Review Period, Slater and Gordon and the Senior Agent (Aus) have not agreed the basis on which the New AUD Super Senior Facility will continue to be provided, then the Senior Agent (Aus) may notify Slater and Gordon that it is required to repay the New AUD Super Senior Facility in full (together with all accrued interest) within 90 days from the date of receipt of such notice by Slater and Gordon; and
- (xiii) **(gross up tax and indirect tax)** consistent with the terms of the existing Super Senior Facilities , Slater and Gordon will be required to pay any additional tax gross-up amounts where required by law to do so.

13.6 Debt arrangements for UK HoldCo post-Recapitalisation

New facility arrangements will be entered into by S&G UK as part of the Recapitalisation in respect of the UK Operations. The facilities will be used for general corporate purposes, or any other purposes approved by the Senior Lenders. The purpose of these arrangements is to provide the UK Operations with sufficient working capital and stability to be able to operate and have a stable platform in the future. These arrangements will have no impact upon Slater and Gordon due to the transfer of the UK Operations from Slater and Gordon to UK HoldCo. Slater and Gordon and the Australian Subsidiaries will be released from their obligations to pay, and/or their guarantee to pay, all amounts drawn by S&G UK under the Syndicated Facility Agreement and, from implementation of the Recapitalisation, will no longer have any obligation to pay or guarantee or secure the payment of any secured debt in respect of the UK Operations.

13.7 Overview of Shareholder Claims

As at the date of this Explanatory Memorandum, two shareholder representative proceedings have been filed against Slater and Gordon in the Federal Court of Australia. Slater and Gordon has also been notified of a further potential shareholder class action claim. These foreshadowed and current proceedings within the knowledge of Slater and Gordon as at the date of this Explanatory Memorandum are outlined below.

The information below includes a description of estimates that the Hall Proceeding Claimants, the Babscay Proceeding Claimants and the Delaney Potential Claimants have made about the value of their respective claims against Slater and Gordon. Slater and Gordon provides this information to Shareholders for their information but makes no comment on and does not warrant the accuracy of those estimates.

(a) **Hall Proceeding**

The Hall Proceeding is a representative proceeding filed against Slater and Gordon by Matthew Hall in the Federal Court on behalf of an open class of Shareholders who purchased Shares during the period from 30 March 2015 to 24 February 2016 (**Hall Proceeding** and **Hall Proceeding Claimants**, respectively). The Hall Proceeding Claimants allege that Slater and Gordon engaged in misleading and deceptive conduct and breached its continuous disclosure obligations during the period following the announcement by Slater and Gordon of the acquisition by S&G UK of Watchstone's (formerly Quindell Plc) professional services division (**Watchstone Acquisition**) until 24 February 2016.

The claim filed in the Hall Proceeding does not quantify loss and damage, however, Maurice Blackburn, the Hall Proceeding Claimants' solicitor, has stated in affidavit material filed with the Court that over 4,000 shareholders (which may be former or current) have registered as group members. The Hall Proceeding is an 'open class' proceeding and so the total number of group members is likely to exceed 4,000 in total. Maurice Blackburn has also stated that the claims of registered group members are worth in excess of \$400 million (not including interest) and that it estimates that the claims of all group members of the open class are in excess of \$1.1 billion (not including interest).

On 11 July 2017, Slater and Gordon announced an in-principle conditional settlement of the Hall Proceeding. On 21 September 2017, Slater and Gordon announced that a binding deed of settlement had been signed in respect of the Hall Proceeding. In summary, the settlement terms are as follows:

- (i) an agreed settlement amount of \$32.5 million (**Insurer Contribution Amount**), which will comprise proceeds from responsive directors and officers liability insurance policies held by Slater and Gordon for the benefit of directors, officers and Slater and Gordon made available by agreement reached with Slater and Gordon's insurers;
- (ii) \$4 million (to be funded via a drawdown under the Super Senior Incremental Facilities) will be made available to fund a further payment by Slater and Gordon for the benefit of the Hall Proceeding Claimants;
- (iii) the Insurer Contribution Amount will be used, after payment of all legal costs incurred by the Hall Proceeding Claimants, and the litigation funder's commission, for the scheme fund from which entitlements will be distributed to Shareholder Claimants (subject to proof);
- (iv) the scheme fund will be distributed to Shareholder Claimants, whose Shareholder Claims have been admitted to proof, and all Shareholder Claims will be compromised, via the Shareholder Claimant Scheme (subject to Shareholder Claimant and Court approval);
- (v) releases will be given in favour of the relevant insurers;
- (vi) various provisions releasing, resolving and insulating Slater and Gordon and the other Released Persons from the impact of claims by Shareholder Claimants in connection with Slater and Gordon's affairs;
- (vii) the Hall Proceeding will be dismissed with no orders as to costs; and
- (viii) the settlement is without admission of liability by Slater and Gordon.

(b) **Babscay Proceeding**

As announced to the market on 20 June 2017, a class action was filed against Slater and Gordon by Babscay Pty Ltd, a shareholder of Slater and Gordon. The Babscay Proceeding was filed on behalf of persons who acquired an interest in Shares between 24 August 2012 and 19 November 2015. The Babscay Proceeding is an 'open class' proceeding but neither Babscay nor Johnson Winter & Slattery (the Babscay Proceeding Claimants' solicitor) has identified the number of group members of the Babscay Proceeding who have registered with Johnson Winter & Slattery. The statement of claim alleges that Slater and Gordon's financial statements in each of the 2013, 2014 and 2015 Financial Years contained false and/or misleading statements, in part due to Slater and Gordon adopting an erroneous approach to recognising revenue in its accounts (which resulted in revenue from work in progress being overstated).

The claim in respect of this proceeding has not yet been quantified. In affidavit material filed with the Court, John Graham, the director of Babscay, has stated that the preliminary view of an expert retained by Babscay values the Babscay Proceeding Claimants' claim at approximately \$300 million.

(c) **Delaney Potential Claim**

Slater and Gordon has also been advised that a further representative proceeding may be filed against it in the Federal Court of Australia by Robert Delaney on behalf of shareholders who purchased Shares during the period from 12 August 2014 to 29 February 2016. Mr Delaney is advised by ACA Lawyers. A draft statement of claim provided to Slater and Gordon asserts that its Financial Year 2015 and 2016 accounts contain false or misleading statements and further alleges that Slater and Gordon adopted an erroneous approach to recognising revenue in its accounts which resulted in revenue from work in progress being overstated.. This proceeding has not yet been filed.

Mr Delaney has publicly stated, in submissions made on his behalf in the Hall Proceeding, that he represents a group of 150 shareholders. While the claim has not been quantified, ACA Lawyers has stated in open correspondence that, based on information known to it, the claim may be significantly in excess of \$20 million. There is overlap between the Hall Proceeding and the Delaney Potential Claim and Delaney Potential Claimants may also be group members of the Hall Proceeding.

The period during which group members of the Hall Proceeding, the Babscay Proceeding and the Delaney Potential Claim acquired Shares overlaps to some extent. Group members of the Hall Proceeding are those who acquired an interest in Shares during the period from 30 March 2015 to 24 February 2016. Group members of the Babscay Proceeding are those who acquired an interest in Shares during the period from 24 August 2012 to 19 November 2015. Group members of the Delaney Potential Claim are those who acquired Shares during the period from 12 August 2014 to 29 February 2016. The claims made against Slater and Gordon in each proceeding (or potential proceeding) differ, however, there is some degree of overlap in the allegations made.

These proceedings, and foreshadowed proceedings, are proposed to be dealt with under the Shareholder Claimant Scheme.

13.8 Regulatory approvals, waivers and relief

(a) Australia

ASX

ASX has provided the following key confirmations in relation to the Recapitalisation;

- (i) the voluntary escrow and stapling arrangements referred to in **Section 5.5** are, in ASX's opinion, appropriate and equitable per ASX Listing Rule 6.1;
- (ii) Slater and Gordon is not required to obtain Shareholder approval under Listing Rule 10.1 or 11.1 in respect of the transfer of the UK Operations to UK HoldCo;
- (iii) Slater and Gordon will not be required to re-comply with Chapters 1 and 2 of the ASX Listing Rules pursuant to Listing Rule 11.1.3; and
- (iv) in ASX's opinion, Slater and Gordon will continue to comply with the ongoing requirements outlined in Chapter 12 of the ASX Listing Rules, including the requirement to have a sufficient level of spread in accordance with ASX Listing Rule 12.4.

In relation to the Share Consolidation, ASX has also provided confirmation that, in ASX's opinion, Slater and Gordon will continue to have an orderly market in its securities following the proposed Share Consolidation for the purposes of ASX Listing Rule 7.18.

ASIC

ASIC has granted Slater and Gordon:

- (i) relief to send the Shareholder Claimant Scheme explanatory statement to Shareholder Claimants in a form which does not state the matters set out in paragraphs 8201(c) and 8203(a) of Part 2 of Schedule 8 to the Corporations Regulations, subject to certain conditions outlined in the Shareholder Claimant Scheme explanatory statement; and
- (ii) an extension of time within which Slater and Gordon must hold its annual general meeting from 30 November 2017 to 19 December 2017 (inclusive), on the condition that by 7.00 pm AEDT on 3 November 2017 Slater and Gordon has given notice to ASX, for release on the ASX Markets Announcements Platform, that explains the need for, and effect of, the annual general meeting extension.

(b) UK

For the Recapitalisation to proceed, regulatory approvals are also required from UK regulatory bodies in relation to the change in ownership of the UK Operations.

Approval is required to be sought from:

- (i) SRA for the new ownership structure for S&G UK and its Subsidiaries; and
- (ii) FCA for the change in control a number of S&G UK's Subsidiaries that are regulated by the FCA.

13.9 Transaction costs

The estimated fees and expenses associated with the Recapitalisation are summarised in this **Section 13.9**. These costs are one-off in nature and will be paid by Slater and Gordon. Total fees and expenses are expected to be approximately \$15.0 million (excluding GST).

The below table summarises the expected fees and expenses:

Nature of fees and expenses	Amount ⁵⁸
Independent Expert	\$0.6 million
Financial advisory fees and expenses (for Slater and Gordon)	\$5.3 million
Legal fees and expenses (for Slater and Gordon and the Senior Lenders)	\$7.3 million
Other fees and expenses	\$1.8 million
Total	\$15.0 million

Slater and Gordon estimates that it will have incurred or committed transaction costs of approximately \$11.5 million in relation to the Recapitalisation which will be payable by Slater and Gordon regardless of whether the Recapitalisation is implemented.

In addition to the above transaction costs, Slater and Gordon expects that it would incur a further \$6.6 million in other scheme-contingent and related payments. Slater and Gordon also estimates that a further \$15.5 million of one-off costs will be required in order to restructure the operations of the Group across both the Australian Operations and the UK Operations. This includes \$8.9 million of advisory costs and \$6.6 million of other one-off costs.

13.10 Information disclosed to ASX and documents lodged with ASIC

Slater and Gordon is a disclosing entity for the purposes of the Corporations Act and as such is subject to periodic reporting and continuous disclosure obligations. Publicly disclosed information about Slater and Gordon can be obtained from ASX's website www.asx.com.au or on Slater and Gordon's website www.slatergordon.com.au/investors.

Slater and Gordon is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Slater and Gordon may be obtained from, or inspected at, ASIC's offices. Please note that ASIC may charge a fee in respect of such services.

13.11 Foreign jurisdictions

The distribution of this Explanatory Memorandum outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. Slater and Gordon disclaims all liabilities to such persons.

No action has been taken to register or qualify this Explanatory Memorandum in any jurisdiction outside of Australia.

⁵⁸ Excluding GST.

13.12 Independent advice

Shareholders should consult their financial, legal or other professional adviser if they have any queries regarding:

- (a) the Recapitalisation;
- (b) the Share Consolidation;
- (c) your Directors' recommendations and intentions in relation to the Recapitalisation or the Share Consolidation; or
- (d) any other aspect of this Explanatory Memorandum.

If after reading this Explanatory Memorandum you have any questions about the Recapitalisation or how to vote at the Meeting, please call 1300 393 803 from within Australia, or +61 3 9415 4050 outside of Australia.

13.13 Supplementary information

Slater and Gordon will issue a supplementary document to this Explanatory Memorandum if it becomes aware of any of the following between the date of lodgement of this Explanatory Memorandum with ASX and the date of the Meeting:

- (a) a material statement in this Explanatory Memorandum is false or misleading;
- (b) a material omission from this Explanatory Memorandum;
- (c) a significant change affecting a matter included in this Explanatory Memorandum; or
- (d) a significant new matter arising which would have been required to be included in this Explanatory Memorandum if it had arisen before the date of lodgement of this Explanatory Memorandum with ASX.

The form which the supplementary document may take will depend on the nature and timing of the new or changed circumstances.

14 Glossary

In this Explanatory Memorandum, unless the context otherwise requires, the following definitions apply:

Anchorage	Anchorage Capital Group, L.L.C. and its affiliates and funds managed by it (and their affiliates), including AIO V Finance (Ireland) Designated Activity Company which will be the holder of the Shares to which Anchorage is entitled under the Senior Lender Scheme.
Anchorage Information	Has the meaning given to the term in the “Important Notices”.
Annual Report	The annual report of Slater and Gordon for the Financial Year ended 30 June 2017.
ASIC	Australian Securities & Investments Commission.
ASX	ASX Limited ACN 008 624 691 or the Australian Securities Exchange operated by ASX Limited, as the context requires.
ASX Listing Rules	Official listing rules of ASX.
AUD	Australian dollars.
Auditor	Ernst & Young.
Auditor’s Report	The report of the Auditor regarding its audit of Slater and Gordon and its controlled entities for the Financial Year ended 30 June 2017, contained within the Annual Report.
Australian Accounting Standards	The recognition and measurement requirements adopted by the Australian Accounting Standards Board and the Corporations Act.
Australian Operations	The Group’s business conducted in Australia.
Australian Subsidiary	A Subsidiary incorporated in Australia.
Babscay Proceeding	The proceeding commenced by Babscay Pty Ltd on 19 June 2017 against Slater and Gordon in the Court numbered VID659/2017 on behalf of persons who acquired an interest in Shares between 24 August 2012 and 19 November 2015.
Babscay Proceeding Claimants	Babscay Pty Ltd and the group members, as defined in paragraph 1 of the statement of claim dated 19 June 2017 filed in the Babscay Proceeding including any amendments to that statement of claim.
Board	The board of directors of Slater and Gordon.
Business Day	Any day that banks are open for business in Melbourne.
Business Separation Agreement	The business separation agreement, or similar document, to be entered into between Slater and Gordon, S&G UK and UK HoldCo in relation to the separation of Slater and Gordon’s

Australian Operations and UK Operations.

Chairperson	The Board chair of Slater and Gordon, Mr John Skippen or, if he is unavailable, James M. Millar who has been appointed to chair the Meeting.
Company Secretary	The company secretary of Slater and Gordon, Ms Kirsten Morrison.
Competing Proposal	<p>Any proposed or potential dissolution, winding up, liquidation, reorganisation, assignment for the benefit of creditors, consolidation, restructuring of Slater and Gordon, 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 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 Shares; or (ii) 20% or more of the share capital of any other material member of the Group; (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 Group (where a substantial part of the business or a material asset of the Group will include rights in respect of assets representing 20% or more of the value of the Group's total assets); or (c) otherwise acquiring control of or merging or amalgamating with Slater and Gordon, 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 Group or other synthetic merger, or any other means.
Conditions Precedent	The conditions precedent to the Senior Lender Scheme outlined in Section 5.7 of this Explanatory Memorandum which must be satisfied in order for the Recapitalisation to proceed.
Constitution	The constitution of Slater and Gordon (as amended from time to time).
Corporations Act	<i>Corporations Act</i> 2001 (Cth).
Corporations Regulations	Corporations Regulations 2001 (Cth).

Court	The Federal Court of Australia or such other court of competent jurisdiction.
Delaney Potential Claim	Claims arising from or connected to the draft originating application and draft statement of claim prepared on behalf of the Delaney Claimants and annexed to the affidavit of Robert Delaney sworn and dated 22 May 2017 filed in support of Mr Delaney's application in the Hall Proceeding filed on the same date.
Delaney Potential Claimants	Robert Delaney and the group of Shareholders represented by ACA Lawyers who acquired Shares on or after 12 August 2014 and before 29 February 2016.
Directors	The directors of Slater and Gordon.
Directors' Report	The report of the Directors for the Financial Year ended 30 June 2017, contained within the Annual Report.
Effective	When used in relation to the Senior Lender Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the Second Court Orders.
Effective Date	The date on which the Senior Lender Scheme becomes effective.
Eligible Shareholders	Shareholders as at the Meeting Record Date.
Explanatory Memorandum	This explanatory memorandum which includes the Independent Expert's Report, the Notice of Meeting and the Proxy Form.
FATA	<i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
FCA	The UK Financial Conduct Authority.
Financial Information	The historical financial information of Slater and Gordon and the pro forma financial information.
Financial Report	The financial report of Slater and Gordon for the 2017 Financial Year, contained within the Annual Report.
Financial Year	12 months ended or ending 30 June of any year.
First Court Date	The first date of the hearing of an application for the First Court Orders or, if the hearing of that application is adjourned, the date to which the hearing is adjourned.
First Court Orders	The orders of the Court convening the Scheme Meetings for the Scheme under section 411(1) of the Corporations Act, as the context requires.
FY19	The 2019 Financial Year.
GBP	British pound.

Group	Slater and Gordon and its Subsidiaries.
Group Entity	Slater and Gordon or a Subsidiary.
Hall Proceeding	The Federal Court of Australia proceeding numbered VID1213/2016 commenced by Matthew Hall against Slater and Gordon.
Hall Proceeding Claimants	Matthew Hall and the Group Members, as defined in paragraph 1 of the statement of claim dated 12 October 2016 filed in the Hall Proceeding.
Hall Proceeding Settlement	The binding settlement between Matthew Hall and Slater and Gordon, among others, in respect of the Hall Proceeding, as described in the deed executed between the parties and dated 21 September 2017.
Implementation Date	The date the Recapitalisation is implemented.
Independent Expert	KPMG.
Independent Expert's Report	The independent expert's report prepared by the Independent Expert in relation to the Recapitalisation as set out in Annexure B to this Explanatory Memorandum.
IP Deed	The trade mark licence agreement to be entered into between Slater and Gordon and S&G UK in respect of the licence of certain trade marks by Slater and Gordon to S&G UK.
Key Management Personnel	Has the meaning given to that term in the Corporations Act and generally includes those persons having authority and responsibility for planning, directing and controlling the activities of Slater and Gordon, directly or indirectly, including a Director (and the term " KMP " has the same meaning).
KPMG	KPMG Corporate Finance, a division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215.
Meeting	The annual general meeting of the Shareholders convened under the Notice of Meeting to consider the Resolutions, and includes any adjournment of that meeting.
Meeting Record Date	4 December 2017.
New AUD Super Senior Facility	A new AUD denominated \$65 million super senior secured term loan facility to be entered into by Slater and Gordon as borrower, the senior agent and the Senior Lenders who have elected to participate as lenders under the facility, the terms of which are summarised in Section 13.5(b) .
New Super Senior Facilities	The New AUD Super Senior Facility and the new GBP denominated senior secured term loan facility made available to S&G UK as borrower by the Senior Lenders who elected to participate in those facilities.
Notes	The notes to the Notice of Meeting.

Notice of Meeting	The notice of annual general meeting included at Annexure A to this Explanatory Memorandum.
Officer	Has the meaning given to that term by section 9 of the Corporations Act, and includes any current or former director or officer of Slater and Gordon.
Ordinary Business Resolutions	Resolutions 1 to 7 inclusive.
Proxy Form	The proxy form enclosed with this Explanatory Memorandum in relation to the Resolutions.
Recapitalisation	The proposed recapitalisation of Slater and Gordon which involves Slater and Gordon undertaking the Senior Lender Scheme.
Recapitalisation Resolution	Resolution 8.
Related Body Corporate	Has the meaning given to that term in section 9 of the Corporations Act.
Related Entity	Has the meaning given to that term in section 9 of the Corporations Act.
Released Persons	<p>(a) Slater and Gordon, its Related Bodies Corporate and their Related Entities; and</p> <p>(b) any present or past Officer, employee, servant or agent of any of the entities referred to in (a) above.</p>
Relevant Interest	Has the meaning given to the term in sections 608 and 609 of the Corporations Act.
Remuneration Report	The remuneration report of Slater and Gordon that forms part of the Directors' Report for the 2017 Financial Year.
Resolutions	The resolutions provided for Shareholder approval in the Notice of Meeting, being the Ordinary Business Resolutions and the Special Business Resolutions.
Restated SFA	The AUD denominated secured term loan facility to be made available to Slater and Gordon under the Amended and Restated Syndicated Facility Agreement for an amount following implementation of the Senior Lender Scheme of up to a maximum of \$60 million.
Restructuring Support Deed	The restructuring support deed dated 29 June 2017 as amended and/or varied from time to time between Slater and Gordon, its Subsidiaries and the Senior Lenders, including as most recently amended on 31 August 2017.
S&G UK	Slater and Gordon (UK) 1 Limited (registered in England and Wales under number 07895497).

Scheme Meetings	The meetings of Shareholder Claimants in relation to the Shareholder Claimant Scheme and of Senior Lenders in relation to the Senior Lender Scheme, ordered by the Court to be convened under section 411(1) of the Corporations Act and includes any adjournment of those meetings.
Schemes	The Senior Lender Scheme and the Shareholder Claimant Scheme.
Second Court Date	The first day of hearing of an application made to the Court for the Second Court Orders or, if the hearing of such an application is adjourned for any reason, the first day of the adjourned hearing.
Second Court Orders	The orders of the Court approving either the Senior Lender Scheme or the Shareholder Claimant Scheme (as the context requires) under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act.
Secured Debt	At any time, the total amount owing by Slater and Gordon or any other Group Entity to the Senior Lenders under the Syndicated Facility Agreement.
Senior Agent (Aus)	Global Loan Agency Services Australia Pty Ltd ACN 608 829 303 or its affiliate.
Senior Lender	The “Lenders” as that term is defined in the Syndicated Facility Agreement.
Senior Lender Scheme	The proposed compromise or arrangement under Part 5.1 of the Corporations Act between Slater and Gordon and the Senior Lenders subject to any alterations or conditions made or required by the Court.
Share	A fully paid ordinary share in Slater and Gordon.
Share Consolidation	The proposed consolidation of Slater and Gordon’s share capital by converting all the issued Shares into a smaller number equal to one-one hundredth of the total number of issued Shares subject to rounding up fractional entitlements.
Share Consolidation Resolution	Resolution 9 for the purposes of section 254H of the Corporations Act.
Share Register	The share register of Slater and Gordon.
Share Registry	The registry engaged by Slater and Gordon, being Computershare Investor Services Pty Limited ACN 078 279 277.
Shareholder	A person registered on the Share Register as a holder of Shares.
Shareholder Claim	Has the meaning given to the term in the Shareholder Claimant Scheme.

Shareholder Claimant	Any person who, as at the Effective Date, has a Shareholder Claim including, without limitation: <ul style="list-style-type: none"> (a) the Hall Proceeding Claimants including those that, but for the exercise of a right to opt out of the Hall Proceeding, would be Hall Proceeding Claimants; (b) the Babscay Proceeding Claimants including those that, but for the exercise of a right to opt out of the Babscay Proceeding, would be Babscay Proceeding Claimants; and (c) the Delaney Potential Claimants including those that, but for the exercise of a right to opt out of any Delaney Potential Claim filed against Slater and Gordon, would be Delaney Claimants.
Shareholder Claimant Scheme	The compromise or arrangement under Part 5.1 of the Corporations Act between Slater and Gordon and the Shareholder Claimants, subject to any alterations or conditions made or required by the Court.
Slater and Gordon	Slater and Gordon Limited ACN 097 297 400.
Special Business Resolutions	The Recapitalisation Resolution and the Share Consolidation Resolution.
Spill Meeting	The general meeting of Shareholders to be held within 90 days of the Meeting.
SRA	The Solicitors Regulation Authority of England and Wales.
Subsidiary	Has the meaning given to that term in section 9 of the Corporations Act.
Sunset Date	31 January 2018.
Super Senior Facilities	The: <ul style="list-style-type: none"> (a) \$40 million working capital facility as announced on 5 May 2017; and (b) the Super Senior Incremental Facilities, provided by certain Senior Lenders to Slater and Gordon.
Super Senior Incremental Facilities	The facilities in relation to the additional \$50 million agreed to be provided by the Senior Lenders, as announced on 31 August 2017.

Superior Proposal	<p>A bona fide Competing Proposal that the Board determines, acting in good faith and after taking written advice from Slater and Gordon's legal and financial advisers:</p> <p>(a) is reasonable 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 Senior Lenders under the Syndicated Facility Agreement and associated finance documents; and</p> <p>(b) would, if completed substantially in accordance with its terms, produce an outcome for both Shareholders and the Senior Lenders (as a whole) that is superior to the outcome that would be produced by the Senior Lender Scheme.</p>
Syndicated Facility Agreement	The syndicated facility agreement dated 29 May 2015, as restated on 23 December 2016, among Slater and Gordon, each original lender as named therein, the senior agent and the security trustee and others, as amended and restated from time to time.
Transactional Facilities	The facilities and arrangements described in Section 13.4(b) .
UK HoldCo	Slater and Gordon UK Holdings Limited (registered in England and Wales under number 10977311).
UK Operations	The Group's business that is conducted in the UK and Malta.
UK Subsidiary	A Subsidiary incorporated in the United Kingdom or Malta.
Voluntary Escrow Deed	In respect of each Senior Lender, the voluntary escrow deed to be entered into by Slater and Gordon with that Senior Lender in respect of the Shares issued to that Senior Lender under the Senior Lender Scheme and the debt instruments in relation to the New AUD Super Senior Facility and the Restated SFA.
Walker Smith Way	Walker Smith Way Limited (registered in England and Wales under number 07016439).
Watchstone	Watchstone Group Plc, previously Quindell Plc (registered in England and Wales under number 05542221).
Watchstone Acquisition	The sale of Watchstone's Professional Services Division by Watchstone to S&G UK pursuant to the Watchstone Sale Agreement.
Watchstone Entitlement Amount	\$40 million.

Watchstone Proceeds

The proceeds received by S&G UK or any other member of the UK Group from Watchstone (or any of its related entities or associates) in connection with the Watchstone Acquisition, including the release of any proceeds from any escrow account held in connection with the Watchstone Sale Agreement or any other proceeds received on account of settling any claim by S&G UK or any UK Group against Watchstone or any other person in relation to the Watchstone Acquisition after deducting:

- (a) any reasonable expenses which are incurred by any member of the UK Group to persons who are not members of the UK Group in connection with the realisation or recovery of such proceeds; and
- (b) any tax incurred and required to be paid by a member of the UK Group (as reasonably determined by the relevant member of the UK Group on the basis of existing rates and taking into account any available credit, deduction or allowance).

Watchstone Sale Agreement

The share purchase agreement between Watchstone, Slater and Gordon and S&G UK dated 29 March 2015 in respect of the Watchstone Acquisition.

ANNEXURE A - NOTICE OF ANNUAL GENERAL MEETING

SLATER AND GORDON LIMITED

ACN 097 297 400

NOTICE IS HEREBY GIVEN that the annual general meeting of shareholders of Slater and Gordon Limited ACN 097 297 400 (**Slater and Gordon**) will be held at 10.00 am on 6 December 2017 at the Marriott Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne Victoria 3000.

Purpose of Meeting

The purpose of the Meeting is to consider and, if thought fit, to pass the Resolutions set out below, including the special business in relation to the proposed Recapitalisation of Slater and Gordon. Information on the Resolutions are set out below and in the Explanatory Memorandum (of which this Notice of Meeting forms a part).

Ordinary Business

1 **Financial Reports**

To receive and consider the Financial Report, Directors' Report and the Auditor's Report for the year ended 30 June 2017.

2 **Resolution 1: Remuneration Report**

To receive, consider and adopt the Remuneration Report of Slater and Gordon for the Financial Year ended 30 June 2017, as a non-binding resolution.

Voting exclusion applicable to Resolution 1

Slater and Gordon will disregard any votes cast on Resolution 1 by any Director and any associate of such a person.

However, Slater and Gordon will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Additional voting exclusions in respect of Resolution 1 pursuant to the Corporations Act are set out in the Notes to this Notice of Meeting.

3 **Resolution 2: Spill Meeting (if required)**

Shareholders will only be asked to vote on this Resolution 2 if the outcome of Resolution 1 of this Notice of Meeting is such that at least 25% of the votes cast on Resolution 1 are against the adoption of the Remuneration Report.

To consider and, if thought fit, to pass the following ordinary resolution:

'That for the purposes of section 250V(1) of the Corporations Act 2001 (Cth):

- (a) *an extraordinary general meeting of Shareholders be held within 90 days of the Meeting (**Spill Meeting**); and*

- (b) *all the Directors who were in office at the time the Directors resolved to make the Directors' Report considered at the Meeting (other than the managing director), cease to hold office immediately before the end of the Spill Meeting; and*
- (c) *resolutions to appoint persons to offices that will be vacated immediately before the end of the Spill Meeting pursuant to paragraph 3(b) above must be put to a vote at the Spill Meeting.'*

Voting exclusion applicable to Resolution 2

Slater and Gordon will disregard any votes cast on Resolution 2 by any Director and any associate of such a person.

However, Slater and Gordon will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Additional voting exclusions in respect of Resolution 2 pursuant to the Corporations Act are set out in the Notes to this Notice of Meeting.

4 Resolution 3: Retirement and re-election of Director

To consider and, if thought fit, to pass the following ordinary resolution:

'That, Mr John Skippen, who retires in accordance with clause 26.1 of the Constitution and ASX Listing Rule 14.4, being eligible for election, is re-elected as a Director.'

5 Resolution 4: Election of Director

To consider and, if thought fit, to pass the following ordinary resolution:

'That, for the purposes of clause 27.3 of the Constitution, Mr Hayden Stephens, being eligible for election, is elected as a Director.'

6 Resolution 5: Election of Director

To consider and, if thought fit, to pass the following ordinary resolution:

'That, for the purpose of clause 27.3 of the Constitution, Mr Merrick Howes, being eligible for election, is elected as a Director with effect from the Implementation Date.'

7 Resolution 6: Election of Director

To consider and, if thought fit, to pass the following ordinary resolution:

'That, for the purpose of clause 27.3 of the Constitution, Mr Nils Stoesser, being eligible for election, is elected as a Director with effect from the Implementation Date.'

8 Resolution 7: Election of Director

To consider and, if thought fit, to pass the following ordinary resolution:

'That, for the purpose of clause 27.3 of the Constitution, Mr James MacKenzie, being eligible for election, is elected as a Director with effect from the Implementation Date.'

Special Business: Resolutions related to the Recapitalisation

The Recapitalisation cannot be approved and implemented unless Resolution 8 is passed.

9 **Resolution 8: Issue of Shares under the Senior Lender Scheme**

To consider and, if thought fit, pass the following ordinary resolution:

'That, for the purpose of ASX Listing Rule 7.1, and for all other purposes, approval is given for the issue and allotment of 66,053,195 Shares (on a post-Share Consolidation basis) to Senior Lenders pursuant to the Senior Lender Scheme, the terms and conditions of which are set out in the Explanatory Memorandum.'

Voting exclusion applicable to Resolution 8

Slater and Gordon will disregard any votes cast on Resolution 8 by a person who may participate in the issue of Shares under the Senior Lender Scheme and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if Resolution 8 is passed, and any associate of such a person.

However, Slater and Gordon will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

10 **Resolution 9: Share Consolidation**

To consider and, if thought fit, pass the following ordinary resolution:

'That, for the purposes of section 254H of the Corporations Act, ASX Listing Rule 7.20 and for all other purposes, the Shares in Slater and Gordon be consolidated with effect at 9.00 am on the 8th Business Day after this resolution is passed on the basis that all the Shares held by each Shareholder at that time be converted into a smaller number of shares equal to one-one hundredth of the number of the Shareholder's Shares, or if that is a fractional number, rounding up to the next whole number.'

By order of the Board,



Kirsten Morrison
Company Secretary
30 October 2017

NOTES TO NOTICE OF ANNUAL GENERAL MEETING

1 **Attendance at the Meeting and questions**

If you are planning to attend the Meeting, please bring the Proxy Form with you and arrive prior to the start time for the Meeting to facilitate registration. Recording of the proceeding is not permitted unless authorised by Slater and Gordon.

In addition to being given a reasonable opportunity to ask questions at the Meeting, Shareholders are invited to submit questions in advance of the Meeting. They may be submitted in writing to Slater and Gordon and sent to Slater and Gordon at 485 La Trobe Street, Melbourne VIC 3000.

2 **Materials accompanying this Notice**

The following materials accompany this Notice:

- (a) the Explanatory Memorandum, including the Independent Expert's Report; and
- (b) the Proxy Form.

The Financial Report, the Directors' Report and the Auditor's Report have been sent to you separately, if you have elected to receive a printed copy of these reports and have not withdrawn that election.

These documents should be read together with, and form part of, this Notice of Meeting. These documents should be read carefully by Shareholders prior to the Meeting.

3 **Defined terms**

Terms used in this Notice of Meeting will, unless the context otherwise requires, have the meaning given to them in the Glossary in **Section 14** of the Explanatory Memorandum to this Notice of Meeting.

4 **Voting and required majority - Corporations Act**

- (a) In accordance with section 249HA of the Corporations Act for the Resolutions to be effective not less than 28 days written notice has been given.
- (b) The Resolutions must be passed by more than 50% of all votes cast by Eligible Shareholders entitled to vote on the Resolutions (whether in person or by proxy, attorney or corporate representative).
- (c) Subject to the voting exclusions for the Resolutions (as set out above), on a show of hands every Shareholder has one vote and, on a poll, every Shareholder has one vote for each Share held.
- (d) In accordance with the Corporations Act in respect of **Resolution 1 (Remuneration Report)** and **Resolution 2 (Spill Meeting)** - pursuant to section 250R of the Corporations Act, a vote must not be cast (in any capacity) by or on behalf of a member of Slater and Gordon's Key Management Personnel (**KMP**) whose remuneration is included in the Remuneration Report, or a closely related party of such member of the KMP (**voter**). However, a voter may cast a vote on the resolution as a proxy for a person who is entitled to vote on the resolutions, and either –
 - (i) the appointment as a proxy specifies the way the proxy is to vote on the resolution; or
 - (ii) the vote is cast by the Chairperson and the appointment of the Chairperson as proxy does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairperson to exercise the proxy

even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

5 **Voting entitlement**

In accordance with Reg 7.11.37 of the Corporations Regulations, for the purpose of voting at the Meeting, the Directors have determined that those persons who are the registered holders of Shares at 7.00 pm (Melbourne time) on 4 December 2017 will be treated as Eligible Shareholders, subject to the voting exclusions outlined above.

Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Meeting.

Voting is not compulsory.

6 **How to vote**

You may vote by attending the Meeting in person, by proxy or by authorised representative.

7 **Voting in person**

Eligible Shareholders wishing to vote in person (other than under a power of attorney) should personally attend the Meeting and cast their votes.

8 **Appointment of proxies**

A Proxy Form accompanies this Notice of Meeting. Eligible Shareholders wishing to appoint a proxy to attend and vote at the Meeting on their behalf, should complete and sign the personalised Proxy Form accompanying this Explanatory Memorandum with the instructions set out on the Proxy Form. Eligible Shareholders may complete the Proxy Form in favour of the Chairperson of the Meeting, or appoint up to two proxies to attend and vote on their behalf at the Meeting.

An Eligible Shareholder entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies. Only those Eligible Shareholders who are entitled to cast two or more votes at the Meeting may appoint two proxies. A proxy need not be a Shareholder.

Where an Eligible Shareholder wishes to appoint two proxies, an additional proxy form may be obtained by contacting the Share Registry.

An Eligible Shareholder appointing two proxies may specify the percentage of votes, proportion or number of votes each proxy is appointed to exercise.

If an Eligible Shareholder appoints two proxies and does not specify the percentage of votes each proxy may exercise, each proxy may exercise 50% of the votes. Fractions of votes are to be disregarded.

9 **Lodgement of Proxy Form**

To be effective, the Proxy Form and any authority under which the form is signed, must be received by the Share Registry prior to 10.00 am on 4 December 2017. Proxy Forms, duly completed in accordance with the instructions set out in the Proxy Form, may be returned to the Share Registry by:

- (a) lodging them online through www.investorvote.com.au. You will require your SRN/HIN and control number, located on the front page of your Proxy Form;
- (b) posting them in the reply paid envelope provided to Computershare Investor Services Pty Limited, GPO Box 242 Melbourne VIC 3001 Australia;
- (c) delivering them to the Share Registry at 452 Johnston Street, Abbotsford, VIC 3067 Australia;

- (d) faxing them to 1800 783 447 (within Australia) or +613 9473 2555 (outside Australia); or
- (e) for Intermediary online subscribers **only** (custodians) - electronically at www.intermediaryonline.com.

Eligible Shareholders who complete and return a Proxy Form may still attend the Meeting in person and vote on the Resolutions (in which case their proxy will be revoked).

10 **How the Chairperson will vote undirected proxies**

The Chairperson intends to vote undirected proxies in favour of the Resolutions. If a proxy appointment is signed or validly executed by the Eligible Shareholder, but does not name the proxy in whose favour it is given, the Chairperson of the Meeting will act as proxy provided that, if the Eligible Shareholder has not directed the proxy how to vote, the Eligible Shareholder has ticked the required box on the Proxy Form authorising the Chairperson to vote.

Slater and Gordon encourages all Eligible Shareholders who submit proxies to direct their proxy how to vote on the Resolutions.

11 **Voting by attorney**

An Eligible Shareholder may appoint an attorney to vote on his/her behalf. For an appointment to be effective for the Meeting, the instrument effecting the appointment (or a certified copy of it) must be received by the Share Registry by no later than 10.00 am on 4 December 2017.

12 **Corporate representatives**

A body corporate which is a Shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act.

The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed, unless it has previously been given to Slater and Gordon.

13 **Additional information**

If after reading this Notice of Meeting and the accompanying Explanatory Memorandum you have any questions about the Resolutions or how to vote at the Meeting, please contact 1300 393 803 from within Australia, or +61 3 9415 4050 if you are outside of Australia.

ANNEXURE B - INDEPENDENT EXPERT'S REPORT

**KPMG Corporate Finance**

A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

ABN: 43 007 363 215
Telephone: +61 2 9335 7000
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DX: 1056 Sydney
www.kpmg.com.au

The Directors
Slater & Gordon Limited
485 La Trobe Street
Melbourne Victoria 3000

27 October 2017

Dear Directors

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE**PART ONE –INDEPENDENT EXPERT'S REPORT****1 Introduction**

On 29 June 2017, Slater & Gordon Limited (Slater & Gordon or the Company) announced it had entered into a Restructuring Support Deed (RSD) with its lenders who collectively represent over 75 percent of its secured debt by value and over 50 percent of the number of secured lenders (Supporting Lenders). On 31 August 2017, a revised RSD with updated restructuring terms was signed. The RSD is to give effect to the recapitalisation of the Company's equity and debt obligations (the Recapitalisation). Discussions between the Supporting Lenders and the Company were led by Anchorage Capital Group LLC (Anchorage). Funds managed by Anchorage hold a majority share of the secured debt.

The Recapitalisation is intended to reduce the senior secured debt to a sustainable level of debt, and enable the Company to continue to trade and operate and prevent a breach of existing facilities and other finance documents. The Company will seek to implement the Recapitalisation via a creditors' scheme of arrangement (Senior Lender Scheme) between Slater & Gordon and the Senior Lenders (Senior Lenders or Scheme Senior Lenders)¹. As a consequence of the Recapitalisation all existing Slater & Gordon shareholders (Shareholders) will be materially diluted. The Shareholders will have an opportunity to consider and approve the Recapitalisation at the Annual General Meeting (AGM) to be held on 6 December 2017 as

¹ Scheme Senior Lenders are defined in the Senior Lenders Explanatory Statement and means each person who is a Senior Lender as at the date the Scheme becomes effective.

part of the resolution to be put to shareholders in relation to the Recapitalisation (Recapitalisation Resolution). The Recapitalisation of Slater & Gordon is only possible if the Recapitalisation Resolution is passed at the AGM by more than 50 percent of the votes cast by Eligible Shareholders.²

Further to its announcement on 29 June 2017, Slater & Gordon advised on 31 August 2017 that it had entered into an amended binding RSD with 100 percent of its Senior Lenders in relation to the 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 RSD and Slater & Gordon's UK Operations will be transferred to the Senior Lenders.

The key terms of the Recapitalisation involves the following:

- *Working Capital Facility:* The Senior Lenders have committed to increase the Company's existing \$40 million working capital facility as announced on 5 May 2017 by an amount equivalent to a further \$50 million (Super Senior Incremental Facilities). The additional funding will be available for drawdown prior to and following the Recapitalisation. The additional funding will comprise a \$25 million Australian Dollar (AUD) denominated tranche (Super Senior AUD Incremental Facility) (when aggregated with the new working capital facility, the New AUD Super Senior Facility) and a Great British Pound (GBP) equivalent \$25 million denominated tranche (Super Senior GBP Incremental Facility) (in aggregate with the working capital facility, the Super Senior Facilities). The Super Senior 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.
- *Separation of the United Kingdom (UK) Operations:* On implementation of the Senior Lender Scheme, all UK operations and UK subsidiaries 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. The Shareholders will retain the opportunity to participate in future value associated with the Australian business only. As a result of this, the Super Senior Secured Facilities will be separated into a \$65 million 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 Super Senior GBP Incremental Facility) with Slater & Gordon (UK) 1 Limited (S&G UK) for the UK business. These replacement facilities are to be entered into on implementation of the Recapitalisation.

² Eligible Shareholders means Shareholders as at the Meeting Record Date.

- *Watchstone³ Entitlement Amount:* 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 \$40 million of any proceeds that S&G UK receives from Watchstone-related claims (Watchstone Entitlement Amount). These proceeds will be applied first to reduce of the Company's New AUD Super Senior Facility.
- *Issue of shares in the Company to Senior Lenders:* On implementation of the Senior Lender Scheme, Senior Lenders will be issued with approximately 95 percent of the equity in the Company. The existing Shareholders will hold approximately 5 percent 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 Super Senior AUD Incremental Facility and the New AUD Super Senior Facility.
- *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:
 - New AUD Super Senior Facility (\$65 million): The facility will have a three year term and will be used to refinance the AUD-denominated amounts owing under the existing super senior facility and for working capital purposes
 - Restated debt facility (\$60 million): \$60 million of senior secured debt under the Company's existing Syndicated Facility Agreement (SFA) ⁴ (SFA Facility) following implementation of the Recapitalisation will be refinanced on substantially the same terms but amended with a five year maturity with payment in kind (PIK) interest accrued but not payable until the facility has been repaid, amongst other changes (Restated SFA).
- *Debt Facilities (UK):* In respect of the UK operations (which will be owned 100 percent by the Senior Lenders following implementation of the Recapitalisation), S&G UK's debt facilities on implementation of the Recapitalisation will be as follows:
 - New GBP Super Senior Facility (\$25 million): Aggregated principal amount equal to the commitments made available under the Super Senior GBP Incremental Facility. This facility will be denominated in GBP, will have a three year term and will be used for working capital purposes
 - Convertible Notes (£250 million): S&G UK will issue interest-free convertible notes to the Senior Lenders (Convertible Note Facility). The convertible notes will entitle the holders to payment of any amounts, up to £250 million, received by S&G UK in respect of the net proceeds of Watchstone-related claims above \$40 million and certain net

³ Watchstone plc, formerly Quindell plc.

⁴ Syndicated Facility Agreement dated 29 May 2015, restated on 23 December 2016.

proceeds of any asset divestments and insurance proceeds received in respect of the UK operations.

- Approval of the Shareholder Claimant Scheme, as discussed below.

On 10 July 2017, the Company entered into a Heads of Agreement in order to resolve a claim brought against the Company by Mr Matthew Hall. On 21 September 2017, the Company entered into a binding settlement deed to settle the claim brought against the Company by Mr Matthew Hall. As a result, in order to manage this and other recent and potential claims that have been brought against the Company by Shareholder(s) in relation to the acquisition, dealing in or selling of Slater & Gordon shares over a set six year period (Shareholder Claimants), the Company seeks to implement the binding settlement deed via a creditor's scheme of arrangement between Slater & Gordon and the Shareholder Claimants (Shareholder Claimant Scheme). Due to the inter-conditional nature of the Shareholder Claimant Scheme and the Senior Lenders Scheme, approval of the Shareholder Claimant Scheme is required to facilitate the Recapitalisation.

The Shareholder Claimant Scheme is designed to protect the interests of the Company's clients, creditors, current and future Shareholders and other stakeholders having regard to the current financial position of the Company. It is also part of a comprehensive solution to resolve and compromise all potential claims raised by Shareholder Claimants against Slater & Gordon and its current and former Officers.

Further details in relation to the Recapitalisation are provided in Section 7 of this report and Section 7 of the Explanatory Statement to the Senior Lender Scheme (Senior Lenders Explanatory Statement). Further details in relation to the Shareholder Claimant Scheme are provided in Section 13 of this report and Section 6 of the Explanatory Statement to the Shareholder Claimant Scheme (Shareholder Claimants Explanatory Statement).

To assist the Shareholders and the Senior Lenders in assessing the Recapitalisation and the Shareholder Claimants in assessing the Shareholder Claimant Scheme, the Directors of Slater & Gordon have requested that KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) prepare an Independent Expert's Report (IER):

- addressing financial matters in relation to a proposal by Slater & Gordon to apply for orders under Section 411 of the Corporations Act 2001 (Cth) (Corporations Act) convening a meeting of the Senior Lenders to consider the Senior Lender Scheme
- to provide an opinion on whether the Recapitalisation is fair and/or reasonable to Shareholders, in connection with the resolution to be put to Shareholders at the AGM
- to provide an opinion on whether the Shareholder Claimant Scheme is in the best interests of Shareholder Claimants for the purposes of Section 411 of the Corporations Act.

This report should be considered in conjunction with, and not independently of, the information set out in the Notice of Meeting and the Explanatory Memorandum, the Senior Lenders Explanatory Statement and the Shareholder Claimants Explanatory Statement.

The Recapitalisation is subject to the satisfaction of a number of conditions which are set out in Section 2.3 of the Senior Lenders Explanatory Statement and Section 7 of this report.

The Shareholder Claimant Scheme is subject to the satisfaction of a number of conditions which are set out in Section 6.2 of the Shareholder Claimant Explanatory Statement and Section 13 of this report.

Slater & Gordon is an Australian company that is listed on the ASX. As at 30 June 2017, Slater & Gordon employed around 4,210 people with operations in Australia and the United Kingdom (UK) (not accounting for the impact of redundancies between 30 June 2017 and the Scheme implementation). Immediately prior to the announcement of the Recapitalisation on 29 June 2017, Slater & Gordon had a market capitalisation of \$31.9 million.⁵

The Senior Lenders are defined in Section 12 of the Senior Lender Explanatory Statement. The Shareholder Claimants are defined in Section 10 of the Shareholder Claimants Explanatory Statement.

Further information regarding KPMG Corporate Finance as it pertains to preparation of this report is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

2 Requirement for our report

The requirement of the IER is in accordance with Section 411 of the Corporations Act and in accordance with the guidance provided by the Australian Securities and Investment Commission (ASIC).

2.1 Requirement under Section 411 of the Corporations Act

Section 411(3) of the Corporations Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Corporations Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides, in particular Regulatory Guide 111 'Content of expert reports' (RG 111), which outlines the principles and matters which it expects a person preparing an independent expert's report to consider when providing an opinion on whether a transaction is "fair and reasonable, and therefore in the best interests" of shareholders.

⁵ On 28 June 2017, Slater & Gordon had 347.2 million shares outstanding with the closing price of \$0.09 per share.

Our report provides opinion to the Shareholders, Senior Lenders and the Shareholder Claimants. Further details of the relevant technical requirements and the basis of assessment in forming our opinions are set out in Section 8 of this report.

3 Opinion for the Senior Lenders

KPMG Corporate Finance's assessment of the financial matters and conclusions as to other matters relevant to the Senior Lenders and in accordance with Section 411 of the Corporations Act are detailed below.

The financial and other matters we have considered relate to:

- the solvency of Slater & Gordon before and immediately after the Recapitalisation
- the expected return to Senior Lenders if the Recapitalisation is or is not approved
- the likely outcome for the Company should the Scheme not be implemented.

We have undertaken this assessment with reference to the definition of solvency set out in Section 95A of the Corporations Act and common law principles (Appendix 8 of this report). Specifically in regards to solvency, we have considered the following:

- primary test – cash flow test
- indicative test – balance sheet test
- indicative test – profit and loss test
- other considerations including:
 - a consideration of any unused sources of finance available, assets available for sale, and existing arrangements with principal financiers
 - financing analysis including facility agreements, drawn and undrawn facilities, and debt amortisation requirements
 - ability to raise equity
 - litigation
 - audit opinions, and the basis of going concern assumptions.

We have also analysed the return to Senior Lenders if the Recapitalisation is or is not approved by having regard to:

- the value of Scheme Senior Lenders' various interests in the Company if the Recapitalisation is approved (such as ordinary shares and secured debt interests)
- the value of Scheme Senior Lenders' various interests in the S&G UK group if the Recapitalisation is approved (such as ordinary shares, convertible notes and secured debt interests)

- the return to Scheme Senior Lenders if the Recapitalisation is not approved having regard to a range of different solvency scenarios which may be applicable.

The outcome of our work is set out in Table 1:

Table 1: Summary of Opinion for Senior Lenders

Item	Scope	Conclusion								
1	The solvency of the Company prior to the Recapitalisation	Slater & Gordon is at risk of becoming insolvent sometime by May 2018 when the first three tranches of senior debt fall due. Slater & Gordon is unlikely to be able to repay the amount due, nor support this level of debt, or successfully refinance the debt due in May 2018.								
2	The solvency of the Company if the Recapitalisation is approved	<p>We are of the opinion that Slater & Gordon will be solvent immediately following the implementation of the Recapitalisation.</p> <p>We highlight that the continued solvency of the Company remains dependent on the Company improving its underlying financial performance, including: achieving revenue targets in key practice groups in PIL, project litigation and general law; successfully executing the reorganisation and the performance improvement programs, improving staff morale, complying with banking covenants, and experiencing no adverse external impacts on the businesses (such as changes in legislation and/or regulatory intervention).</p>								
3	The value of Scheme Senior Lenders' interests if the Recapitalisation is approved	<p>Following the Recapitalisation, the Scheme Senior Lenders will hold shares, warrants and secured debt interests in the Company.</p> <p>The implied value of the Scheme Senior Lenders' interests in the Company if the Recapitalisation is approved is estimated as follows:</p> <table><tr><td></td><td>Low</td><td>High</td><td>Mid</td></tr><tr><td>Scheme Senior Lenders (controlling interests)</td><td>22.4%</td><td>37.2%</td><td>29.8%</td></tr></table> <p>This represents the return to Senior Lenders as a percentage of Gross Debt (refer Section 12.1 of this report for further details)</p>		Low	High	Mid	Scheme Senior Lenders (controlling interests)	22.4%	37.2%	29.8%
	Low	High	Mid							
Scheme Senior Lenders (controlling interests)	22.4%	37.2%	29.8%							
4	The return to Scheme Senior Lenders if the Recapitalisation is not approved	<p>The expected return from an insolvency of Slater & Gordon is highly uncertain due to the complexity of its operations across multiple sites and jurisdictions, together with risks of regulatory intervention.</p> <p>The return to Scheme Senior Lenders if the Recapitalisation is not approved is estimated as follows:</p> <table><tr><td></td><td>Low</td><td>High</td><td>Mid</td></tr><tr><td>Scheme Senior Lenders</td><td>2.0%</td><td>22.9%</td><td>12.4%</td></tr></table>		Low	High	Mid	Scheme Senior Lenders	2.0%	22.9%	12.4%
	Low	High	Mid							
Scheme Senior Lenders	2.0%	22.9%	12.4%							
5	The likely outcome for the Company should the Recapitalisation not be implemented	In our opinion, if the Recapitalisation is not approved, the Company would likely be placed into external administration.								

Source: KPMG Corporate Finance analysis.

Further details of the solvency analysis are detailed in Section 10 and 12 of this report.

4 Opinion for the Shareholders

In our opinion, having assessed the Recapitalisation in relation to Shareholders, we consider the Recapitalisation **to be fair and reasonable to Shareholders, in the absence of a superior proposal.**

In arriving at this opinion, we have considered the terms of the Recapitalisation. We have assessed whether the Recapitalisation is:

- *fair*, by comparing our assessed value of Slater & Gordon prior to the Recapitalisation, on a controlling interest basis, to our assessed value of a share in Slater & Gordon following completion of the Recapitalisation, on a minority (portfolio) basis
- *reasonable*, by assessing for Shareholders:
 - implications of the Recapitalisation
 - available alternatives to the Recapitalisation, and
 - the consequences of not approving the Recapitalisation.

The Recapitalisation of Slater & Gordon is being proposed in order to reduce the total secured debt to a sustainable level. This will enable the Company to continue to trade and operate and prevent a breach of the SFA and other finance documents. During FY16, Slater & Gordon experienced a significant decline in earnings as a result of underperformance of the UK business. As a result, during 2016, Slater & Gordon commenced operational restructure and performance improvement programs to improve profitability and cash performance. Despite this, the Company has struggled to meet its debt obligations and began negotiating with lenders to amend its debt facilities and recapitalise its business. Without the Recapitalisation, the current total secured debt cannot be sustained and a breach of the SFA would arise.

As a starting point, we have assessed whether the Recapitalisation is fair by comparing the value prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis. In our assessment of value we have not considered the distressed nature of the Company consistent with the requirements of RG 111.

We have valued the Pre-Recapitalisation and the Post-Recapitalisation value of Slater & Gordon as at the Senior Lender Scheme Implementation Date⁶ on a capitalisation of earnings approach, adopting a future maintainable earnings based on a reasonable maintainable earnings before interest, tax depreciation and amortisation (EBITDA) margin determined having regard to observable historical and future performance, comparable company analysis and discussions with Management.

In our valuation we have determined an implied maintainable earnings margin of the Company on the basis that it is a going concern. This has enabled us to assess what we considered a

⁶ Implementation Date means the earlier of the:

- a) fifth Business Day after the Effective Date, except in the case where the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), in which case the Implementation Date will be 5 January 2018; and
 - b) Sunset Date
- but, in any event, not earlier than the Business Day after the Calculation Date.

reasonable level of earnings expected for the business having regard to the inherent assumptions underlying our methodology and recognising the inherent uncertainties associated with future operations given the existing issues the business is facing.

Our valuation analysis indicates that Shareholders will be better off post the Recapitalisation. Fundamentally this arises because Slater & Gordon's current debt is significantly greater than the value of its assets Pre-Recapitalisation. On this basis, no value is attributable to Shares⁷ Pre-Recapitalisation, as the implied equity value is negative. However, Post-Recapitalisation the value is between \$0.003 per Share and \$0.011 per Share.

This outcome, particularly that no value is attributed to the Shares Pre-Recapitalisation, is not unexpected given the current position of Slater & Gordon and the current level of debt in the business.

In forming our opinion as to the reasonableness of the Recapitalisation, we have considered a number of factors relevant to Shareholders. The principal factors considered when determining the conclusion include:

- in our view the Recapitalisation represents the most superior option currently available to Shareholders. If the Recapitalisation is not approved, Slater & Gordon is at risk of becoming insolvent some time by May 2018 when the first three tranches of the SFA fall due, with the business likely to enter into external administration
- the significant de-risking of the business, with the de-coupling of the UK business from the Australian business, with the continuing structural issues that the UK business faces
- it reduces the net debt of the Company and provides a more sustainable capital structure and an improved liquidity over time to enable Slater & Gordon to continue to trade whilst the benefits of the operational restructure and the turnaround strategies are fully realised
- the removal of liquidity concerns may result in improved business performance as the Management can focus on improving operational results, rather than on the liquidity concerns as well as reducing the uncertainty for employees.
- the Shareholders' investments will be significantly diluted.

Other considerations such as the costs associated with the Recapitalisation had a lesser impact on our reasonableness conclusion. The key factors and other considerations are discussed in more detail in Sections 4.2 and 4.3 respectively of this report.

In relation to these matters, notwithstanding their subjective nature, we consider the benefits associated with the Recapitalisation to considerably exceed the negatives, particularly given the potential adverse effects should the Recapitalisation not be approved.

⁷ Share refers to the fully paid ordinary shares in the capital of the Scheme Company.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Recapitalisation is fair and reasonable are summarised in the remainder of Section 4 below.

4.1 The Recapitalisation is fair

Our fairness assessment has been based on comparing the value of a Share prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis. In our assessment of value we have not considered the distressed nature of the business consistent with the requirements of RG 111.

Whilst Anchorage and the Senior Lenders are not acquiring 100 percent of Slater & Gordon we are required to consider the value as if the offer was for full control. Therefore, we have assessed the value of a Share based on 100 percent ownership, having regard to synergies which would be generally available to a broad pool of potential purchasers.

We have applied a capitalised earnings approach to derive the value of Slater & Gordon on a controlling basis. Whilst Management forecasts were prepared, the capitalised earnings approach was adopted given the changes in the Company and recent challenges it faced as there is considerable uncertainty that the forecasts will be achieved or are sufficiently reliable. Therefore, the discounting of cash flows methodology has not been utilised for the purpose of valuing Slater & Gordon as the primary methodology.

The capitalisation of earnings approach is a commonly used method for valuing professional services businesses given the availability of comparable company and comparable transaction data. We consider EBITDA to be the most appropriate metric for the capitalised earnings valuation of Slater & Gordon's business operations. In adopting EBITDA, given the current underperformance, we have assessed the value of Slater & Gordon based upon an assessment of its potential maintainable earnings, whereby an implied maintainable earnings figure is assessed taking into account an estimate of Slater & Gordon's maintainable revenue and the earnings margin it may be able to achieve upon successfully implementing business efficiency improvement initiatives which would result in the business operating on a maintainable basis. To this, capitalisation multiples (which account for the costs in realising these initiatives) are applied to determine the fair value of Slater & Gordon. This, by necessity, has required an increased level of judgement as the comparative company and transaction date is based on actual and forecast earnings whereas our earnings are based on a "maintainable business" framework.

Under this approach, we estimate the implied control value of a Share, prior to the Recapitalisation, to be in the range of negative \$1.652 per share to negative \$1.194 per share, with the assessed value of a Slater & Gordon Share to be nil, as outlined in the table below.

Table 2: Slater & Gordon Valuation Summary - Pre-Recapitalisation analysis

\$ million	Report Section	Value range Pre-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.4.1.1	580.0	620.0
Maintainable business margin (EBITDA)	11.4.1.2	9.00%	9.50%
Maintainable earnings (EBITDA)		52.2	58.9
EBITDA multiple (on a controlling basis) (times)	11.4.2	4.0x	5.0x
Enterprise value of Slater & Gordon		208.8	294.5
Less: total debt as at 30 June 2017	11.6.1	(782.4)	(782.4)
Surplus assets: Watchstone claim amount		-	73.1
Implied equity value of Slater & Gordon		(573.6)	(414.7)
Issued shares (million) as at 30 June 2017	11.6.3	347.2	347.2
Implied equity value per share on a controlling basis (\$)		(1.652)	(1.194)
Assessed equity value per share on a controlling basis (\$)		nil	nil

Source: Slater & Gordon Management, Annual Reports and Half Year Reports, KPMG Corporate Finance analysis

Note: 1. GBP/AUD exchange rate of 1.63093 as at 1 September 2017 adopted
2. Tables may not add due to rounding.

Our enterprise value reflects 100 percent ownership of Slater & Gordon and incorporates a control premium. In assessing an appropriate premium for control in accordance with RG 111, we have only considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Slater & Gordon.

In adopting capitalised earnings as our primary methodology to value the Shares we have taken into consideration:

- the expected maintainable earnings of Slater & Gordon it may be able to achieve in the short to medium term, assuming the successful implementation of the business efficiency and other transformative initiatives to improve the business (refer to Section 11.4.1 of this report)
- our assessment of an appropriate earnings multiple to be applied to the selected maintainable earnings taking into consideration the nature of the business, growth expectations, risks and costs associated with achieving the forecast growth and other risks and exposure to changes in the industry and outlook (refer to Section 11.4.2 of this report)
- a control premium that reflects the current status of the operational restructure and the turnaround strategies that have already been implemented, the current underperformance of the Company and how this is likely to impact what a prospective purchaser would pay for the Company
- debt requirements, which has not had current cash balances used to offset against the total debt as the cash balances have been assumed to be needed for working capital given the nature of the operations and the short term cash requirements of the business
- the potential value of the claim against Watchstone. From discussions with Management and taking into consideration other publicly available information, the value of the Watchstone claim has been considered under the scenario that the claim is unsuccessful, for

the low value, to assuming the claim is successful after a positive court case with certain monies awarded as damages as the high value. This is discussed in detail in Section 11.6 of this report

- the issued Shares exclude the Shares that could be issued upon exercise of warrants issued as part of the amendment to the original SFA in 2016 as the number of Shares to be issued is currently undeterminable and there are specific circumstances in which the warrants can be exercised. However, the impact of including the warrants would be to further dilute the equity value per share (refer Section 9.7 of this report).

The key factors considered in our assessment of the value of Slater & Gordon are as follows:

- the changes in the industry and the compression of margins, particularly the underperformance of the UK division
- the stabilisation of the Australian industry, noting the entry of new competitors that are able to identify case files at an earlier stage of the value cycle through the use of advanced data analytics
- Slater & Gordon's generation of revenue via a number of channels including: direct to consumer marketing, relationship management and business development and claims management companies and insurers and insurance brokers
- new business generation in the personal injury sector does not depend on the delivery of a material number of clients in any one practice group or service line by individual lawyers. However there has been a number of resignations since the announcement of the Recapitalisation which may potentially impact operations
- the operational restructure and turnaround strategies to improve profitability and cash performance
- ability to maintain market share in the competitive market
- the strength of its brand.

In relation to the Pre-Recapitalisation implied equity value on a controlling basis, it is negative primarily because Slater & Gordon's outstanding debt is greater than the assessed enterprise value of the Company.

In contrast to the Pre-Recapitalisation equity value, we have set out below the value per Share Post-Recapitalisation, which is based on an equity value for a minority Shareholder and the number of Shares Post Recapitalisation.

This value per Share Post-Recapitalisation also takes into account the reduction of total debt (which incorporates certain Recapitalisation costs expected to be incurred and paid) and considers an estimate of the remaining cost of the Recapitalisation and restructure to be approximately \$0.8 million. The calculation of the value per Share Post-Recapitalisation is shown in the table below.

Table 3: Slater & Gordon Valuation Summary - Post-Recapitalisation analysis

\$ million	Report Section	Value range Post-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.5.1.1	205.0	215.0
Maintainable business margin (EBITDA)	11.5.1.2	14.0%	14.5%
Maintainable earnings (EBITDA)		28.7	31.2
EBITDA multiple (on a controlling basis) (times)	11.5.2	4.75x	5.25x
Enterprise value of Slater & Gordon		136.3	163.7
Less: net debt (working capital and senior secured debt facilities)	11.6.1	(111.0)	(106.0)
Estimated remaining Recapitalisation & restructure costs		(0.8)	(0.8)
Surplus asset: Watchstone Entitlement Amount	11.6.2	-	35.9
Equity value of Slater & Gordon on a controlling basis		24.5	92.7
Less: minority discount (16.67%) ²		(4.1)	(15.5)
Implied equity value of Slater & Gordon on a minority basis		20.4	77.3
Issued shares (million) Post-Recapitalisation	11.6.3	6,944.9	6,944.9
Implied equity value per share (\$)		0.003	0.011
Assessed equity value per share (\$)		0.003	0.011

Source: KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding

2. A 20.0% control premium translates into a 16.67% minority discount.

The Post-Recapitalisation valuation of Slater & Gordon reflects an equity value of Slater & Gordon on a minority basis reflecting the Australian operations only.

In adopting capitalised earnings as our primary methodology to value the Shares we have taken into consideration:

- the expected maintainable earnings Post-Recapitalisation that Slater & Gordon may be able to achieve in the short to medium term, assuming the successful implementation of the business efficiency and other transformative initiatives to improve the business. Specifically, as Slater & Gordon Post-Recapitalisation consists of the Australian operations only, the basis in determining the expected maintainable earnings is with reference to the maintainable revenue and maintainable EBITDA margin of the Australian operations (refer to Section 11.5.1 of this report)
- our assessment of an appropriate earnings multiple to be applied to the selected maintainable earnings taking into consideration the nature of the business, growth expectations, risks and costs associated with achieving the forecast growth and other risks and exposure to changes in the industry and outlook (refer to Section 11.5.2 of this report)
- a minority discount, as we are considering the value of the business on a non-controlling basis
- debt requirements. A range of \$106.0 million to \$111.0 million for net debt was adopted
- the potential value of the claim against Watchstone of which the Australian operations will be entitled to the first \$40.0 million from the payment of deferred consideration in respect of the transfer of the UK operations to UK HoldCo. From discussion with Management, and

taking into consideration other publicly available information, the value of the Watchstone claim has been considered under the scenario that the claim is unsuccessful, for the low value, to assuming the claim is successful after a positive court case with certain monies awarded as damages resulting in the \$40.0 million being paid to Slater & Gordon, Post-Recapitalisation, as the high value. This is discussed in detail in Section 11.6 of this report

- the issued Shares exclude shares which would be issued upon exercise of the warrants held by certain Senior Lenders pursuant to the SFA as the number of shares to be issued is currently undeterminable. However, the impact of including the shares issued upon exercise of the warrants, once the numbers to be issued are known, would be to further dilute the equity value per Share (refer Section 9.7 of this report)
- the share consolidation (100 to 1 conversion ratio) was not considered in our analysis as this resolution will be brought to Shareholders at the AGM and, regardless if the share consolidation is implemented or not, our overall opinion does not change.

We have cross-checked our Pre-Recapitalisation and Post-Recapitalisation value of Slater & Gordon by comparing it to a high level Discounted Cash Flow (DCF) approach and share trading analysis. In this regard:

- the implied discount rates ascertained from the values of Slater & Gordon Pre-Recapitalisation and Post-Recapitalisation and the forecast cash flow prepared by Management is within the range we would consider to be reasonable, noting the current performance of the business and the efforts required to improve the business performance
- the trading price for Shares is greater than our assessed valuation. In our view, this most likely reflects some optionality in terms of the timing of a turnaround of the business operations and restructure of the debt facilities as, based on current financial results, Slater & Gordon is not capable of meeting its present interest and principal obligations. As such we do not consider the trading price indicates that our valuation is not appropriate.

A comparison of the implied value per Share on a Pre-Recapitalisation and Post-Recapitalisation basis is outlined in the table below.

Table 4: Comparison of Value Pre and Post-Recapitalisation

\$ unless otherwise stated	Report Section	Value range	
		Low	High
Implied value per Slater & Gordon share Pre-Recapitalisation	4.1	(1.652)	(1.194)
Assessed value per Slater & Gordon share Pre-Recapitalisation	4.1	nil	nil
Implied value per Slater & Gordon share Post-Recapitalisation	4.1	0.003	0.011

Source: KPMG Corporate Finance analysis.

The implied value increases from a range of negative \$1.652 per Share to negative \$1.194 per share Pre-Recapitalisation (with a nil assessed value) to a range of \$0.003 per Share to \$0.011 per share Post-Recapitalisation. In calculating the Post-Recapitalisation equity value of Slater & Gordon we note:

- the SFA debt is compromised to \$60.0 million for the Australian operations following implementation of the Senior Lender Scheme

- the Senior Lenders receive an issuance of ordinary equity in Slater & Gordon as well as in the UK business
- New Super Senior Facilities totalling \$90.0 million are expected Post-Recapitalisation. Of this \$90.0 million, the GBP equivalent of \$25.0 million will be held by the UK business, with the remaining \$65.0 million provided to the Australian business.

This reduces the financial leverage of the Company sufficiently to create a positive equity valuation. A significant consequence of the Recapitalisation is that the Shareholders are no longer exposed to the UK operations and that there is also a significant dilution to current Shareholders' interest in the Company.

According to RG 111, the Recapitalisation should be considered fair if the value per share Post-Recapitalisation is equal to or higher than our assessed value of a Slater & Gordon share Pre-Recapitalisation.

In this respect, as the assessed value range per Share Pre-Recapitalisation is lower than our assessed value range for a Share Post-Recapitalisation, we therefore consider the Recapitalisation to be fair.

We have set out the valuation in further detail in Section 11 of this report.

4.2 The Recapitalisation is reasonable

An offer is deemed by RG 111 to be "reasonable" if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for Shareholders to accept the offer in the absence of any higher bid before the close of the offer.

4.2.1 Key factors

Outlined below are the key factors which would need to be taken into consideration when assessing the reasonability of the Recapitalisation.

In our view the Recapitalisation represents the most superior option currently available to Shareholders

In assessing the merits of the Recapitalisation, we have considered the relative attractiveness of other options available to Slater & Gordon. The Company and their financial advisers have reviewed a range of recapitalisation measures and other options, including:

- consensual restructuring
- refinancing of the current debt instruments
- capital raisings
- sale of assets
- maintaining the status-quo.

The Company sought the Senior Lenders' consent to restructure the obligations under the SFA however were unable to obtain the unanimous consent required to implement a consensual restructure of the obligations.

Both a refinancing of the current debt instruments or an extension of their maturities would not have resulted in a material and sustainable reduction in the financial obligations for Slater & Gordon. As such, future interest and principal payments would not have been reduced sufficiently. Also having sought offers, the Company has not received any feasible offers to refinance its current indebtedness.

Raising additional capital from existing Shareholders was considered. However, given the proximity to the Company's recent capital raising in 2015 for the PSD acquisition, current market capitalisation (being less than 5 percent of Slater & Gordon's outstanding debt), current trading performance and other prevailing market conditions, the Directors do not consider that a further capital raising exercise at this stage would raise sufficient funds to address the Company's current requirements.

It is not possible to maintain the status quo without a restructure. As stated previously, based on current financial results Slater & Gordon is not capable of meeting its present interest and principal obligations.

The proceeds from the sale of some or all of Slater & Gordon's assets is viewed by the Directors as insufficient to reduce the debt to a sustainable level, given the current performance of the group and the performance improvement requirements to be achieved by the Company.

The Recapitalisation is superior to all other options currently available to the Company and, according to the Directors, represents the only executable option for Slater & Gordon. It secures liquidity to continue the business without triggering an insolvency event, providing a sustainable level of senior secured debt and a stable platform for its future operations in Australia. It also gives Shareholders an opportunity to participate, although limited given the dilution of their interests, in a potential future upside pending any business performance improvements.

If the Recapitalisation is not implemented, Slater & Gordon will likely be at risk of becoming insolvent some time by May 2018 when the first three tranches of the SFA fall due. In such circumstances Shareholders could expect to realise zero value (refer to Section 10 of this report).

Post-Recapitalisation, Shareholders will only be exposed to the Australian operations and the Australia legal industry

The Senior Lender Scheme will result in an 'effective divestment' of the UK operations from the Australian operations, with Shareholders holding only shares in the Australian operations post implementation of the Senior Lender Scheme. Post the separation transition period, Shareholders will only be exposed to the Australian legal industry and the Australian operations, resulting in a change to the risk profile of the investment in Slater & Gordon with the exposure to the risks and opportunities of the UK operations removed. In addition, removing the UK operations strategically changes the investment as the market position and operations of the

Australian and UK businesses are substantially different. The risk and reward profile of the current investment in Slater and Gordon will change creating a number of factors to consider including that:

- it will enhance the opportunity and potential for Management to focus on, develop and execute their strategy for the Australian operations to maximise returns to Shareholders
- it will allow Management to focus on the Australian operations without potential for conflicting interests and capital allocation issues with the UK operations
- Management will be able to manage their financial policies, operational risks and capital structure having regard to the characteristics of the Australian operations only
- by removing the UK operations it may enhance the prospects of a change in control transaction, which may allow Shareholders to realise some additional value given the current underperformance of the operations
- it will improve EBITDA margins due to the removal of the lower effective margin UK operations
- there will also be a loss of geographical diversification inherent in the mix of business operations. Geographical diversification is based on the premise that markets in different parts of the world may not be highly correlated with one another.

The Recapitalisation provides Slater & Gordon with an improved financial viability over time

The Recapitalisation will reduce the secured debt owing by the Company to the Senior Lenders and will provide a more sustainable capital structure. The positive earnings impact of the Recapitalisation reflects the reduced interest payments due to the reduced debt obligations. Interest requiring capitalisation was \$42.2 million Pre-Recapitalisation. The reduced interest payments will help the Company's ongoing liquidity and ability to continue to trade and operate its business.

Taking into consideration the reduction in cash interest costs that the Recapitalisation will provide, which partially arises as a function of the facility structure, the Company should have significantly increased financial viability over the coming years.

The Recapitalisation reduces the indebtedness of the Company and provides a more sustainable capital structure

The Recapitalisation will extend the maturity profile of the debt instruments, reduce the indebtedness of the Company and will provide Slater & Gordon with greater certainty around planning in the current business. The reduced secured debt will provide a more sustainable capital structure for the Company.

The Recapitalisation provides certainty to Shareholders

Certainty over the secured debt reduces risk for the Company and Shareholders. Alternative options in the absence of the Recapitalisation, including potential insolvency, carry significant

uncertainty. In our view, alternative options are unlikely to result in Shareholders realising greater value than if the Recapitalisation is implemented.

The Recapitalisation and improved earnings position going forward will allow Management to focus on improving business performance and operational results.

Shareholders' investments will be significantly diluted

Shareholders' investments will be significantly diluted. Currently, they hold 100 percent of Slater & Gordon's ordinary equity, whereas Post-Recapitalisation they will hold approximately 5 percent. As such, Shareholders will have very limited ability to influence the future direction of the Company and may potentially have unmarketable parcels of Shares.⁸

Change of substantial shareholding and future intentions

Following the Recapitalisation, Anchorage will be the majority Shareholder and has the right to nominate four of the seven Directors of the Board⁹. Consequently Anchorage, will be able to influence the management and operations of Slater & Gordon and will have the ability to approve ordinary resolutions at shareholder meetings without the support of other shareholders.

4.3 Other considerations

In forming our opinion, we have also considered a number of other factors outlined below. Whilst we do not necessarily consider these to be advantages or disadvantages of the Recapitalisation, we consider it appropriate to address the following considerations in arriving at our opinion:

- under the RSD, the Board has agreed to undertake a Board renewal process which will enable the Senior Lenders, who will own approximately 95 percent of Slater & Gordon equity on implementation of the Recapitalisation, to elect new Directors. All existing Directors will resign in due course as new Directors are appointed
- costs associated with the Slater & Gordon schemes, being the Shareholder Claimant Scheme and the Senior Lender Scheme, are expected to be \$21.6 million (excluding GST) consisting of:
 - legal and advisory costs of \$15.0 million (of which part relates to the Shareholder Claimant Scheme), with an estimated \$11.5 million of transaction costs to be payable by Slater & Gordon in relation to the Recapitalisation regardless of whether the Recapitalisation is implemented. We note however that implementing any alternative option would also likely impose considerable costs on Slater & Gordon to implement

⁸ The ASX Listing Rules define an unmarketable parcel as those with a market value of less than \$500.

⁹ Board refers to the board of directors of the Scheme Company.

- other related payments of \$6.6 million (of which part relates to the Hall Proceeding Settlement)
- in executing the turnaround strategy and business improvement initiatives, Slater & Gordon has estimated that \$15.5 million of costs would be required to restructure the Company
- Anchorage and the Senior Lenders will have a collective ownership of approximately 95 percent of Slater & Gordon. It is likely that there will be limited liquidity in the remaining Shares. In addition, following the implementation of the Recapitalisation, Shares issued to the Senior Lenders will be subject to transfer restrictions under the voluntary escrow deeds which will restrict the Senior Lenders from dealing in these Shares until they are released from escrow
- without the support of Anchorage and the Senior Lenders, it is likely there would be a lower possibility of any other transaction emerging
- Slater & Gordon will receive up to \$40.0 million of the Watchstone Proceeds¹⁰ as a result of transferring the Shares in S&G UK to UK HoldCo (which will be wholly owned by the Senior Lenders following implementation), which will be used to pay down part of the New AUD Super Senior Facility
- we have not attributed any value to tax losses held by Slater & Gordon in our assessment of fairness given the difficulty typically experienced by potential purchasers in satisfying the tests which allow them to utilise the tax losses held by acquired businesses and the uncertainty as to the specific utilisation profile applicable to potential purchasers. More often than not, potential acquirers do not attribute material value to tax losses even though they may have value for the existing shareholders.

4.4 Implications if the Recapitalisation is not approved

The Board expects that if the Recapitalisation is not approved or implemented and the financial position of Slater & Gordon remains unchanged, it will likely need to place the Company into external administration by May 2018, which may lead to the appointment of receivers and managers. If the Company was to go into external administration or receivership, the Company may realise value through a range of different insolvency scenarios which could include:

- the Company continuing as a going concern and being sold to third parties (either as a whole or in parts)
- the Company (or parts thereof) being wound down/run off
- some combination of the above.

¹⁰ Watchstone Proceeds refers to the portion of the consideration which is a deferred cash payment of \$40 million and is contingent upon receipt by UK HoldCo or one of its subsidiaries of all or part of the Watchstone Entitlement Amount.

As pointed out in Section 4.2.1 of this report, the Company and its financial advisers have already considered several of these options in relation to the capital restructuring, none of which was seen as being superior to the Recapitalisation. Further, should the Company enter into insolvency we do not expect that Shareholders would receive any value for their Shares, given the assets of Slater & Gordon are not sufficient to fully satisfy its current secured debt obligations. The consequences of an insolvency on the Senior Lenders are detailed in Section 12.2 of this report.

We note also that if the Recapitalisation is not approved, some of the professional fees related to the Recapitalisation already incurred will be payable even if the Recapitalisation is not approved and will reduce Slater & Gordon's liquidity further. According to the Company, as at the time of this report, the majority of the costs and expenses in relation to the Recapitalisation will have been incurred.

In addition, there would be a risk that Slater & Gordon may not be able to satisfy the ASX that its financial condition is sufficient to permit continued trading of its Shares on the ASX. This may result in its shares being suspended from trading until a revised debt recapitalisation is proposed and implemented.

Further due to the inter-conditionality of the Senior Lender Scheme and the Shareholder Claimant Scheme, the Shareholder Claimant Scheme would not be implemented and Slater & Gordon would continue to be exposed to ongoing liability and litigation from Shareholder Claimants in relation to the trading in its Shares during the previous six years.

5 Opinion for the Shareholder Claimant Scheme

In our opinion, the Shareholder Claimant Scheme **is in the best interest of the Shareholder Claimants, in the absence of a superior proposal.**

In arriving at this opinion, we have assessed whether the Shareholder Claimant Scheme is:

- *fair*, by considering the financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be voted down relative to the financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be approved
- *reasonable*, by assessing for the Shareholder Claimants:
 - implications of the Shareholder Claimant Scheme
 - available alternatives to the Shareholder Claimant Scheme, and
 - the consequences of not approving the Shareholder Claimant Scheme.

The Shareholder Claimant Scheme is to assist with the facilitation of the Recapitalisation by protecting the interest of Slater & Gordon's clients, creditors, current and future Shareholders and other stakeholders having regard to the current financial position of Slater & Gordon. With the approval of the Shareholder Claimant Scheme, the Recapitalisation will be able to proceed which will result in Slater & Gordon reorganising its total secured debt to a sustainable level, as discussed in Section 4 of this report.

In considering fairness, it is important to understand that the maximum amount of damages that are likely to be available should the Shareholder Claimants take their claims to court and receive a favourable ruling, noting the subordinated nature of the claims and irrespective of the damages awarded, would be the indemnity amount available under the relevant insurance policies, which has been estimated at \$40.0 million, less legal and other associated costs for taking the matter to court.

Should the claims be settled as a result of the approval of the Shareholder Claimant Scheme, the gross amount that would form the basis for the distribution to Shareholder Claimants are the monies contributed by the insurance companies of the responsive director and officer insurance policies, which are in the order of \$32.5 million, less legal and other associated costs incurred. We also note that Hall Proceeding Claimants will be entitled to an additional \$4.0 million which will be funded through the drawdown of super senior debt.

Whilst proceeding with litigation appears to potentially result in a financial outcome that is more beneficial to Shareholder Claimants, after accounting for the differing underlying legal and other associated costs and expenses and accounting for the commission payable¹¹ to the Hall Proceeding's litigation funder, the net financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be approved is likely to be greater than the net financial position of the Shareholder Claimants should the Shareholder Claimant Scheme not be approved. As such, we consider that the Shareholder Claimant Scheme is fair.

In forming our opinion as to the reasonableness of the Shareholder Claimant Scheme, we have considered a number of factors relevant to Shareholder Claimants. The principal factors considered in forming the conclusion include:

- the approval of the Shareholder Claimant Scheme is a condition for the Recapitalisation to proceed
- the Shareholder Claimant Scheme is a credible commercial alternative to a lengthy, costly and uncertain litigation
- the Hall Proceeding Claimants, have agreed to support the Shareholder Claimant Scheme, which provides greater certainty that the scheme will be approved
- Shareholder Claimants relinquish their Shareholder Claims against Slater & Gordon and its Officers should the Shareholder Claimant Scheme proceed
- the conditions associated with the Shareholder Claimant Scheme results in Shareholders' claims being extinguished and limited to an entitlement to prove against and share in the Scheme Fund and a reduction in their ability to pursue Shareholder Third Party Claims that are not Permitted Claims.

¹¹ Which may be in the order of 20 percent to 45 percent, based upon rate information considered by the Federal Court of Australia, Access to Justice – Litigation Funding and Group Proceedings Consultation Paper July 2017 and Advanced Issues in Class Action presentation – IMF Bentham 10 March 2016.

In relation to these matters, notwithstanding their subjective nature, we consider the benefits associated with the Shareholder Claimant Scheme to exceed the negatives particularly given the potential adverse effects should the Shareholder Claimant Scheme not be approved.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Shareholder Claimant Scheme is fair and reasonable are summarised in the remainder of Section 5 below.

5.1 The Shareholder Claimant Scheme is fair

Our fairness assessment of the Shareholder Claimant Scheme is based upon the likely net financial position of the Shareholder Claimants assuming the Shareholder Claimant Scheme is not approved, relative to the net financial position of the Shareholder Claimants assuming that the Shareholder Claimant Scheme is approved. We note that where the Shareholder Claimant Scheme is approved, a scheme fund will be established. This is discussed in more detail in Section 13 of this report.

As part of our assessment, we have considered the status of the Shareholder Claims¹² with respect to the Corporations Act, particularly with reference to the definition of a “subordinated claim” and how subordinated claims are treated, with reference to Section 563A (2) and Section 563A (1) of the Corporations Act respectively, and the potential proceeds that are available to subordinated claims, with reference to Section 562 of the Corporations Act. These considerations are discussed in detail in Section 13.3 of this report.

From our analysis, the net proceeds that would be available to the Shareholder Claimants would be related to the indemnity available under relevant responsive director and officer insurance policies, less commissions payable to any litigation funder¹¹ associated with the claim, as well as legal and other associated costs of litigation. Irrespectively, as a consequence of using a litigation funder, the funder would receive the agreed upon commission (which is usually a percentage of the pool awarded to claimants) should the claim settle or is successfully litigated in court.

From discussion with Management, we have been advised that the available proceeds from the relevant insurance policies is estimated to be \$40.0 million, whilst the potential costs for each claim made against the Company may be in the order of 50 cents up to 75 cents of the dollar of the maximum amount of funds available to satisfy the damages awarded, excluding the

¹² Any Claim against the Scheme Company arising from or in connection with any fact, matter, circumstance or event occurring at any time in the 6 year period on or before the Proof Lodgement Date and which arises:

- a) in a person's capacity as:
 - i. a member of the Scheme Company (including as a Shareholder); or
 - ii. a holder or beneficiary (whether directly or indirectly) of any Security or Financial Product in the Company; or
- b) from a person buying, acquiring, holding, selling, transferring, converting or otherwise dealing (whether directly or indirectly) in any Shares, Security or other Financial Product in the Company.

commission payable to the associated litigation funder. Therefore, should the litigation be successful, the net proceeds (excluding the commission payable to the litigation funder) that may be available to Shareholder Claimants, assuming a single claim is made against the Company, may be in the order of \$10.0 million to \$20.0 million.

Should the Shareholder Claimant Scheme be approved, a pool of funds will be established with the benefits of the fund to be distributed amongst Shareholder Claimants that prove their claim. The total funds available to be distributed to all Shareholder Claimants is based upon a \$32.5 million contribution from relevant Slater & Gordon insurers, less legal costs incurred by Maurice Blackburn and the litigation funder's commission (Scheme Fund). From the Scheme Fund, running costs associated with the Shareholder Claimant Scheme will be deducted, which have been estimated to be in the order of \$0.75 million to \$1.25 million. Additionally, \$4.0 million from the New AUD Super Senior Facility will be distributed amongst the Hall Proceeding Claimants as part of the Hall Proceeding Settlement. From discussion with Management it is unlikely that estimated legal costs associated with the claims, should the claims be settled as a result of the approval of the Shareholder Claimant Scheme, would be greater than \$3.0 million. Further, from a copy of the notice of opt out and proposed settlement issued by Maurice Blackburn to its group members on 25 September 2017, the notice states that the applicant intends to ask the Court to approve payment of litigation funding costs of \$8.25 million.

As such, the Shareholder Claimants' net financial position should:

- if the Shareholder Claimant Scheme is approved, result in the Shareholder Claimants collectively receiving the Scheme Fund less scheme running costs of \$0.75 million to \$1.25 million. Additionally, the Hall Proceeding Claimants will receive \$4.0 million (less legal costs and litigation commission payable) to be distributed amongst themselves. Assuming legal costs are in the order of \$3.0 million, litigation funding costs of \$8.25 million and scheme running costs are at the high end of the range at \$1.25 million, funds available to be distributed to Shareholder Claimants are in the order of \$20.0 million, which is payable to Shareholder Claimants upon proof of claim
- if the Shareholder Claimant Scheme is not approved, and assuming that the proceedings against Slater & Gordon continues and are successful, would result in gross damages of up to \$40.0 million. From this pool the litigation funder would receive their commission, and legal and other associated costs, which may be in the order of 50 cents to 75 cents to the dollar of maximum damages payable per claim, would be deducted. Notwithstanding the litigation funders commission, this results in the Shareholder Claimants, assuming a single claim is made, receiving \$10.0 to \$20.0 million at the end of the litigation proceedings should the court rule favourably to the claimant, which may take up to several years. We note that to date, two class action claims are currently on foot against Slater & Gordon, and one potential claim notified, so the recovery may be less than if only one claim had been filed.

Based upon the net financial position of the Shareholder Claimants outlined above, the Shareholder Claimants are likely to be in a financially superior position should the Shareholder

Claimant Scheme be implemented, and as such, in our opinion the Shareholder Claimant Scheme is fair.

5.2 The Shareholder Claimant Scheme is reasonable

An offer is deemed by RG 111 to be “reasonable” if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

In this situation, we have detailed the key factors which would need to be taken into consideration when assessing the reasonability of the Shareholder Claimant Scheme.

5.2.1 Key factors

Failure of the Recapitalisation is avoided

The approval of the Shareholder Claimant Scheme is a condition to the Recapitalisation proceeding. We consider the Recapitalisation to be fair and reasonable to Shareholders. As such for those Shareholder Claimants who are also current Shareholders, we consider it also appropriate that they support the Shareholder Claimant Scheme.

The Shareholder Claimant Scheme represents a credible commercial alternative to a potentially lengthy, costly and uncertain litigation

By approving the Shareholder Claimant Scheme, the time required to litigate the claim, the associated costs and the uncertain outcome of the litigation is avoided. Shareholder Claimants benefit from increased certainty with a documented process on how the scheme would work and with a benefit that is defined which will be made available to the Shareholder Claimants upon approval of the Shareholder Claimant Scheme.

A key Shareholder Claimant, the Hall Proceeding Claimants, have agreed to support the Shareholder Claimant Scheme

With the Hall Proceeding Claimants agreeing to support the Shareholder Claimant Scheme, the likelihood of the Shareholder Claimant Scheme proceeding is significantly increased.

The approval of the Shareholder Claimant Scheme would limit future claims Shareholder Claimants may wish to pursue against Third Parties

Whilst Shareholder Claimants will retain the rights to commence claims that they may have against a Third Party¹³ arising out of or in connection with a Shareholder Claim, provided those claims are commenced in the Federal Court of Australia, are apportionable claims by operation of the Proportionate Liability Provisions¹⁴ and Third Parties against whom those claims are commenced do not have a contractual right of indemnity or contribution against Slater & Gordon, by approving the Shareholder Claimant Scheme, Shareholder Claimants relinquish

¹³ any person who is not a Released Person.

¹⁴ As defined in Section 10 of the Shareholder Claimants Explanatory Statement.

their claims against Slater & Gordon and its Officers, provides release to the Released Persons,¹⁵ provide an extensive indemnity to Released Persons and may limit their ability to pursue Shareholder Third Party Claims¹⁶.

5.3 Implications if the Shareholder Claimant Scheme is not approved

In the event the Shareholder Claimant Scheme is not approved, the Shareholder Claimants would proceed with the litigation process. Further, they may still receive monies should the court award the Shareholder Claimants damages. However, as noted in Section 5.1 of this report, the likely financial benefit to the Shareholder Claimants, once legal and other associated costs have been accounted for, is likely to be less than the net financial position of the Shareholder Claimants should the Shareholder Claimant Scheme be approved. We also note that the conclusion of any litigation process may take several years.

Further, on this basis, the Recapitalisation would not proceed as the approval of the Shareholder Claimant Scheme is a condition of the Recapitalisation proceeding. This would likely lead the Board to place the Company into voluntary administration in May 2018, which may lead to the appointment of receivers and managers. The outcome of this situation is discussed in Section 4.4 of this report.

6 Other matters

In forming our opinions, we have considered the interests of Shareholders, the Senior Lenders and the Shareholder Claimants, as a whole, (Securityholders). This advice therefore does not consider the financial situation, objectives or needs of individual Securityholders. It is not practical or possible to assess the implications of either the Recapitalisation or the Shareholder Claimant Scheme on individual Securityholders as their financial circumstances are not known. The decision of Securityholders as to whether or not to approve the Recapitalisation and the Shareholder Claimant Scheme is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Securityholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Securityholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Corporations Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Securityholders in considering the Recapitalisation and Shareholder Claimants in considering the Shareholder Claimant Scheme. We do not assume

¹⁵ Released Persons means the company, its related bodies corporate and their related entities and any present and past officers, employee, servant or agent of these entities.

¹⁶ Any Claim against a Third Party arising from, or in connection with, a Shareholder Claim, including Permitted Claims and Claims against Third Party Respondents who may seek contribution or indemnity from the Company.

any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of Meeting, Explanatory Memorandum, Senior Lenders Explanatory Statement, Shareholder Claimants Explanatory Statement, and scheme documents to be sent to the Securityholders in relation to the Recapitalisation or sent to Shareholder Claimants in relation to the Shareholder Claimant Scheme, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Notice of Meeting, Explanatory Memorandum, Senior Lenders Explanatory Statement, Shareholder Claimants Explanatory Statement, and other scheme documents.

We released a draft report to Slater & Gordon on 20 July 2017, outlining our valuation, assessment and opinion of the Recapitalisation as at that point in time. We released that draft report to Slater & Gordon at that time to enable it to be provided to ASIC in accordance with the transaction timetable as it existed at the time. Subsequent to the release of our draft report, the structure of the Recapitalisation was amended. Further, new information relating to the Company, its direct competitors and the industry in which it operates was released to the market which impacted upon our assessment of the enterprise value of Slater & Gordon. As such, our valuation and assessment on the Recapitalisation has been updated to reflect the new information, however we note that our overall opinions in relation to the Recapitalisation has not changed from that set out in the draft report released to Slater & Gordon on 20 July 2017.

Our opinions are based solely on information available as at the date of this report as set out in Appendix 2 of the report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 8.3 of this report.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this report, including the appendices.

Yours faithfully



Ian Jedlin
Authorised Representative



Joanne Lupton
Authorised Representative

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7 The Recapitalisation and Shareholder Claimant Scheme

On 29 June 2017, Slater & Gordon announced it had entered into a RSD with its Supporting Lenders to undertake a Recapitalisation. Subsequently on 10 July 2017, the Company entered into a Heads of Agreement in relation to the Hall Proceeding in order to manage claims brought against the Company by Shareholder Claimants in relation to the acquisition of Shares within a certain 6 year time frame so as to facilitate the Recapitalisation. On 21 September 2017, a binding settlement deed in relation to the Hall Proceeding was announced. The Company will seek to implement the Hall Proceeding Settlement via a creditor's scheme of arrangement between Slater & Gordon and its Shareholder Claimants.

Further to its announcement on 29 June 2017, Slater & Gordon advised on 31 August 2017 that it has entered into an amended binding RSD with 100 percent of its Senior Lenders in relation to the 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 RSD.

The key terms of the Recapitalisation involves the following:

- *Working Capital Facility:* The Senior Lenders have committed to increase the Company's existing \$40 million working capital facility as announced on 5 May 2017 by the Super Senior Incremental Facilities. The additional funding will be available for drawdown prior to and following the Recapitalisation. The additional funding will comprise the Super Senior AUD Incremental Facility and the Super Senior GBP Incremental Facility. The Super Senior 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.
- *Separation of the United Kingdom (UK) Operations:* On implementation of the Senior Lender Scheme, all UK operations and UK subsidiaries will be separated from the Company and transferred to 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. The Shareholders will retain the opportunity to participate in future value associated with the Australian business only. As a result of this, the Super Senior Secured Facilities will be separated into a \$65 million 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 Super Senior GBP Incremental Facility) with S&G UK for the UK business. These replacement facilities are to be entered into on implementation of the Recapitalisation.

- *Watchstone¹⁷ Entitlement Amount:* 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 \$40 million of any proceeds that S&G UK receives from Watchstone-related claims. These proceeds will be applied first to reduction of the Company's New AUD Super Senior Facility.
- *Issue of shares in the Company to Senior Lenders:* On implementation of the Senior Lender Scheme, Senior Lenders will be issued with approximately 95 percent of the equity in the Company. The existing Shareholders will hold approximately 5 percent 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 Super Senior AUD Incremental Facility and the New AUD Super Senior Facility.
- *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:
 - New AUD Super Senior Facility (\$65 million): The facility will have a three year term and will be used to refinance the AUD-denominated amounts owing under the existing super senior facility and for working capital purposes
 - Restated Facilities (\$60 million): \$60 million of senior secured debt under the Company's existing SFA following implementation of the Recapitalisation will be refinanced on substantially the same terms but amended with a five year term with PIK interest accrued but not payable until the facility has been repaid, amongst other changes.
- *Debt Facilities (UK):* In respect of the UK operations (which will be owned 100 percent by the Senior Lenders following implementation of the Recapitalisation), S&G UK's debt facilities on implementation of the Recapitalisation will be as follows:
 - New GBP Super Senior Facility (\$25 million): Aggregated principal amount equal to the commitments made available under the Super Senior GBP Incremental Facility. This facility will be denominated in GBP, will have a three year term and will be used for working capital purposes.
 - Convertible Notes (£250 million): S&G UK will issue interest-free convertible notes to the Senior Lenders. The convertible notes will entitle the holders to payment of any amounts, up to £250 million, received by S&G UK in respect of the net proceeds of Watchstone-related claims above \$40 million and certain net proceeds of any asset divestments and insurance proceeds received in respect of the UK operations.

¹⁷ Watchstone plc, formerly Quindell plc.

The Recapitalisation is intended to provide the Company with a sustainable level of senior secured debt and a stable platform for its future operations in Australia and provide sufficient financial flexibility for the Company's strategic or operational initiatives.

The Recapitalisation will be implemented via a Senior Lender Scheme. We also note that in conjunction with the Recapitalisation, the Shareholders will consider a 100-1 share consolidation.

In relation to the Shareholder Claimant Scheme, a Scheme Fund of \$32.5 million (funded by Slater & Gordon's insurers), less legal and associated costs, will be distributed to Shareholder Claimants. An additional \$4.0 million, sourced from the New AUD Super Senior Facility, will be distributed amongst the Hall Proceeding Claimants as per the Hall Proceeding Settlement Deed.

Under the RSD, the Board has agreed to undertake a board renewal process which will enable the Senior Lenders, who will own approximately 95 percent of the Company's equity on implementation of the Recapitalisation, to elect new Directors. All existing Directors will resign in due course as new Directors are appointed.

Following the Recapitalisation, the Board will comprise seven Directors. Anchorage will be entitled to nominate four non-executive Directors, other members of the Majority Supporting Lenders (excluding Anchorage) will be entitled to nominate two non-executive Directors, and the Majority Supporting Lenders together (including Anchorage) will be entitled to nominate the other Director.

In addition, under the RSD, a new management incentive plan in respect of the Australian business (on terms to be developed) will be implemented with the intention that it will allow for the economic equivalent of up to 10 percent 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 (Post-Recapitalisation) who contribute to its future success.

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.

There are also transfer restrictions as part of the Recapitalisation requiring the Senior Lenders to collectively retain ownership of the equity and debt facilities until, for the Australian equity and debt instruments, the release of the Company's FY19 half results, except that the transfer restrictions relating to the equity in Slater & Gordon will apply to Anchorage until the release of the Company's FY19 full year results.

The Directors have indicated that they unanimously support entry into the RSD and the proposed terms of the Recapitalisation. The Directors unanimously recommend that the Senior Lenders and Shareholders vote in favour of all resolutions required to approve the Recapitalisation and that each Director intends to vote all Shares held or controlled by them in favour of the Recapitalisation in the absence of a superior proposal, subject to 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 impact of the Recapitalisation on Slater & Gordon’s statement of financial position is discussed in further detail in Section 10 of this report.

7.1 Conditions

The Recapitalisation is subject to a number of conditions which are set out in full in the Explanatory Memorandum (Section 5.7) and in the Senior Lenders Explanatory Statement (Section 7). The key conditions of the Recapitalisation are:

- the Senior Lender Scheme and Shareholder Claimant Scheme are approved at the scheme meetings by the requisite majorities
- Shareholders approve the required resolutions at the Annual General Meeting by the requisite majorities
- court approval of the Senior Lender Scheme, the Shareholder Claimant Scheme¹⁸ and the Hall Proceeding Settlement
- the Company obtaining all other relevant regulatory approvals, authorisations, consents or waivers, including from ASX and ASIC
- the Senior Lenders obtaining Foreign Investment Review Board (FIRB) approval
- each party to a ‘Business Separation and Transitional Arrangements Agreement’ 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 Lenders Scheme
- 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
- 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
- all material authorisations required to complete the Recapitalisation have been granted or obtained and have not been withdrawn, cancelled or revoked
- there are no legal or regulatory restraint that prohibits, materially restricts, makes illegal or restrains the implementation of the Senior Lender Scheme

¹⁸ The Shareholder Claimant Scheme’s purpose is to extinguish all Shareholder Claims (including those currently filed, or proposed to be filed, against the Company). The Senior Lender Scheme and the Shareholder Claimant Scheme are inter-conditional.

- the Company has obtained the consent from each person who is entitled to exercise any right under any provision of 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
- deeds poll entered into by certain third parties continue to benefit the beneficiaries named in those deed polls and those deeds poll have not been terminated.

We note the full conditions precedent and other necessary steps for the Senior Lender Scheme are set out in the Senior Lenders Explanatory Statement (Section 3 and Section 7 respectively).

The RSD also contains customary exclusivity provisions including no shop, no talk and no due diligence restrictions, a notification obligation, termination of any discussions with any third party, and a matching right, subject to the Directors' fiduciary obligations and debt standstill provisions.

The RSD can also be terminated by either the Company or the Majority Supporting Lenders in the event that a condition precedent becomes incapable of being satisfied by 31 December 2017, or if the parties are not able to reach agreement on how to proceed with the Recapitalisation following a period of consultation.

The conditions precedent of the Shareholder Claimant Scheme are detailed in Section 6.2 of the Shareholder Claimants Explanatory Statement and include:

- the Shareholder Claimant Scheme being approved by the requisite majority
- all the necessary Court approvals are obtained for the Senior Lender Scheme, Shareholder Claimant Scheme and the Hall Proceeding Settlement
- the satisfaction or waiver of any conditions made or required by the Hall Proceeding Settlement Deed in respect of the Hall Proceeding Settlement
- any other conditions made or required by the Court under Section 411(6) of the Corporations Act in relation to the Shareholder Claimant Scheme have been satisfied
- the Shareholder Claimant Scheme becomes Effective.¹⁹

¹⁹ Effective means, the coming into effect, pursuant to Section 411 (10) of the Corporations Act, of the Second Court Orders.

8 Scope of the report

8.1 Purpose

As mentioned in Section 2 of this report, Slater & Gordon requires an IER pursuant to Section 411 of the Corporations Act.

Section 411 of the Corporations Act

The Directors have requested KPMG Corporate Finance to prepare a report in accordance with Section 411 of the Corporations Act and the guidance provided by ASIC.

Section 411(3) of the Corporations Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Corporations Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

8.2 Basis of assessment

Requirement under Section 411 of the Act

Part 3 of Schedule 8 to the Corporations Regulations 2001 (Cth) (Corporations Regulations) specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30 percent of the company; or
- where the parties to the reconstruction have common directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

Even where an independent expert's report is not strictly required by the law, it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member.

This report is to be included in the:

- explanatory statement to be sent to the Senior Lenders and has been prepared for the purpose of assisting the Senior Lenders in their consideration of the Senior Lender Scheme
- explanatory statement to be sent to Shareholder Claimants and has been prepared for the purpose of assisting the Shareholder Claimants in their consideration of the Shareholder Claimants Scheme.

In undertaking our work, we have referred to RG 111 which indicates the principles and matters which it expects a person preparing an IER to consider. The analysis considers whether the transaction is "fair and reasonable" and, as such, incorporates issues as to value. In particular:

- ‘fair and reasonable’ is not regarded as a compound phrase
- an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- an offer is ‘reasonable’ if it is ‘fair’
- an offer might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the shares subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100 percent ownership of the ‘target’, irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target prior to the bid. That is, RG 111 requires the value of the target to be assessed as if the bidder was acquiring 100 percent of the issued equity (i.e. on a controlling interest basis). In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect ‘special value’ that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of Slater & Gordon, we have considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of Slater & Gordon. As such, we have not included the value of special benefits that may be unique to the bidder. Accordingly, our valuation of Slater & Gordon has been determined without regard to the specific bidder, and any special benefits have been considered separately.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer, such as:

- the bidder’s pre-existing shareholding in the target
- other significant shareholdings in the target
- the liquidity of the market in the target’s shares
- any special value of the target to the bidder
- the likely market price of the target’s shares in the absence of the offer
- the likelihood of an alternative offer being made
- any other advantages, disadvantages and risks associated with accepting the offer.

In forming our opinion, we have considered the interests of Shareholders as a whole. As an individual Shareholder’s decision to vote for or against the proposed resolutions may be influenced by their particular circumstances, we recommend each Shareholder consult their own financial advisor.

8.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Slater & Gordon for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of Management. In addition, we have also had discussions with Management in relation to the nature of Slater & Gordon's business operations, their specific risks and opportunities, their historical results and prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Slater & Gordon has been responsible for ensuring that information provided by it or its representatives is not false, misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by Management. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, Slater & Gordon remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however, we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

The Directors are responsible for conducting due diligence in relation to the Group. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We

have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

8.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Slater & Gordon has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to forward looking financial information. This request has been made on the basis of the commercially sensitive and confidential nature of the forward looking financial information of Slater & Gordon. As such the information in this report has substantively been limited to the type of information that is regularly placed into the public domain by Slater & Gordon.

9 Profile of Slater & Gordon

9.1 Background

Slater & Gordon was founded in Victoria, Australia in 1935 by Bill Slater and Hugh Gordon, with the objective of servicing the legal needs of unions and their members. It focussed on workers compensation and developing its industrial and employment law practice, and was later involved in a number of landmark cases. A summary of Slater & Gordon's history to date is discussed below, with key events detailed in Appendix 3.

Australian growth

Slater & Gordon began to expand nationally, opening offices in Perth in 1985 and Sydney in 1986.

As a result of changes in law practice ownership laws, Slater & Gordon was incorporated in 2001 and increased its national presence by opening offices in Queensland and the Australian Capital Territory (ACT) in 2003, Adelaide in 2007 and Hobart in 2009.

In the two years leading up to Slater & Gordon's listing it completed five transactions to expand operations in New South Wales (NSW) and the ACT. The acquired firms predominantly practiced Personal Injury (PI) law, but also presented an opportunity to extend Slater & Gordon's service offering in General Law (GL). In 2007, Slater & Gordon listed on the ASX, with 17 offices across Australia, operating in all capital cities with the exception of Hobart and Darwin.

The purpose of listing was to provide existing shareholders an exit opportunity, to pay down existing debt facilities and to position Slater & Gordon to continue its proposed growth strategy, including consolidating the PI market through acquisitions. At the time, the PI market presented an opportunity for consolidation as:

- most states liberalised law firm ownership legislation in the period between 2001 and 2006
- the market was highly fragmented with no dominant players
- the industry exhibited characteristics that would provide opportunities to generate economies of scale.

In the years following listing, Slater & Gordon continued consolidating the PI market, completing another 24 material transactions, predominantly Australian based practices focussed on PI, as highlighted in Appendix 3. In 2011, the UK liberalised law firm ownership, presenting Slater & Gordon an opportunity to expand globally. At the time, the UK's PI market displayed similar characteristics as the Australian market did in the mid-2000s, which encouraged Slater & Gordon's expansion into the UK.

Expansion into the UK

The expansion into the UK was announced on 30 January 2012 with the acquisition of Russell, Jones and Walker (RJW) for total consideration of £53.8 million, which comprised cash (£36.4 million debt funded) and scrip (£17.4 million). As a result, Slater & Gordon's debt facilities

increased from \$89 million to \$160 million to cover the transaction and provide additional capacity for future growth. The deal provided Slater & Gordon with a partner that had origins in the UK dating back to the 1920s.

On 30 March 2015, Slater & Gordon announced its largest transaction to date, the acquisition of Quindell Plc's (Quindell) Professional Services Division (PSD) for upfront cash consideration of £637 million and an earn-out based upon the performance of PSD's legacy NIHL²⁰ case portfolio. At the time of the announcement, Quindell, a listed entity on the UK's Alternative Investment Market (AIM) stock exchange, had been subject to investor queries primarily related to its accounting practices, which saw its share price fall 78 percent from a peak of £66.00 as at 19 February 2014. Despite this, the deal was viewed as an opportunity to acquire a business with established routes to market via Claims Management Companies (CMCs) and relationships with insurers and insurance brokers. During the course of due diligence, Slater & Gordon became interested in ancillary business units within Quindell which had the potential to introduce and provide personal injury clients with complementary service offerings. The deal was funded through an \$890 million capital raising and \$375 million of fully underwritten bank debt.

Financial distress

Shortly after completing the PSD acquisition, Slater & Gordon's share price came under market pressure as ASIC opened an investigation into its FY14 and FY15 financial statements and the Financial Conduct Authority in the UK opened an investigation into Quindell in relation to public statements made regarding Quindell's FY13 and FY14 financial accounts. The Serious Fraud Office launched a criminal investigation into Quindell in August 2015. Market pressure increased as the British Chancellor announced proposed small claims reforms in November 2015. As a result of the underperformance of the UK business, Management withdrew FY16 forecast guidance in December 2015. Further detail on the proposed small claims reforms is provided in Appendix 4.

During 2016, Slater & Gordon commenced an operational restructure and turnaround strategies to improve profitability and cash performance. Despite this, the business struggled to meet its debt obligations and began negotiating with lenders to amend its debt facilities and recapitalise the business.

On 13 October 2016, after an approximate 90 percent share price decline between 30 March 2015 and 24 February 2016, Slater & Gordon was served with a shareholder class action. Maurice Blackburn, acting for the class, sought compensation for Shareholders who purchased Shares during this period, claiming there was inadequate due diligence in relation to the PSD acquisition, inadequate risk disclosure and the lowering of earnings and revenue guidance weeks after Management had reaffirmed them (the Hall Proceeding). Subsequent to this, on 24 May 2017, Slater & Gordon announced that it was served with an application to the Federal Court issued on behalf of Mr Delaney by his solicitor ACA Lawyers (the Delaney Application).

²⁰ Noise Induced Hearing Loss claims.

The Delaney Application sought orders from the Federal Court that Mr Delaney and his advisors be provided with notice of steps taken in the court ordered mediation of the Hall Proceeding. The applicants covered by the Delaney Application were considering bringing claims against Slater & Gordon on a basis similar, but not identical, to the claims which were the subject of the Hall Proceeding.

On 20 June 2017, Slater & Gordon was served with a separate class action. Johnson Winter & Slattery Lawyers, acting for the class, sought compensation for shareholders who purchase shares between 24 August 2012 and 19 November 2015 (the Babsday Proceeding). The statement of claim asserts that Slater & Gordon's financial statements for the financial years ended 30 June 2013, 2014 and 2015 contained false and/or misleading statements, allegations Slater & Gordon vigorously denies.

On 29 June 2017, Slater & Gordon announced, in addition to the binding RSD it had entered into with its lenders, that the Slater & Gordon Board had agreed to undertake a board renewal process in due course as a result of the Recapitalisation. Andrew Grech would step down from his position as Group Managing Director effective immediately, whilst remaining a Non-Executive Director over the short term and that Hayden Stephens and Ken Fowlie would continue to lead the Australian and UK businesses respectively, with all Slater & Gordon group functions to now report through to Hayden Stephens.

On 11 July 2017 Slater & Gordon announced an in principle conditional settlement of the Hall Proceeding and related shareholder claims, through a mediation process facilitated by the Federal Court. The conditional in principle settlement will also resolve any and all potential Shareholder Claims (as noted above) against the Company and its Directors and Officers. The Hall Proceeding, and other claims against Slater & Gordon, will be addressed by the Shareholder Claimant Scheme.

More recently, on 31 August 2017 Slater & Gordon announced it intended, through the Recapitalisation, to separate the Australian and the UK operations, which would result in the Group Financial Officer role no longer existing. On 21 September 2017, Slater & Gordon announced it had appointed Ms Belinda Nucifora as Slater & Gordon's Chief Financial Officer, who will commence with the Company on 2 October 2017. Further, on the same day, the Company announced that they had entered into a binding agreement to settle the Hall Proceeding.

Today, Slater & Gordon continues with the integration of PSD into the UK operations, its operational restructure, turnaround strategies and recapitalisation of the business.

9.2 Strategy

Slater & Gordon's objective is to provide people with easier access to legal services at a reasonable cost by consolidating segments of the legal market that can be highly systemised, to create economies of scale, while still providing highly specialised services. Slater & Gordon has entered and expanded into these market segments through a combination of acquisition and organic growth.

In recent years, Slater & Gordon acquired a large number of firms in order to generate scale within the Personal Injury Law (PIL) market. It also completed acquisitions of GL practices and expanded geographically, both within Australia and into the UK, in order to diversify its revenue base.

Slater & Gordon's new business generation does not depend on the delivery of material numbers of clients in any one practice group or service line by key people. Whilst people are critically important to service delivery, which in itself underpins the brand's strength, the Company is generally not dependent on individual lawyers to deliver ongoing new clients although there are practice areas where key relationship managers are important, such as the Australian union services and industrial law practice. Slater & Gordon goes to market via the following channels:

- direct to consumer marketing
- relationship management and business development
- claims management companies and insurers and insurance brokers.

As such, the development and maintenance of Slater & Gordon's brand in the marketplace is key to its success.

The recent financial distress of Slater & Gordon has resulted in Management reconsidering its immediate strategic objectives. Currently it is seeking to:

- restore earnings and cash flow through operational effectiveness and cost out initiatives in the Australian business
- continue to improve the UK's business operations through the execution of the company's turnaround strategy in the UK, which includes:
 - streamlining the organisational design and operation
 - rationalisation of marketing and new business investment
 - the enhancement of process and systems
 - maintaining communications and employee engagement throughout this process.

9.3 Business operations

Slater & Gordon's headquarters are in Melbourne, Victoria. As at 30 June 2017, Slater & Gordon employed 4,210 staff in 71 office locations (not accounting for the impact of redundancies between 30 June 2017 and the Scheme implementation). It specialises in PIL and GL services and also offers a range of complementary services in the UK.

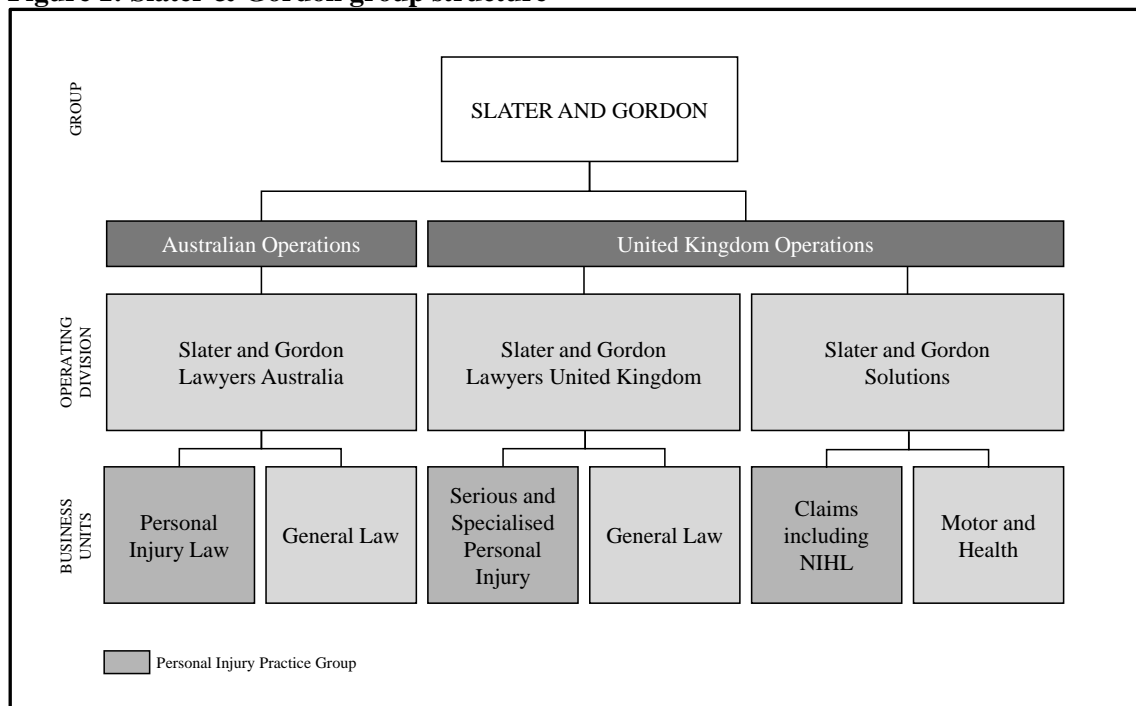
Slater & Gordon's operations are divided into the following operating divisions:

- Slater & Gordon Lawyers – Australia (SGL-A)
- Slater & Gordon Lawyers – United Kingdom (SGL-UK)

- Slater Gordon Solutions (SGS).

The group structure, with its various operating divisions and business units is depicted in the figure below.

Figure 1: Slater & Gordon group structure



Source: Slater & Gordon Management.

Slater & Gordon manages each operating division independently, which is discussed further in Sections 9.3.1 to 9.3.4.

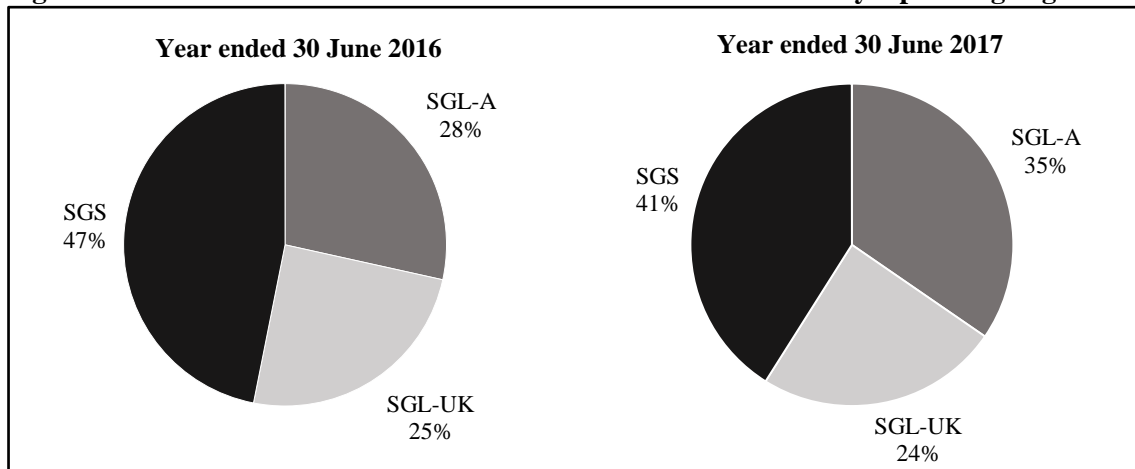
As at 30 June 2017, there were 51 Australian and 20 UK office locations respectively. The majority of Slater & Gordon's Australian offices are located on the east coast. A significant proportion of the UK offices are based in Northern England, located in cities and towns including Manchester, Liverpool, Blackpool and Bolton.

Unlike a typical law firm, staff in Australia are not members of a partnership structure but instead are employees of the Company. In the UK, acquisitions were achieved through a combined structure of members in a limited liability partnership (LLP) and employees in UK subsidiary companies. Slater & Gordon addresses staff retention and alignment of interest through its Long Term Incentive Plan, the Employee Ownership Plan (EOP)²¹ (introduced in 2007) and Employee Incentive Scheme (introduced in 2014).

²¹ Slater & Gordon Employee Ownership Plan (EOP), introduced in 2007 and discontinued in 2017.

Historically, SGL-A was Slater & Gordon's largest operating division by EBITDA. However, recent poor revenue performance has lowered its direct contribution to the group. In addition, as Slater & Gordon expanded into the UK, SGL-A's contribution has reduced significantly, with SGS now Slater & Gordon's largest division by revenue, as shown in the figure below. Despite the revenue contribution, the margin profile (and hence the earnings outcomes) are different. SGL-A is still expected to be the largest contributor of EBITDA in the near term.

Figure 2: Slater & Gordon – Fee and Service Revenue breakdown by Operating Segment



Source: Annual Report 2016, Financial Report 2017.

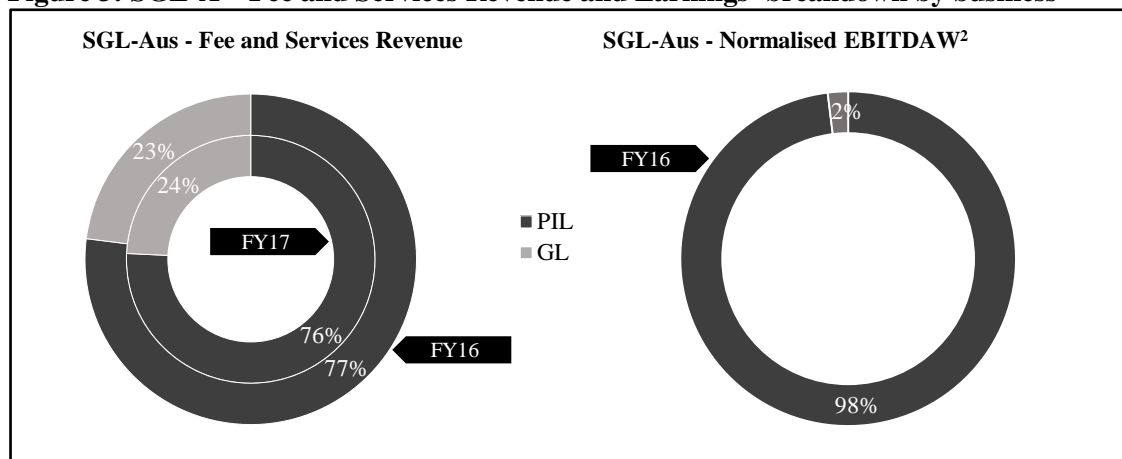
9.3.1 Slater & Gordon Lawyers – Australia

SGL-A is in a unique position as a law firm in Australia with 1,140 staff as at 30 June 2017 (not accounting for the impact of redundancies between 30 June 2017 and Scheme implementation). It offers services across PIL and targeted practice areas in GL. While this is a valuable differentiator and provides revenue diversification, it also adds a layer of complexity and cost to its operations.

SGL-A has traditionally generated revenue focussing on developing the Slater & Gordon brand through direct to consumer marketing whilst developing and maintaining relationships, particularly with mining and construction unions.

A large portion of SGL-A's revenue is generated by PIL, as shown in the figure below, with GL making up the balance. The PIL and GL practice groups are discussed further below.

Figure 3: SGL-A – Fee and Services Revenue and Earnings¹ breakdown by business



Source: Annual Report 2016, Financial Report 2017, Slater & Gordon Management.

Note: 1. Earnings is represented by EBITDAW (earnings before net interest, taxes, depreciation, amortisation, impairment and movement in WIP).

2. Normalised EBITDAW percentage breakdown for FY17 is not meaningful due to GL making a loss.

Personal Injury Law

SGL-A's PIL business has an estimated 20 percent to 25 percent share of the attainable market.²² The PIL business provides specialist legal services to consumers across a number of areas, including:

- transport accidents claims, which predominantly relate to motor vehicle accidents, but also include accidents involving pedestrians or passengers in a bus or a plane
- workers compensation, comprising claims related to industrial accidents and psychological injuries
- civil liability claims, such as adverse medical events, use of product injuries and asbestos claims.

Fees

Since 1994, the majority of PIL work has been conducted on a 'No Win, No Fee' basis (NWNF), whereby the law firm is paid only if the client's case is successful. More specifically, the client only pays when and if they recover damages from a settlement or a favourable ruling.

The NWNF basis facilitates access to the legal system for clients who would otherwise not be able to afford to fund their own legal costs, encouraging lawyers to be selective and diligent in the cases they manage, as the law firm takes on the financial risk of each case, and thus reducing the incentive to take on speculative or meritless cases.

²² Slater & Gordon Strategic Plan. Attainable market takes the total market revenue and assumes 50 percent is attainable by exclusively plaintiff law firms with the balance being defendant personal injury work.

Fees typically include a combination of a normal fee and in some jurisdictions an uplift success fee. Normal fees are calculated on the basis of either a scale of fees, hourly rates, court scales or a legislated fixed fee, based on an estimated range of fees disclosed to clients at the outset of their engagement. These fees may be varied from time to time during an engagement. The success fee is typically a percentage added to the normal fees. Fees charged to the client are subject to the regulation of each jurisdiction, for example, in Victoria, success fees calculated as a percentage of total legal fees are capped at 25 percent.

Work in Progress Revenue drivers

PIL Work In Progress (WIP) revenue is recognised on a percentage of completion basis and is therefore driven by the:

- number of cases, which itself is a function of the number of enquiries and the conversion rate. Factors affecting demand for cases is discussed further in Appendix 4
- average fee per case file, which depends on the situation and type of claim
- case resolution profile, which is the time a case takes to settle or receive a positive verdict, which, in turn, depends on the complexity of the case and the firm's experience in dealing with the matter area
- dilution rate, which is the amount of cases that do not have a successful outcome, which is partly dependent on the company's triage and case selection process.

WIP revenue converts into fee revenue upon the resolution of a case.

Cash flow

A key consequence of the NWNF structure and recognising revenue on a stage of completion basis is that there can be a significant delay between PIL revenue recognition and realisation of cash. In addition, significant working capital including disbursements is invested over the lifecycle of the PIL case portfolio before cash is realised. This is discussed further in Sections 9.5 to 9.6.

General Law

GL cases, as opposed to PIL cases, are typically conducted on a fee for service basis, with reference to agreed hourly rates or agreed fixed fees, although some work, such as certain class actions, estate litigation cases and some family law cases, are conducted on a NWNF basis.

SGL-A's GL business operates two practice groups:

- Personal Legal Services (PLS), and
- Business Litigation Services (BLS).

The key revenue drivers for PLS and BLS are:

- demand for service, which for PLS tends to be less correlated to the macroeconomic cycle than for corporate legal services. Demand for PLS is itself a function of population growth, death rates and divorce rates. This is discussed further in Appendix 2

- brand, which drives client enquiries. However, there is a greater focus on business development and referral relationships in GL than in PIL
- staff mix and retention, so that the firm has the capability and capacity to meet demand. Retaining key personnel is critical as the majority of revenue is earned through work performed and hours billed by fee earners.

SGL-A's GL practices are at different stages of maturity and operate in different markets, which are often fragmented and localised.

Personal Legal Services

PLS is a broad category which involves a number of practice areas that are not highly related to each other but are consumer orientated. PLS includes family law, estate planning, probate, wills, estate litigation and criminal law. Family law has been the major driver of growth within PLS, with estate litigation and crime performing strongly.

Business Litigation Services

BLS has been a strong contributor to top line growth in recent years. BLS includes commercial litigation, commercial property, industrial law and Project Litigation.

With the exception of Project Litigation cases, BLS's main clients are unions and small to mid-size businesses. Revenue is typically generated on a fee for service basis.

Project Litigation cases can be undertaken on either a fully or a partially funded basis or a NWNF basis. In funded cases, third party funders provide all or a portion of the fees receivable on a case (which results in Slater & Gordon taking a portion of the risk on its balance sheet in relation to the unfunded portion). The funded portion of a case is billed frequently for services performed to date and does not rely on the successful outcome of the case. Unfunded fees are variable and contingent upon a successful case outcome.

9.3.2 Slater & Gordon UK

Slater & Gordon operates in the UK as Slater & Gordon Lawyers (SGL-UK) and Slater & Gordon Solutions (SGS). As at 30 June 2017, the UK business employed 3,070 staff across 20 locations (not accounting for the impact of redundancies between 30 June 2017 and the Scheme implementation).

9.3.3 Slater & Gordon Lawyers – UK

SGL-UK holds a regulatory licence issued by the Solicitor's Regulation Authority (SRA) allowing it to practice law in the UK as an incorporated entity with non-lawyer ownership.

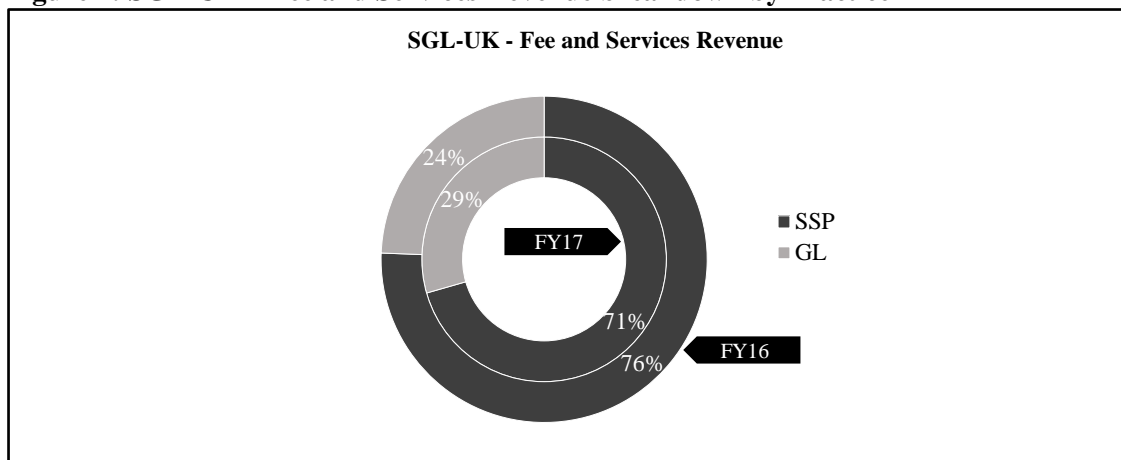
SGL-UK utilises direct to consumer marketing and relationship management/business development to generate revenue.

SGL-UK operates two business groups:²³

- Serious & Specialised Personal Injury (SSP)
- GL.

Similar to SGL-A, the majority of SGL-UK's revenue is generated through its PI practice, SSP, as shown in the figure below,²⁴ with GL making up the balance. Both practices are discussed further below.

Figure 4: SGL-UK – Fee and Services Revenue breakdown by Practice



Source: Annual Report 2016, Financial Report 2017

Note: Normalised EBITDAW percentage breakdown for FY17 is not meaningful as both divisions produced a loss for the year, whilst in FY16, GL made a loss.

Serious & Specialised Personal Injury

SGL-UK SSP provides personal injury legal services. It focusses on consumer claims relating to road traffic accidents, accidents at work and in public places, industrial disease, clinical negligence, accidents abroad, abuse law and related services in Court of Protection work. In SGL-UK, PI matters are assigned to either fast track or multi track depending on the value and complexity of the claim. The track determines the procedure required to follow through the courts, the fee structure (fixed fees, hourly rates and/or cost budget) and by which judge it might be heard. The track also determines the court procedure to be followed and provides for various case management decisions to be made. As part of a recent operational restructuring, SGL-UK now refers fast track cases within road traffic accident and employers'/public/occupiers' liability claims to SGS. SGL-UK retains its multi track cases in those practice areas, together with multi track and fast track cases in other specialist PI areas.

²³ SGL-UK also has a financial planning practice, Adroit Financial Services, which is not a material contributor to operating division revenue or earnings.

²⁴ A breakdown of SGL-UK's EBITDA by practice is not presented as it not meaningful due to SSP making a loss in 1HY17 and GL making a loss in 1HY17 and FY16.

Similar to the SGL-A PIL practice, most SSP work is undertaken on a NWNF basis, with key revenue drivers being number of cases and related demand factors, average fee per file, case resolution profile, and the dilution rate. A key focus of the business over the past few years has been to improve the mix of multi-track claims and move away from small claims to improve its average fee per file. Trends related to the key drivers are discussed in greater detail in Appendix 4.

General Law

The SGL-UK GL business operates across two practice groups:

- PLS
- Group Litigation.

Personal Legal Services

The PLS practice offers employment, family law,²⁵ residential property and estate law services. This work is typically divided into two categories:

- non-contentious and non-complex work
- contentious, tailored and complex work.

Non-contentious and non-complex work

These services lines are price sensitive with the work subject to high levels of process and systemisation. Service lines in this area include uncontested divorce, residential property, wills, powers of attorney and road traffic defence. This type of work tends to have fixed fee arrangements and is increasingly facing competitive pressure from automation, as discussed in Appendix 4.

Contentious, tailored and complex work

These service lines focus on quality of service and therefore the reputation and credibility of the lawyers and the firm is important in winning work. Higher average fees are charged due to the complexity of the work. Cost efficiency is harder to generate through processes, so attention is focussed on winning higher value cases through branding and generating referrals from professional services and lawyer/expert profile led marketing. Examples of this work includes contentious divorce, child custody and guardianship, probate, estate planning, estate litigation, employment law and white collar crime.

²⁵ While it has a relatively small market share, Slater & Gordon is of the view it has the largest family law and claimant employment law practice in the United Kingdom. Source: Annual Report 2016, p. 17.

Group Litigation

SGL-UK's Group Litigation²⁶ practice operates in a similar way to SGL-A's Project Litigation practice and claims. The fee structure for this business service often includes a success fee component.

9.3.4 Slater & Gordon Solutions (SGS)

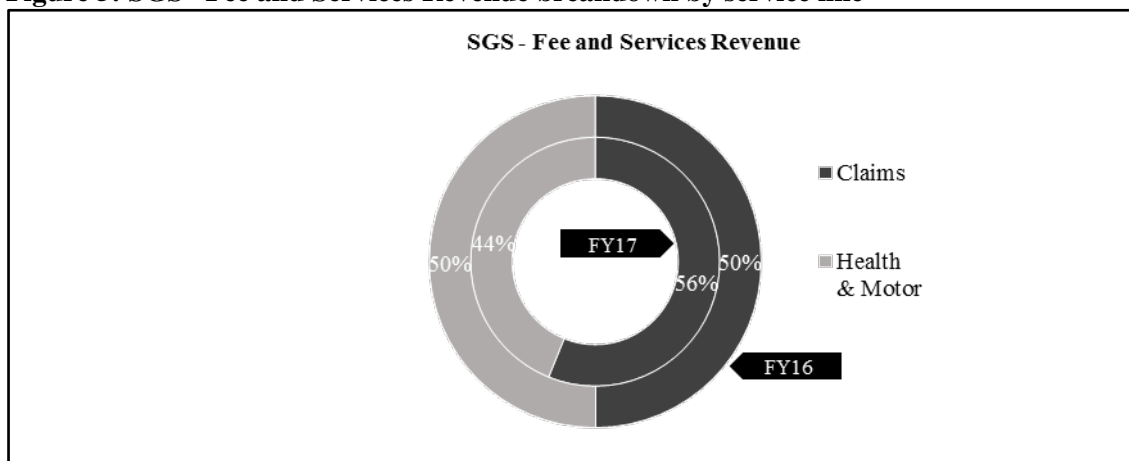
SGS is a collection of businesses that services the needs of clients across the PI claims management value chain. The business was formerly Quindell's PSD business, which was acquired on 29 May 2015 and rebranded as SGS. SGS holds a second SRA licence, through the SGS legal practice.

SGS operates three business groups:

- claims, which includes NIHL claims
- health
- motor.

Both are material contributors to the operating division's revenue, as shown in the diagram below.

Figure 5: SGS– Fee and Services Revenue breakdown by service line



Source: Annual Report 2016, Financial Report 2017, Slater & Gordon Management

Note: 1. Earnings is represented by EBITDAW

2. Normalised EBITDAW percentage breakdown for FY16 is not meaningful due to Claim incl. NIHL making a loss.

Each SGS business unit runs a number of interrelated businesses. The core business units are discussed in the following subsections.

²⁶ In the UK, Class Actions (or Collective Redress Action, in other legal jurisdictions) are referred to as Group Litigation.

Claims

SGS's Claims businesses provide services at many stages of the PI legal claims value chain. Claims particularly focuses on originating, assessing, and resolving PIL fast track claims that are related to Road Traffic Accidents (RTA). The Claims business also acts on Employer Liability and Public Liability (ELPL) claims. Following recent operational restructuring, SGL-UK now refers fast track employers' liability claims to SGS. In aggregate, including Claims and SGL-UK, Slater & Gordon has approximately 6 percent of the RTA claim market share²⁷ and approximately 4 percent of the combined ELPL market in the UK.

In November 2015, the British Chancellor announced PIL reforms. After subsequent revisions to the original proposal, the reforms seek to lift the small claims limit from £1,000 to £2,000 for all PI cases except road traffic accidents which would lift to £5,000. General damages on low value soft tissue claims would be subject to a fixed tariff. Whilst the precise numbers are yet to be confirmed, initial figures are below Judicial College guidelines. The proposed reforms are significant as cases heard in the small claims court are less likely to use lawyers. Should the reforms be implemented as is, it will likely reduce SGS's case volume and revenue. The initial consultation response was published in February 2017. Legislation has not yet been introduced to enact the reforms and the current status of the reforms is unclear as discussed further in Appendix 4 of this report.

SGS's Claims business unit also handles NIHL cases, which relate to claims for hearing loss from being exposed to excessive noise during employment. As part of the PSD acquisition, Slater & Gordon acquired a very large portfolio of NIHL claims, which are subject to an earn-out should the cases be settled profitably. NIHL cases are relatively complex, can require significant investment and time before settlement and are subject to a three year statute of limitations.

Key revenue drivers

RTA, ELPL and NIHL matters are subject to similar revenue drivers including:

- number of cases, which for RTA may be subject to significant regulatory headwinds. Since the PSD acquisition, SGS has ceased to acquire significant numbers of new NIHL cases, with its NIHL focus set upon maximising cash conversion from the legacy case portfolio acquired with the PSD acquisition
- average fee per case file
- case resolution profile, which on cases settled since June 2015 has averaged approximately between 8 to 23 months for various types of fast track RTA claims, 14 to 27 months for NIHL claims and 16 to 27 months for ELPL claims
- dilution rates, which have tended to be higher for RTA claims when intake volumes have been significantly higher than current monthly levels.

²⁷ Market share by claim number.

Health and Motor

The Health and Motor businesses are complementary services to PIL services, allowing SGS to generate value at additional points along the PIL value chain. The individual businesses are discussed below.

Motor

SGS Motor (SGSM) provides First Notice of Loss (FNOL) services to insurers and insurance brokers. After receiving notification of an accident from a road user, SGSM provides in-house incident management and organise not-at-fault repair and car hire via third party providers.

SGSM is the largest market participant that does not own any part of its car fleet. Its financial performance has been impacted by the recent loss of the DLG Legal (DLG) contract to Redde, a major competitor that owns a significant portion of its fleet,²⁸ and the Swinton contract.

Nevertheless, Management is of the opinion that the hire model²⁹ remains attractive and provides a key differentiator to SGSM's competitors. Management's view is that the market for FNOL, credit hire and repair services is large and there is the potential to grow market share from existing levels over time.

Health

The SGS Health (SGSH) business provides medical reporting and rehabilitation services that might be required in the course of processing a PI claim. SGSH's main businesses include:

- a medical reporting organisation, Mobile Doctors, which provides medical record and report procurement services largely to law firms, including the Claims operations within SGS and SGL-UK. Mobile Doctors receives referrals from MedCo³⁰ to provide a fixed cost medical report. MedCo is a major source of work now that it is no longer possible for claimant lawyers to commission reports from an individual or organisation with which they have a financial link
- a PI rehabilitation service, Overland Health, which organises rehabilitation for people involved in accidents. Currently, approximately 90 percent of all referrals come from SGL-UK and the Claims operations within SGS, with the balance coming from external claimant PIL firms and other sources, including occupational health service providers, corporates and public sector organisations.

²⁸ Renting vehicles is where the majority of revenue is earned from competing companies.

²⁹ The hire model is to rent vehicles rather than own them.

³⁰ MedCo is a system commenced in April 2015 by the Ministry of Justice, to facilitate sourcing of medical reports in soft tissue injury claims brought under the Ministry of Justice's Pre-Action Protocol for low value personal injury claims in Road Traffic Accidents.

9.4 Financial performance analysis

The table below summarises the financial performance of Slater & Gordon for the financial year ended 30 June 2015 (FY15), 30 June 2016 (FY16) and 30 June 2017 (FY17).

Table 5: Financial performance of Slater & Gordon

Period	12 months to		
	30-Jun-15 ¹	30-Jun-16	30-Jun-17
\$million unless otherwise stated			
<i>Revenue from contracts with customers²</i>			
SGL-A	259.8	237.8	211.3
SGL-UK	222.8	212.6	141.2
SGS	34.9	441.1	249.0
Total revenue from contracts with customers	517.4	891.5	601.5
Gain from bargain purchase	72.5	0.0	0.0
Other income (excl interest revenue)	5.0	15.7	8.8
Total expenses (excl finance and impairment)	(491.6)	(997.9)	(738.2)
EBITDA	103.3	(90.7)	(127.9)
Depreciation and amortisation	(9.9)	(17.7)	(11.2)
EBIT³	93.3	(108.4)	(139.2)
Net finance expenses (incl. facility estab & amendment fees)	(7.9)	(41.6)	(50.7)
Impairment of intangible assets	0.0	(879.5)	(361.3)
Profit/(Loss) before income tax expense	85.4	(1,029.5)	(551.2)
Income tax benefit/(expense)	(23.0)	11.9	4.3
Net Profit/(Loss) after income tax	62.4	(1,017.6)	(546.9)
EBITDAW	92.6	(49.3)	(76.1)
<i>Normalisation⁴</i>			
Significant and non-recurring items (excl. impair & facility estab/amend fees)	23.3	(85.9)	(91.8)
Normalised EBITDA	80.0	(4.7)	(36.1)
Normalised EBIT	70.0	(22.5)	(47.4)
Normalised EBITDAW	69.3	36.6	15.7
<i>Statistics⁴</i>			
Total revenue growth	na	72.3%	(32.5%)
EBITDA growth	na	(187.8%)	(41.1%)
Normalised EBITDA growth	na	(105.9%)	(664.9%)
EBIT growth	na	(216.1%)	(28.4%)
Normalised EBIT growth	na	(132.1%)	(110.8%)
NPAT growth	na	(1731.4%)	46.3%
EBITDA margin	20.0%	(10.2%)	(21.3%)
Normalised EBITDA margin	15.5%	(0.5%)	(6.0%)
EBIT margin	18.0%	(12.2%)	(23.1%)
Normalised EBIT margin	13.5%	(2.5%)	(7.9%)
NPAT margin	12.1%	(114.1%)	(90.9%)

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management, KPMG Corporate Finance analysis

Note: 1. FY15 reflect the restated financials incorporating the early adoption of AASB-15 Revenue from Contracts with Customers
2. Revenue from contracts with customers is fee and services revenue plus change in WIP, where change in WIP is calculated as the increase/(decrease) in WIP compared to the previous financial year

3. EBIT (Earnings Before Interest and Tax) is statutory earnings before net interest and taxes
4. See Section 9.4 for further details (Table 6)
5. Tables may not add due to rounding.

Slater & Gordon was an early adopter of the Australian Accounting Standards Board's (AASB) standard relating to revenue recognition from contracts (AASB-15 Revenue from Contracts with Customers) in August 2015. Slater & Gordon elected to apply the standard on a full retrospective basis, as permitted by AASB-15, whereby the cumulative effect of retrospective application is recognised by adjusting opening retained profits or other relevant components of equity for the earliest comparative period presented (which was the financial year ended 30 June 2015). Consequently, the financial performance of the company prior to FY15 is not comparable to subsequent years' results. FY15's restated financial performance is materially lower when compared to the performance under the previous standard, due to a greater threshold for recognising change in WIP revenue and accruing WIP as an asset, as discussed in Section 9.5.

In relation to Table 5, we note SGS's revenue from contracts with customers (revenue) includes fee revenue (plus change in WIP) generated from legal services and services revenue related to the Motor and Health business units, with both services broadly contributing 50 percent of SGS' total revenue.

Total revenue from contracts with customers increased by 72.3 percent in FY16, reflecting a full year of revenue contribution from the PSD acquisition, with FY15 revenue only recognising one month's revenue contribution as a result of the timing of the acquisition. However, adjusting for PSD revenue results in total revenue declining by 6.7 percent year-on-year (YoY), with the existing SGL-A and SGL-UK revenue decreasing by 8.5 percent and 4.6 percent respectively. In FY17, total revenue from contracts with customers decreased by 32.5 percent, due to continued underperformance across all three operating divisions. The performance of individual operating divisions are discussed in further detail in Section 9.4.1.

Normalised EBITDA decreased in FY16 by 105.9 percent YoY due to underperformance across all operating divisions. In FY17, Normalised EBITDA loss decreased by a further 664.9 percent, as total revenue decreased more than normalised operating costs, which were down 29.1 percent. The reduction in normalised operating costs reflected the continued restructuring of the group's operating activities which were primarily driven by decreases in salaries and employee benefit expenses (down 21.9 percent), cost of sales (down 53.1 percent) and advertising and marketing expenses (down 35.7 percent).

Net finance expenses increased materially in FY16 and FY17 and margins increased, as borrowings were raised near the end of FY15 to fund the PSD acquisition. The majority of the borrowings drawn are GBP denominated and have a LIBOR reference rate.

Slater & Gordon identified the following significant and non-recurring items and other income/(expenses). Impairment of intangible assets are discussed further in Section 9.5.

Table 6: Significant and non-recurring items and other income/(expense)

Period	12 months to		
\$million unless otherwise stated	30-Jun-15	30-Jun-16	30-Jun-17
Gain from bargain purchase	72.5	-	-
Restructuring costs	-	(33.3)	(47.1)
Payments to former owners	(25.4)	(33.2)	(11.6)
Additional debtor/disbursement provisioning	0.0	(18.7)	(18.0)
Other (including Hall Proceeding settlement)	(23.8)	(0.7)	(15.1)
Operating Earnings significant and non-recurring items	23.3	(85.9)	(91.8)
Impairment of intangible assets	-	(879.5)	(361.3)
Facility establishment and amendment fees	-	(14.9)	(9.6)
Total significant and non-recurring items	23.3	(980.3)	(462.7)

Source: Slater & Gordon Annual Reports and Financial Report 2017; KPMG Corporate Finance analysis.

9.4.1 Operating divisions' financial performance

The table below summarises the financial performance of Slater & Gordon's operating divisions for FY15, FY16 and FY17.

Table 7: Financial performance of Slater & Gordon by operating division

Period	12 months to		
\$million unless otherwise stated	30-Jun-15	30-Jun-16	30-Jun-17
SGL-A Fee Revenue	245.7	265.6	226.7
Net movement in WIP - SGL-A	14.1	(27.8)	(15.5)
Revenue from contracts with customer - SGL-A	259.8	237.8	211.3
SGL-UK Fee Revenue	226.0	230.0	157.8
Net movement in WIP - SGL-UK	(3.2)	(17.4)	(16.6)
Revenue from contracts with customer - SGL-UK	222.8	212.6	141.2
SGS Fee Revenue	16.3	217.4	150.7
Net movement in WIP - SGS	(0.1)	3.9	(19.8)
SGS - Health and Motor Service Revenue	18.8	219.8	118.0
Revenue from contracts with customer - SGS	34.9	441.1	249.0
Total revenue from contracts with customer	517.4	891.5	601.5
EBITDA¹			
SGL-A	84.1	(35.5)	(50.3)
SGL-UK	25.0	(49.1)	(51.9)
SGS	(5.8)	(6.1)	(25.7)
Group EBITDA¹	103.3	(90.7)	(127.9)
Less: net movement in WIP	(10.7)	41.3	51.8
EBITDAW²	92.6	(49.3)	(76.1)
SGL-A normalised EBITDA	55.7	8.0	(0.0)
SGL-UK normalised EBITDA	30.1	(20.0)	(33.0)
SGS normalised EBITDA	(5.8)	7.3	(3.1)
Group normalised EBITDA	80.0	(4.7)	(36.1)
Statistics			
SGL-A revenue growth	na	(8.5%)	(11.1%)
SGL-UK revenue growth	na	(4.6%)	(33.6%)
SGS revenue growth	na	nmf	(43.6%)
SGL-A normalised EBITDA growth	na	(85.6%)	(100.2%)
SGL-UK normalised EBITDA growth	na	(166.5%)	(65.0%)
SGS normalised EBITDA growth	na	nmf	(143.3%)
Group normalised EBITDA growth	na	(105.9%)	(664.9%)
EBITDAW growth	na	(153.3%)	(54.2%)
SGL-A normalised EBITDA margin (%)	21.4%	3.4%	(0.0%)
SGL-UK normalised EBITDA margin (%)	13.5%	(9.4%)	(23.4%)
SGS EBITDA normalised margin (%)	(16.6%)	1.6%	(1.3%)

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon management, KPMG Corporate Finance analysis

- Note:
1. EBITDA is statutory earnings before net interest, taxes, depreciation, amortisation and impairment
 2. EBITDAW is statutory EBITDA before net movement in WIP
 3. nmf = not meaningful figure
 4. Tables may not add due to rounding.

Slater & Gordon's revenue grew strongly over the period from listing in FY07 (\$62.9 million) to FY15 (\$517.4 million) (compound annual growth rate (CAGR) of 30.1 percent) which is

largely attributable to the acquisition strategy adopted by the Slater & Gordon during this period. The financial performance of each operating division is discussed below.

SGL-A Financial Performance

In FY16, SGL-A's revenue and normalised EBITDA decreased by 8.5 percent and 85.6 percent respectively, driven by an unfavourable movement in WIP of \$27.8 million due to a reduction in the number of new files opened. Contributing to the reduced earnings was the underperformance of the Queensland PIL as a result of increased competition, in part related to workers compensation legislative change. Overall, SGHL-A's PIL case intake volumes for the year decreased as a result of fewer acquired files, with case settlements exceeding the number of new files opened. Compounding the impact of the reduced revenue, SGL-A recognised higher costs related to increases in labour, IT, audit, legal services and corporate overheads.

In FY17, SGL-A continued to underperform with revenue decreasing by 11.1 percent and normalised EBITDA loss increased by 100.2 percent. The decrease in revenue comprised of declines in both PIL and GL, where PIL underperformance was due to a decline in case resolution rates. In addition, GL recorded adverse revenue variances due to run-off of conveyancing works, which was partly offset by a strong performance in class actions. Poor revenue performance was partly offset by declines in marketing, accommodation and labour costs. Relative to FY16, PIL case intake volumes were lower in FY17 due to a decline of acquired file stock and performed materially below the target management had set.

SGL-UK Financial Performance

In FY16, similarly to SGL-A, SGL-UK's revenue and normalised EBITDA decreased by 4.6 percent and 166.5 percent respectively. This was driven by an unfavourable movement in WIP of \$17.4 million due to a reduction in the number of new files opened, which occurred as a result of continued rationalisation of business size and scale in the UK. In addition, revenue was impacted by operational reorganisation as SGL-UK closed offices, transferred files between offices and teams and commenced the run-off of its fast track RTA business.

In FY17, revenue decreased by 33.6 percent and normalised EBITDA loss increased by 65.0 percent. Fee revenue was impacted by the reduction in size of business following the business rationalisation program. In addition, revenue from contracts with customers continued to be impacted by negative movements in WIP.

SGS Financial Performance

In FY17, SGS contributed 41.4 percent (49.5 percent in FY16) of total revenue and 20.1 percent (6.7 percent in FY16) of the total EBITDA loss to Slater & Gordon. As PSD, rebranded SGS,

was acquired late in May 2015, FY15 is not comparable to FY16. Therefore, the performance of SGS in FY17 compared to FY16 has only been considered.

Revenue decreased by 43.6 percent in FY17, which was attributed to an intentional reduction in RTA case intake.³¹ In addition, the loss of the DLG and Swinton contracts resulted in large decrease in motor revenue.

Normalised EBITDA decreased from \$7.3 million to a loss of \$3.1 million in FY17. The 143.3 percent decrease in earnings included a \$19.8 million adverse movement in WIP.

Resolution of NIHL cases during FY17 continues to be slower than expected on acquisition, though has improved from FY16 resulting in the reduced negative contribution to earnings. No change in WIP revenue is recognised in relation to NIHL due to uncertainty over the consideration to be achieved in a successful outcome. Consequently, costs associated with NIHL cases in progress are expensed as they are incurred. Additionally, disbursements paid in relation to NIHL cases are expensed through the profit and loss as they are paid.

9.4.2 Distributions

The following table outlines the dividend metrics of Slater & Gordon for FY15, FY16 and FY17.

Table 8: Dividend metrics

Period	12 months to		
	30-Jun-15	30-Jun-16	30-Jun-17
\$million unless otherwise stated			
Weighted average number of Slater and Gordon shares (millions)	234.8	351.9	351.4
Basic EPS (cents)	26.5	(289.1)	(155.6)
Dividends per share (cents) ¹	9.0	-	-
Dividend payout ratio (%)	33.9%	-	-
Proportion of dividend franked (%)	40.0%	-	-

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management

Note: 1. Dividends per share represent the total dividends declared in respect of the financial year, including both interim and final dividends.

Slater & Gordon declared dividends of \$26.7 million in FY15, which represented a dividend payout ratio of 33.9 percent. In FY16, no dividends were declared in adherence with the terms and conditions that were agreed to as part of the amendments to the group's existing facility agreement in May 2016. In FY17, no final dividend was declared or proposed.

9.5 Financial position analysis

The table below summarises the financial position of Slater & Gordon as at 30 June 2015, 30 June 2016 and 30 June 2017.

³¹ Management have reduced case intakes to focus on improving RTA resolution rates.

Table 9: Financial position of Slater & Gordon (Statutory)

As at			
\$ million unless otherwise stated	30-Jun-15	30-Jun-16	30-Jun-17
Cash and cash equivalents	97.0	82.5	33.3
Receivables and other assets	675.7	590.1	508.6
Work in progress	676.7	587.5	515.0
Payable, provisions and other liabilities	(705.8)	(548.4)	(504.4)
Net working capital	743.6	711.8	552.5
Property, plant and equipment	32.0	33.2	26.6
Intangible assets	1,343.2	394.0	13.1
Deferred tax assets	88.2	46.7	34.7
Deferred tax liabilities	(144.1)	(113.0)	(93.4)
Total funds employed	2,062.9	1,072.7	533.5
Interest bearing liabilities	(711.1)	(764.8)	(780.9)
Derivative financial instruments	(1.6)	(2.8)	(1.4)
Total debt	(712.7)	(767.6)	(782.3)
Net assets	1,350.2	305.1	(248.8)
Non-controlling interest	(0.4)	(0.1)	0.2
Net assets attributable to Slater and Gordon shareholders	1,349.8	305.0	(248.6)
Statistics			
Slater and Gordon shares on issue at period end (million)	350.7	352.4	347.2
Net assets per share (\$)¹	3.85	0.87	(0.72)
Gearing²	35%	72%	147%

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management

Note: 1. Calculated as net assets divided by total number of shares on issue at period end
2. Calculated as total borrowings divided by the sum of total borrowings and net assets
3. Tables may not add due to rounding.

Slater & Gordon restated its statements of financial position for FY15 and FY16 as a result of the early adoption of AASB-15, which required the recalculation of its PIL NWNF WIP balances for the two years ended 30 June 2016. PIL NWNF WIP balances are calculated per the below formula.

Figure 6: NWNF WIP calculation

WIP	=	No. of cases	x	average fee per case	x	stage of completion	x	probability of success
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Source: Slater & Gordon Management.

Under the new standard, there is a greater consistency and a more systematic approach to generating reported values of revenue and WIP. This resulted in the recalculated PIL NWNF WIP balances being 15 percent to 20 percent lower than under the previous standard. Consequently, statements of financial position for periods prior to FY15 are not comparable to subsequent financial years.

In relation to the table above, it is noted:

- as a law firm that focusses on PIL cases that are predominantly conducted on a NWNF basis, Slater & Gordon has significant working capital needs as PIL cases take on average between 6-24 months to reach a successful outcome. The major components of working capital include:
 - WIP, which accrues as matters reach certain codified milestones.³² WIP of \$515.0 million at 30 June 2017 relates to PI (\$488.3 million), Project Litigation (\$14.6 million) and other (\$12.1 million). At 30 June 2017, \$294.9 million of WIP was current and \$220.1 million was non-current
 - WIP is not valued for NIHL cases that formed part of the SGS acquisition due to a lack of a sample size regarding success rates of NIHL cases
 - receivables of \$487.0 million at 30 June 2017 consists of trade receivables (\$226.4 million), impairment of trade receivables (\$69.4 million), disbursements (\$421.1 million), allowance for non-recovery of disbursements (\$94.0 million) and other receivables (\$2.9 million). Disbursements are recoverable external payments made on behalf of the client for services related to the case, such as barrister and doctor fees, courier fees, and court fees. At 30 June 2017, \$395.5 million of receivables were current and \$91.5 million were non-current
 - current payables of \$418.6 million at 30 June 2017, consists of trade creditors and accruals (\$150.0 million), legal creditors (\$268.0 million) and vendor liabilities for acquisitions (\$0.6 million). Legal creditors represent payables related to disbursements where the group has favourable payment terms with vendors, whereby the payment will not be made by the group until the group receives payment from any settlement proceeds from a matter
- as services from Slater & Gordon have relatively low fixed capital needs, property, plant and equipment was \$26.6 million at 30 June 2017, comprising plant & equipment (\$25.7 million), land & buildings (\$0.3 million) and low value asset pool (\$0.6 million)
- in recent years, intangible assets largely reflected goodwill as a result of Slater & Gordon's acquisition strategy, peaking in FY15 at \$1,343.2 million. However, as at 30 June 2017, intangibles were \$13.1 million, wholly consisting of software development (\$13.1 million). The large decrease was a result of a number of write downs, including:
 - at 31 December 2015, there were indications that an impairment may exist due to underperformance in the business and internal projections indicating an adverse impact from the regulatory environment in the UK as a result of the Chancellor's November

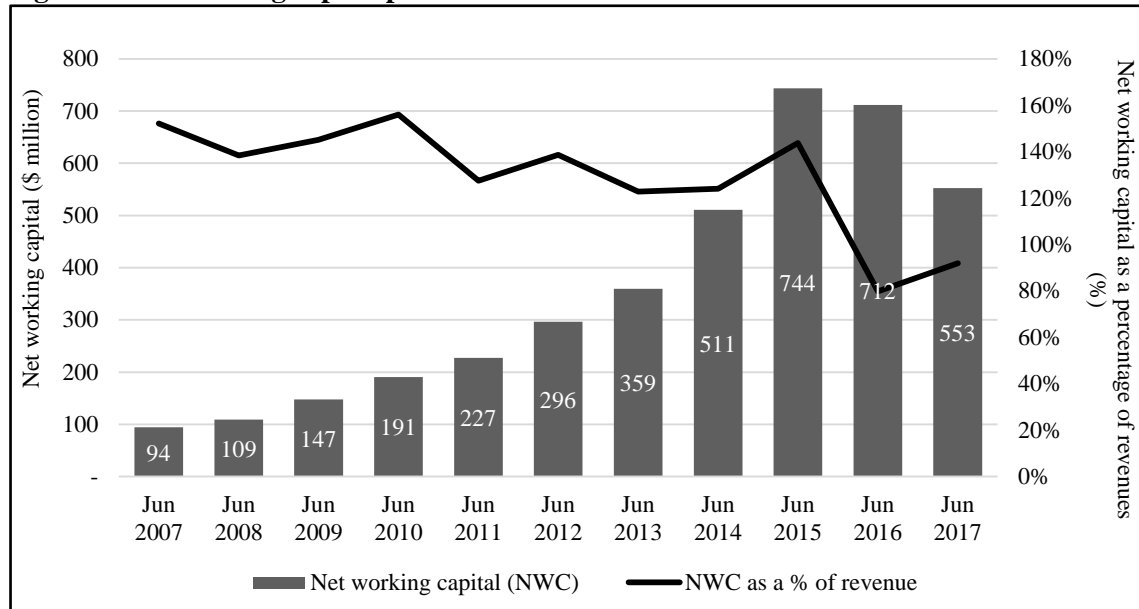
³² The corresponding journal entry as WIP accrues on the balance sheet is for change in WIP to be recognised as revenue on the income statement. When a matter reaches a successful outcome the WIP is transferred to accounts receivable on the balance sheet and the change in WIP is reclassified as Fee Revenue on the income statement; If the matter does not reach a successful outcome the WIP is written off and change in WIP is reversed as contra revenue.

2015 statement. Management performed an impairment test for all Cash Generating Units (CGUs) and recognised an \$876.4 million impairment

- at 30 June 2016, a further assessment was performed, resulting in the impairment of the remainder of the NSW PI goodwill balance of \$3.1 million due to the NSW Government's announced proposals regarding car accident claim compensation
- at 31 December 2016, a further \$350.3 million impairment was recognised against the UK's CGUs' goodwill and brands and trademarks due to the poor performance of the CGUs relative to budget
- at 30 June 2017, an additional \$11.0 million impairment was recognised against Victorian PIL goodwill (\$5.9 million) and software development (\$5.1 million)
- derivative financial instruments, as at 30 June 2017, of \$1.4 million relate to interest rate swaps
- borrowings, as at 30 June 2017, were \$780.9 million, which is comprised of \$760.9 million from the SFA (net of unamortised debt raising cost), \$15.0 million from the working capital facility and \$5.1 million in finance lease liability. Total borrowings consists of short term borrowings (\$466.2 million) and long term borrowings (\$314.7 million). Borrowings are discussed further in Section 9.5.2.

9.5.1 Working Capital

As a consequence of Slater & Gordon's fee structure, with its high reliance on PIL and resultant WIP balance, generating organic growth requires working capital investment. Current working capital investment has been significant and has increased historically, as shown in the figure below.

Figure 7: Net working capital profile

Source: Slater & Gordon Annual Reports and Financial Report 2017, Slater & Gordon Management

Note: 1. Net working capital is calculated as cash + receivables (current and non-current) + work in progress (current and non-current) + current tax assets + other assets (current and non-current) – payables (current and non-current) – current tax liabilities – other current liabilities – provisions (current and non-current)
2. Net working capital for FY14 represents non-restated figures.

In relation to the above figure, we note:

- working capital requirements in Australia are reduced through the use of a third party disbursement funder.³³ Slater & Gordon is investigating agreements for similar relationships in the UK
- working capital requirements include the cash and cash equivalents given the nature of business operations, fee collection profile, disbursements funding dynamic (where not third party funded) and potential timing of discrete receipts in project litigation practices
- after listing in FY07, net working capital increased steadily up until FY15, representing a CAGR of 29.4 percent over this period. The significant growth in net working capital was driven by the acquisition of additional law practices, with net working capital in the range of 123 percent and 156 percent of revenue over this period. We note that net working capital as

³³ The group had an agreement with Equal Access Funding Proprietary Limited (EAFP) to act as Slater & Gordon's Australian third party disbursement funder. As at 30 June 2017, EAFP had funded the group's clients \$16.0 million (FY16: \$19.0 million).

a percent of revenue is high relative to other professional services businesses, which generally reflects the working capital intensity of utilising a NWNF business model³⁴

- in FY15, net working capital increased significantly due to the acquisition of PSD. This was offset by an impairment of receivables during the year, which was restated to \$94.4 million due to a revision of provisioning policies relating to debtors and disbursements in FY16
- in FY16, net working capital decreased by \$31.8 million. Key changes related to:
 - work in progress decreasing by \$89.2 million, of which \$41.3 million was predominately due to a decline in Australian and UK PIL case volumes and the resolution of work in progress during the period. The remainder was due to a depreciation of the GBP relative to the AUD.
 - receivables decreasing by \$68.3 million, partly due to the decrease in pro forma fees over the period³⁵
 - payables decreasing by \$151.7 million, which partially offset the decrease in work in progress and receivables and reflected a \$83.5 million decrease in trade creditors and accruals and a \$48.9 million decrease in legal creditors
- in FY17, net working capital decreased by \$159.2 million. Key changes related to:
 - work in progress decreasing by \$72.6 million, primarily driven by a decline in Australian and UK PIL case volumes and the resolution of work in progress during the period as well as depreciation of the GBP relative to the AUD.
 - receivables decreasing by \$50.8 million, predominately due to a decrease in fees over the period and initiatives to improve the average days of receivables outstanding, which was partially offset by a \$26.1 million increase in non-current disbursements
 - payables decreasing by \$45.5 million, which partially offset the decrease in work in progress and receivables and was predominately due to a \$23.7 million decrease in trade creditors and accruals.

9.5.2 Debt

In May 2016, Slater & Gordon announced amendments to its existing SFA with its lending group. The new SFA had an overall limit of £375 million and \$90 million with expiry dates between May 2018 and March 2019.

³⁴ We note that net working capital as a percent of revenue can be overstated by acquisitions, as under this circumstance the whole balance sheet is consolidated at the end of financial year while less than a full year's revenue is recognised on the group's income statement.

³⁵ Based on high level analysis of the financial information from the FY15 and FY16 Slater & Gordon annual reports and Quindells 31 December 2014 and 31 December 2015 annual reports. Pro forma fees inclusive of a full year of revenue PSD for FY15 were materially more than revenue in FY16

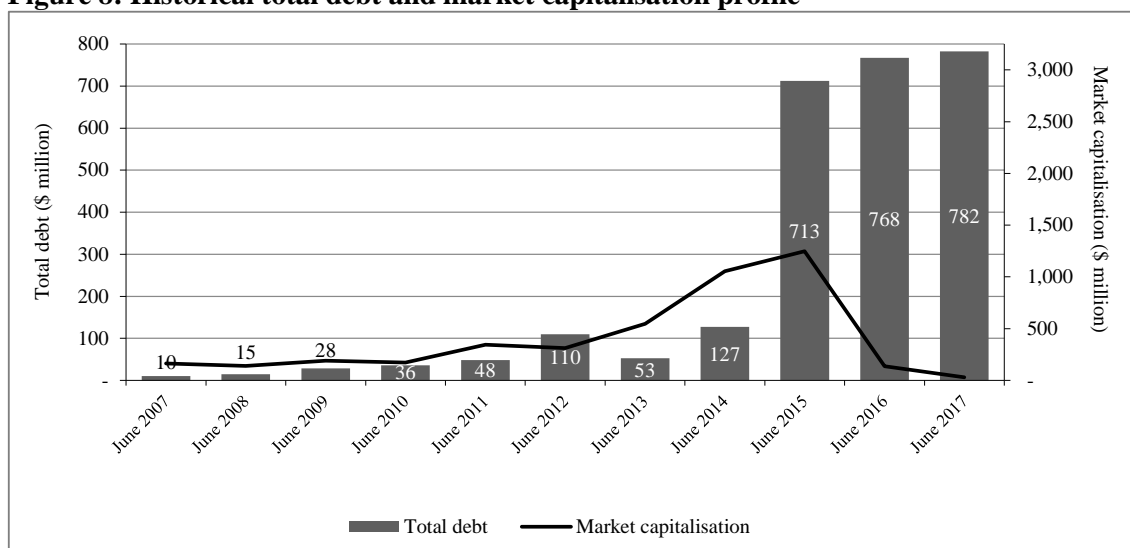
With effect from 27 December 2016, the Group agreed various amendments to the SFA with its banking syndicate. Facilities provided under the SFA are fully drawn with borrowings of \$761.6 million recognised as at 30 June 2017.

Based on exchange rate of 0.5912 as at 30 June 2017, inclusive of debt raising costs, \$450.2 million is repayable in May 2018 and \$311.4 million is repayable in March 2019. With regard to the SFA facilities, we note the following:

- the debt facility drawdowns have been used to fund business acquisitions, meet day-to-day working capital requirements and for general corporate purposes. They are secured by a fixed and floating charge over the assets of Slater & Gordon. As at 30 June 2017 Slater & Gordon remained in compliance with all its undertakings under the SFA
- the majority of financial liabilities (net) are unhedged, with the notional principal amounts of the swap contracts approximating 12 percent of the Company's outstanding borrowings on the SFA at 30 June 2017 (FY16: 12 percent)
- on 31 March 2017, Slater & Gordon agreed to make further amendments to its SFA. This amendment includes the capitalisation of \$32 million of interest payments which were due for payment on 28 June 2017 and consent to incur new working capital facility of up to \$40 million for working capital
- on 5 May 2017, Slater & Gordon announced that it had entered into an additional \$40 million super senior facility with the Senior Lenders. This facility was established to provide additional financial resources to support ongoing restructuring discussions with the Senior Lenders as well as to provide additional working capital for Slater & Gordon. Prior to the year ending 30 June 2017, \$15 million has been drawn down from the facility and an additional \$12.5 million was drawn on 15 August 2017
- on 29 June 2017, Slater & Gordon entered into a binding recapitalisation agreement with its lenders. Under these new secured debt facility arrangements, the existing senior secured debt would be partially amended and restated to senior secured debt facilities and convertible notes in S&G UK to be issued to and held by the Supporting Lenders
- on 31 August 2017, Slater & Gordon entered into an amended binding RSD with 100 percent of the Senior Lenders in relation to the Recapitalisation. The revised terms of the Recapitalisation will provide the Company with an additional \$50.0 million, on top of the existing \$40.0 million working capital facility. Further, all UK operations and subsidiaries will be separated from the Company and transferred to UK HoldCo, which will be wholly owned by the Senior Lenders following implementation of the Recapitalisation. As a result of this, the total working capital facilities will be separated into a \$65 million AUD denominated facility with the Company for the Australian business and a GBP denominated facility for \$25.0 million AUD. Additionally, the original senior secured debt under the SFA will be refinanced to \$60.0 million post-implementation of the Senior Lender Scheme with substantially the same terms as the SFA with the key amendments being the term (extended to five years) and the interest (which going forward will be payment-in-kind based).

Slater & Gordon's historical total debt and market capitalisation profile is depicted in the following figure.

Figure 8: Historical total debt and market capitalisation profile



Source: Slater & Gordon Annual Reports and Financial Report 2017.

9.5.3 Contingent assets and liabilities

There is currently one potential contingent asset and one contingent liability associated with Slater & Gordon. They are as follows:

- Slater & Gordon notified Watchstone Plc in September 2016 of various claims it would bring about in relation to the PSD acquisition. As a result of a favourable independent barrister's opinion, the £50 million escrow amount has been formally locked in place until an agreement is reached or litigation on the claims is concluded. On 14 June 2017, Slater & Gordon confirmed that its UK subsidiary filed and served a claim against Watchstone Plc in the High Court of England and Wales for approximately £600 million
- Slater & Gordon has provided a financial guarantee to Equal Access Funding Proprietary Limited (EAFP), a third party disbursement funder, for the repayment of clients' obligations. EAFP has funded \$16.0 million of disbursements at 30 June 2017 and therefore is liable for \$16.0 million if disbursements are not recovered from the client.

On 21 September 2017, Slater & Gordon announced it signed a binding agreement to settle the class action proceeding in relation to the Hall Proceeding, through a mediation process facilitated by the Federal Court. The binding settlement will also resolve any and all potential shareholder claims against the Company and its Directors and Officers. The settlement is subject to approval by the Federal Court of the settlement terms. The settlement of all other shareholder claims will be effected by the Shareholder Claimant Scheme.

The Hall Proceeding Settlement, Shareholder Claimant Scheme and the Senior Lender Scheme are all conditional on each other, with court approval being sought simultaneously.

9.6 Cash flow analysis

WIP is a key driver of cash flow from operations. The adoption of AASB-15 has reduced volatility in relation to WIP recognition, as the requirement under the new standard for revenue to be recognised is a higher threshold than previously required for revenue recognition.

The table below summarises the cash flow statement of Slater & Gordon for FY15, FY16 and FY17 on a statutory basis.

Table 10: Cash flow of Slater & Gordon (Statutory)

As at	12 months to		
\$ million unless otherwise stated	30-Jun-15	30-Jun-16	30-Jun-17
EBITDAW	92.6	(49.3)	(76.1)
Movement in WIP	10.7	(41.3)	(51.8)
EBITDA	103.3	(90.7)	(127.9)
Changes in net working capital and other items	(49.9)	(1.9)	84.2
Interest paid (net)	(6.6)	(34.9)	(6.4)
Tax paid	(6.0)	23.2	11.1
Operating Cash Flow	40.8	(104.2)	(39.1)
Payment for software and property, plant & equipment	(22.3)	(18.1)	(8.2)
Costs associated with originating loans	(9.5)	-	-
Costs, repayments and payments associated with acquisitions	(1,372.4)	(10.4)	(2.1)
Proceeds from disposal of businesses	-	0.2	(1.5)
Pre-financing cash flow	(1,363.4)	(132.5)	(50.9)
Proceeds from share issue (net)	872.5	(0.1)	(0.0)
(Loans/payments to)/proceeds from related parties and employees	3.4	(5.4)	(5.7)
Proceeds from borrowings (net)	550.1	148.0	11.4
Dividends paid	(15.9)	(17.1)	-
Net increase/(decrease) in cash held	46.7	(7.0)	(45.2)
<i>Cash at beginning of financial year</i>	<i>25.3</i>	<i>97.0</i>	<i>82.5</i>
<i>Net foreign exchange difference</i>	<i>25.0</i>	<i>(7.5)</i>	<i>(4.0)</i>
Cash at end of period	97.0	82.5	33.3

Source: Slater & Gordon Annual Reports and Financial Report 2017

Note: Tables may not add due to rounding.

In relation to Slater & Gordon's cash flows as presented in the table above, we note the following:

- in FY17 net operating cash outflows decreased to \$39.1 million (FY16: \$104.2 million outflow). Consistent with prior year, cash outflows continue to be impacted by significant non-recurring consulting costs, material facility amendment fees and higher interest margins
- net cash outflows used in investing activities for FY17 reduced by \$16.5 million relative to FY16 as a result of lower acquisition-related costs, particularly deferred acquisition consideration in relation to previous acquisition

- capital expenditure reduced from FY16 to FY17 with outlays of \$18.1 million and \$8.2 million, respectively. This was driven by a reduction in payments for plant and equipment, in which the carrying value has decreased by \$6.7 million over the period
- during FY17, the Company recorded \$5.6 million in net cash inflows from financing activities compared to \$125.5 million in FY16. This reflects the significant net reduction associated with proceeds from borrowings, capitalised interest costs and facility amendment fees
- dividends paid during FY16 relates to FY15 interim dividends of 3.5 cents per share (40 percent franked) and FY15 full year dividends of 5.5 cents per share (40 percent franked). Slater & Gordon has not declared any dividends in respect to FY16 and FY17.

9.7 Issued capital

As at 30 June 2017, Slater & Gordon has the following securities on issue:

- 347,245,601 ordinary shares on issue
- 356,000 performance rights.

Further, warrants issued pursuant to the SFA, entitling the holders of the warrants to be issued ordinary Shares equal to 15.0 percent of the value uplift, being the difference between the market capitalisation of the Company on the deferred restructure fee payment date and the market capitalisation of the Company on the date of Amendment Agreement (No 5) (terms as defined in the SFA). As only 41.6 percent of Senior Lenders elected to receive these warrants in lieu of a cash payment, the maximum number of ordinary Shares to be issued in satisfaction of the warrants is equal to 6.24 percent of the value uplift.

The Shares are listed and traded on the ASX. Shareholders are entitled to receive dividends (should the directors elect to pay them) and cast one vote per share at shareholder meetings.

As per the 30 June 2017 Financial Report, the vesting of the performance rights is to be assessed in September 2017. These rights have now been assessed and the Board has resolved that they have not met the performance based vesting hurdles and are lapsed. All other performance rights and Shares were either cancelled or extinguished as at 30 June 2017. As such, these securities have been excluded in our valuation.

Accordingly, on a fully diluted basis the total number of Shares Pre-Recapitalisation is 347,245,601 (being the 347,245,601 ordinary shares).

Ordinary shares

As at 30 June 2017, Slater & Gordon had 347,245,601 Shares on issue. Shareholders are entitled to receive dividends and distributions and also have voting rights. The following table outlines the top ten Shareholders as at 30 June 2017. Whilst the top ten Shareholders collectively held 14.18 percent, no single Shareholder had control over Slater & Gordon as at 30 June 2017.

Table 11: Top 10 Slater & Gordon shareholders as at 30 June 2017

Shareholder	Number of Slater & Gordon shares	% of issued capital
Citicorp Nominee Pty Limited	7,138,314	2.1%
Mr Andrew Grech	7,000,656	2.0%
HSBC Custody Nominees (Australia) Limited	5,681,219	1.6%
Mr Ken Fowlie	5,646,221	1.6%
JBWere (NZ) Nominees Limited	4,297,564	1.2%
Mr Hayden Stephens	4,804,115	1.4%
JP Morgan Nominees Australia Limited	4,239,548	1.2%
Comsec Nominees Pty Limited	3,937,049	1.1%
BNP Paribas Nominees Pty Ltd	3,684,700	1.1%
Mr Peng Ren	2,800,000	0.8%
Total Slater & Gordon shares held by top 10 shareholders	49,229,386	14.18%
Other Slater & Gordon shares	298,016,215	85.82%
Total Slater & Gordon shares on issue	347,245,601	100.00%

Source: Slater & Gordon Management, KPMG Corporate Finance analysis.

9.8 Directors' interests

As at 30 June 2017, the Directors held a combined relevant interest of 2.05 percent in Slater & Gordon. The Directors' interest in Shares as at 30 June 2017 is detailed in the table below. We note that as part of the 29 June 2017 ASX announcement, Andrew Grech stepped down from his position as Group Managing Director effective immediately, though he remains a Non-Executive Director of Slater & Gordon in the short term.

Table 12: Directors' interest at 30 June 2017

Name	Position	Number of Slater & Gordon shares	% of issued capital
Andrew Grech	Executive Director	7,000,656	2.02%
John Skippen	Non-Executive Director	100,000	0.03%
James M. Millar	Non-Executive Director	20,000	0.01%
Tom Brown	Non-Executive Director	n/a	n/a
Total Slater and Gordon shares held by top 10 shareholders		7,120,656	2.05%

Source: Slater & Gordon Annual Report 2016 and KPMG Corporate Finance analysis

Note: n/a represents not applicable.

9.9 Trading performance

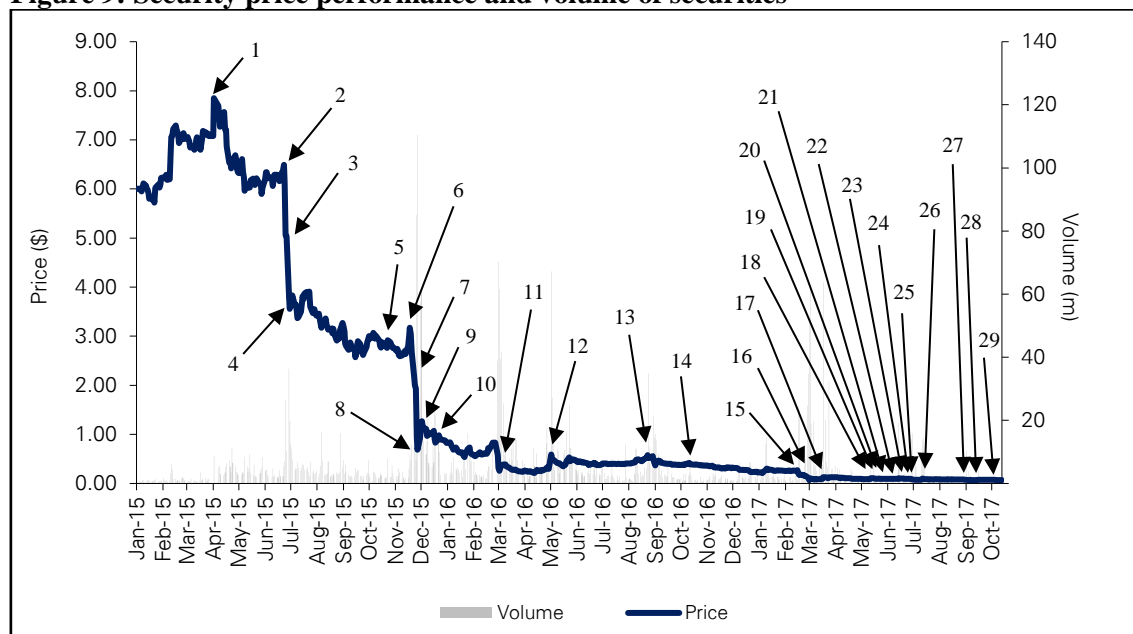
In assessing Slater & Gordon's security price performance, we have:

- analysed price and volume performance since 1 January 2015
- compared Slater & Gordon's security price movement to the S&P/ASX Small Ordinaries (Small Ordinaries) and comparable company, Shine Corporate Limited (Shine) (ASX:SHJ) over the period from 1 January 2015 to 13 October 2017
- assessed the volume weighted average price (VWAP) and trading liquidity of Slater & Gordon securities for the period pre and post the announcement of the Recapitalisation.

9.9.1 Security price and volume performance

Slater & Gordon's security price performance and the volume of securities traded over the period from 1 January 2015 to 13 October 2017 is illustrated below.

Figure 9: Security price performance and volume of securities



Source: Iress, KPMG Corporate Finance analysis.

Significant announcements by Slater & Gordon from 1 January 2015 to 13 October 2017 that may have had an impact on its recent share price include:

1. 30 March 2015 – Slater & Gordon announced the Company had entered into an agreement to acquire Quindell's PSD for an upfront consideration of \$1,225 million. The Company also announced its intention to fund the acquisition through an equity raise of approximately

\$890 million. Following these announcements the share price increased from a closing price of \$7.08 on 30 March 2015 to an intra-day high of \$7.93 on 2 April 2015

2. 24 June 2015 – the Australian Financial Review reported that ASIC had begun investigating Slater & Gordon and its auditor, Pitcher Partners. The report was denied by the Company and an announcement to this effect was released to dismiss the ASIC probe. Shares decreased by approximately 6 percent from \$6.49 on 23 June 2015 to \$6.13 on 24 June 2015 with an intra-day low of \$6.11
3. 25 June 2015 – Slater & Gordon announced that the Financial Conduct Authority, ASIC's UK counterpart, had launched an investigation into statements relating to Quindell's financial accounts for the 2013 and 2014 financial years. The share price declined by a further 17 percent, falling from \$6.13 on 24 June 2015 to \$5.06 on 25 June 2015 with an intra-day low of \$4.74
4. 29 June 2015 – Slater & Gordon released a statement confirming that the Company was under investigation by ASIC and that Ernst & Young had been engaged to assist with initial ASIC queries. In addition, the Company announced Ernst & Young had uncovered an accounting error overstating cash receipts and payments over three years due to tax miscalculations from its first British acquisition in 2013. The share price fell a further 25 percent from \$5.06 on 25 June 2015 to \$3.78 on 29 June 2015
5. 27 October 2015 – Slater & Gordon announced Wayne Browne's decision to step down as Group CFO. The share price declined from \$2.83 on 27 October 2015 to \$2.78 on 28 October 2015
6. 18 November 2015 – Slater & Gordon announced the former Navitas CFO, Bryce Houghton would be appointed as the new CFO. The share price fell approximately 4 percent from \$3.17 on 18 November to \$3.05 on 19 November 2015
7. 20 November 2015 – the Annual General Meeting for Slater & Gordon was held on 20 November 2015. Operating results were restated and the share price continued to decline, falling 12 percent from \$3.05 on 19 November to \$2.68 on 20 November 2015 with an intra-day low of \$2.63
8. 26 November 2015 – the UK Government announced proposals to implement changes to the current compensation schemes including alterations to the compensation available and the minimum claim threshold for people injured in road traffic accidents. The share price decreased by 64 percent from \$1.94 on 25 November 2015 to \$0.69 on 27 November. This was the first time the Company's share price had fallen below \$1.00 since it listed in 2007
9. 30 November 2015 – Slater & Gordon released a statement on its revenue and EBITDAW guidance for FY16 and the volume of the stock traded increased by approximately 20 times

the average daily turnover. The share price recovered from a low of \$0.69 on 27 November 2015 to \$0.93 on 30 November 2015

10. 17 December 2015 – Slater & Gordon released a statement noting trading results were lower than expected in segments of the business in the UK in November and the Company withdrew its previous full year guidance for the 2016 financial year. The share price declined approximately 17 percent from \$1.08 on 16 December 2015 to \$0.89 at the close of 17 December 2015
11. 29 February 2016 – Slater & Gordon announced FY16 half year results detailing significant underperformance including a \$958.3 million loss for six months ended 31 December 2015 impacted by a \$876.4 million non-cash impairment charge against the carrying value of goodwill. The share price decreased from \$0.58 on 29 February 2016 to a low of \$0.32 on 1 March 2016
12. 2 May 2016 – Slater & Gordon announced the Company's agreement with its lenders to amend terms of the existing SFA, allowing facility limits and maturities to be maintained. The market reacted positively with increased trading volumes and a price increase from a low of \$0.32 on 1 March 2016 to \$0.59 on 2 May 2016
13. 24 August 2016 – Slater & Gordon released an update on earnings and balance sheet guidance for financial year ended 30 June 2016. The guidance referenced a turnaround in the performance of the UK business however the share price decreased from \$0.58 on 23 August 2016 to \$0.52 on 24 August 2016 with an intra-day low of \$0.50
14. 13 October 2016 – Slater & Gordon was served with the Hall Proceeding, shareholder class action. The share price remained stable at \$0.39 following the announcement
15. 16 February 2017 – Slater & Gordon announced it was continuing to work toward a recapitalisation plan with its lenders as its current levels of debt exceeded total enterprise value. The share price decreased from \$0.27 on 15 February 2017 to \$0.20 on 16 February 2017 with an intra-day low of \$0.18
16. 27 February 2017 – Slater & Gordon released the FY17 half year financial results which reported a \$425.1 million net loss after tax for the half year ended 31 December 2016. The results included commentary from the Managing Director at the time, Andrew Grech, addressing key issues for Slater & Gordon moving forward. The share price decreased from \$0.16 on 24 February to a low of \$0.13 on 27 February 2017
17. 17 March 2017 – Slater & Gordon advised that in excess of 94 percent of its debt facility had traded from its original syndicate of par lenders to secondary debt buyers. The share price increased 46.1 percent from \$0.09 on 16 March 2017 to \$0.13 on 17 March 2017
18. 5 May 2017 – Slater & Gordon released an update in relation to the execution and completion of an agreement with its new Senior Lenders for the provision of a new working

capital facility. The \$40 million facility has a three year term and will provide working capital headroom in the Company's plan to restore financial performance

19. 12 May 2017 – Slater & Gordon confirmed that its UK subsidiary intended to file a claim against Watchstone Group plc (formerly known as Quindell Plc) in the High Court of England and Wales for approximately £600 million. Following the update, the share price increased from \$0.09 on 11 May 2017 to \$0.11 on 12 May 2017 with an intra-day high of \$0.13
20. 15 May 2017 – Slater & Gordon confirmed that its UK subsidiary, SGS, received a notice requiring production of documents from the UK Serious Fraud Office. On the day, the share price reached an intra-day high of \$0.12 and closed at \$0.11
21. 24 May 2017 – Slater & Gordon was served with an application to the Federal Court issued on behalf of Mr Delaney (the Delaney Application). The share price decreased from \$0.10 on 23 May 2017 to \$0.09 on 24 May 2017
22. 8 June 2017 – Slater & Gordon received notice of potential class action proceeding from Johnson Winter & Slattery Lawyers on behalf of Babs cay Pty Ltd based on allegations of misleading representations in the Company's recent financial statements
23. 14 June 2017 – Slater & Gordon confirmed that its UK subsidiary filed and served a claim on Watchstone Group Plc. The Company also announced an in principle agreement was reached to settle the landmark Manu Island class action for \$70 million plus relevant legal costs, subject to approval. The share price rose from \$0.09 on 13 June 2017 to \$0.11 on 14 June 2017 with an intra-day high of \$0.12
24. 20 June 2017 – Slater & Gordon advised that Babs cay Pty Ltd served a class action proceeding on the Company. The share price experienced an intra-day high of \$0.11 on 20 June 2017 from \$0.10 on 19 June 2017
25. 29 June 2017 – Slater & Gordon announced it had entered into a RSD with its Supporting Lenders to undertake the Recapitalisation which would be implemented via the Senior Lender Scheme. The share price rose to an intra-day high of \$0.10 on 29 June 2017 from a price of \$0.09 at the close of 28 June 2017
26. 11 July 2017 – Slater & Gordon released an update in relation to reaching an in principle conditional agreement to settle the Hall Proceeding, the settlement of which would also resolve any and all potential shareholder claims against the Company and its Directors and Officers during a specified period of time. The share price increased from \$0.08 on 11 July 2017 to \$0.10 on 12 July 2017
27. 31 August 2017 – Slater & Gordon released its full year results for FY17 which reported a 32.7 percent decline in revenue from ordinary activities and 46.3 percent increase in net loss after tax. It was stated "The Directors continue to hold the view that current levels of bank

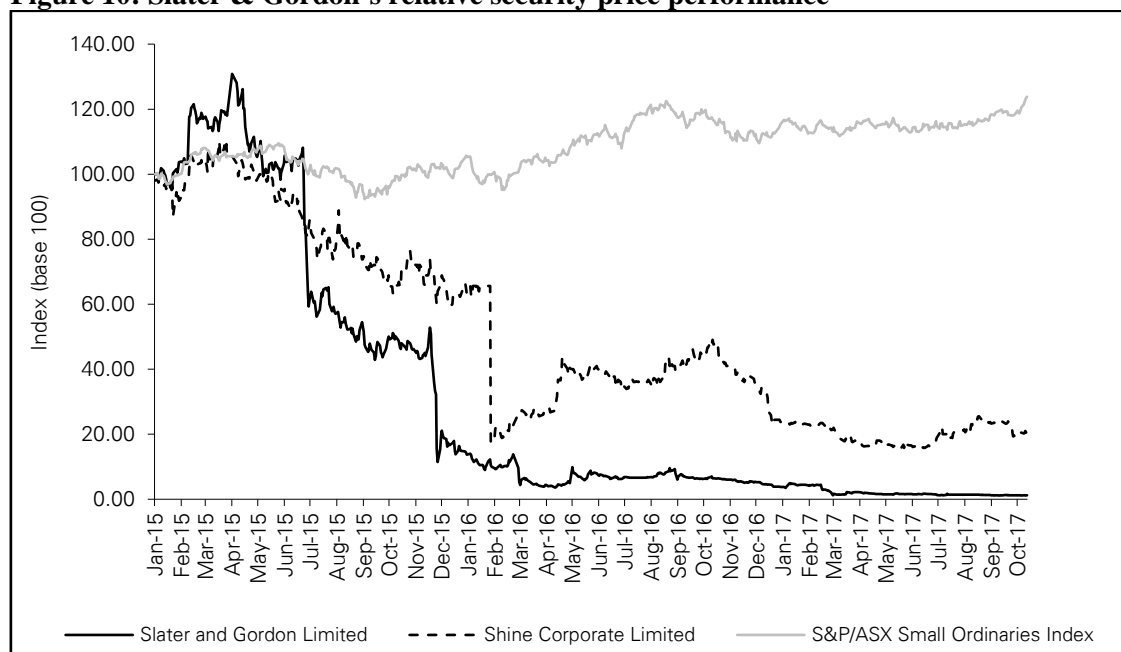
debt materially exceed total enterprise value and that the Company requires a holistic restructuring of its balance sheet.” The Company also advised that it has entered into an amended binding RSD with 100 percent of its Senior Lenders in relation to the Recapitalisation. The revised terms of the Recapitalisation will provide additional liquidity support required for Slater & Gordon’s 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 share price closed at \$0.08 followed by an intra-day low of \$0.07 on 1 September 2017

28. 12 September 2017 – Slater & Gordon released its proposed transformation plan, including cost reductions and structural changes and began the process of consultation with impacted employees. A number of office locations nationally are impacted and approximately 7 percent of Australian employees are impacted
29. 21 September 2017 – Slater & Gordon announced it had entered into a binding agreement in relation to the Hall Proceeding, in which the settlement terms remain consistent with those outlined in the in principle agreement announced to the ASX on 11 July 2017. The terms are subject to approval by the Federal Court.

9.9.2 Relative performance

The figure below illustrates Slater & Gordon’s security price trading performance relative to the Small Ordinaries and Shine (ASX: SHJ) between 1 January 2015 and 13 October 2017.

Figure 10: Slater & Gordon’s relative security price performance



Source: Iress, S&P Capital IQ, KPMG Corporate Finance analysis.

In relation to the figure we note:

- from 1 January 2015 to 7 April 2015, Slater & Gordon appreciated 28 percent while the Small Ordinaries appreciated 5 percent and Shine appreciated 7 percent. The announced acquisition of PSD on 30 March solidified Slater & Gordon as one of the top 100 largest companies in Australia, pushing Slater & Gordon into the S&P/ASX 100 Index
- following subsequent events and announcements surrounding the performance of and investigations into Quindell and ultimately, Slater & Gordon, its share price fell 56 percent during the 7 April 2015 to 9 July 2015 period. Over the same time period, the Small Ordinaries Index declined 6 percent and Shine decreased 26 percent
- Slater & Gordon continued to underperform relative to the index, with share price falling 97 percent from 9 July 2015 to 11 April 2017. In comparison, Small Ordinaries appreciated 18 percent over the same period. Shine also underperformed during the period declining 79 percent. The Slater & Gordon share price displayed significantly greater volatility relative to the index which is not uncommon given the enhanced diversification of an index when compared to a single company. Shine experienced a similar share price decline to Slater & Gordon as a result of their review of WIP recovery rates materially impacting their FY16 EBITDA guidance.

9.9.3 Liquidity

Set out in the table below is an analysis of the periodic VWAPs and liquidity of Slater & Gordon's shares for the 12 month period prior to and including 16 March 2017.³⁶ The table below summarises the liquidity of Slater & Gordon securities and summarises an analysis of the volume of trade in the Company's shares on the ASX.

Table 13: VWAP and liquidity analysis – period prior to and including 16 March 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.08	0.09	0.09	1.9	21.1	6.0
1 month	0.07	0.20	0.11	31.5	294.0	83.4
3 months	0.07	0.33	0.15	65.6	428.7	121.7
6 months	0.07	0.44	0.19	104.1	539.2	153.0
12 months	0.07	0.68	0.34	468.8	1,394.9	395.9

Source: Iress, S&P Capital IQ, KPMG Corporate Finance analysis.

With regard to the table above, we note the following:

- Slater & Gordon's shares have exhibited very high liquidity over the 12 months to, and including, 16 March 2017, with total shares traded 4.0 times total shares on issue in the last 12 months and 1.5 times total shares on issue in the last 6 months to 16 March 2017

³⁶ Note: for, '1 week' means five days prior to and including 16 March 2017. On 17 March 2017, Slater & Gordon entered into discussions regarding restructuring options in relation to its debt facilities.

- the VWAP declined from \$0.34 over the full 12 month period to \$0.09 in the last week.

We note that given the percentage of issued capital that traded over the 12 month period prior to 16 March 2017, the Company's liquidity was relatively high. In the week leading up to 16 March 2017, this liquidity has declined, with only 6 percent of issued capital trading.

Since the proposed recapitalisation was announced, Slater & Gordon's share liquidity reduced. The table below sets out an analysis of the periodic VWAPs and liquidity of Slater & Gordon's shares for the period 17 March 2017 to and including 12 October 2017.

Table 14: VWAP and liquidity analysis – period prior to and including 12 October 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.07	0.07	0.07	0.4	6.3	1.8
1 month	0.07	0.08	0.07	1.6	22.7	6.5
3 months	0.07	0.11	0.08	8.2	102.2	29.4
6 months	0.07	0.13	0.09	26.1	290.6	83.4
17 Mar 17 to 12 Oct 17	0.07	0.14	0.09	29.5	318.4	91.3

Source: Iress, S&P Capital IQ, KPMG Corporate Finance analysis.

With regard to trading in the period since 16 March 2017, we note the following:

- the volume of shares traded over the 6 month period prior to 12 October 2017 of 83.4 percent is significantly lower than in the 6 month period prior to 16 March 2017 (1.5 times). Although the volume of Shares traded over this period suggests the shares are liquid, we note the following:
 - Slater & Gordon's investor base comprises primarily retail shareholders (with no shareholders as at 30 June 2017 holding more than 2.1% (refer to Table 11))
 - trading involved primarily small parcels of shares (the average value of a parcel traded since 17 March 2017 is \$1,256)
 - Slater & Gordon is not covered by brokers
- the VWAP declined from \$0.09 over the six month period to \$0.07 in the last week of the period.

10 Solvency Analysis

We have considered the solvency of Slater & Gordon immediately before and following the Recapitalisation of which the Senior Lender Scheme is a principal component.

It is our opinion that Slater and Gordon is at risk of becoming insolvent in the absence of ongoing lender support. The Company will not have sufficient cash flow to meet its ongoing interest payments and repay the first three tranches of senior debt which fall due for repayment in May 2018.

Immediately following implementation of the Senior Lender Scheme, Slater & Gordon will be solvent. Our opinion is based on the following:

- *Substantial Debt Reduction:* Outstanding secured debt will be permanently reduced by a combination of changes to, and restatement of, a portion of the debt and release of the remaining debt. The new secured debt facilities will be as follows:
 - the collective of individual secured lenders (New Lenders Group) have provided the Company with additional support in the form of a \$40 million working capital facility of which, as at 30 June 2017, \$15 million has been drawn
 - new additional Super Senior Incremental Facilities of \$50 million split between the UK and Australian operations
 - amounts owing by Slater & Gordon under the SFA will be refinanced under the Restated SFA, totalling \$60 million post-implementation of the Senior Lender Scheme
 - non-recourse UK Convertible Notes up to £250 million in respect of the net proceeds of claim and insurance proceeds related to the UK Company's Watchstone claim
- *Covenant Support:* the financial covenants agreed with the New Lending Group are intended to provide ongoing financial stability with only a minimum cash balance requirement
- *Interest Capitalisation:* each of the facilities entered into under the Recapitalisation will have interest accrued and capitalised for the term of the facility allowing the Company to utilise cash to improve performance and execute the turnaround strategy.

The ability of Slater & Gordon to remain solvent is predicated on its ability to achieve its turnaround strategies, rebuild its brand and manage the risks.

10.1 Approach

In determining solvency, the ability of Slater & Gordon to pay its debts as and when they fall due has been considered before and immediately after the Recapitalisation. We have undertaken this assessment with reference to the definition of solvency set out in Section 95A of the Corporations Act and common law principles (Appendix 7 of this report).

Section 95(A) of the Corporations Act defines a solvent person as ‘A person is solvent if, and only if, the person is able to pay all (our emphasis) the person's debts, as and when they become due and payable.’ A person who is not solvent is insolvent.

When considering solvency it is our view that you must consider the length of time that encompasses all debts whether immediate, future or contingent that the company is obligated to pay and therefore you must look as far ahead as is considered reasonably reliable.

The company's ability to pay all its debts should be determined by reference to the actual circumstances of the company. Determining whether a company is solvent predominantly involves applying a cash flow test supported by the context of the company's balance sheet position and the commercial realities confronted by the company at the time. This requires realistically assessing whether the company's anticipated current and future cash flows will be sufficient to enable current and future liabilities to be paid as and when they fall due for payment.

When considering anticipated current and future cash flows it is appropriate to consider resources other than cash that the company might have at its disposal such as saleable assets, capacity to raise capital through equity or secured and unsecured borrowings.

The Company has not released any recent prospective financial information to the market and accordingly, for the purpose of considering whether, immediately following the implementation of the Recapitalisation, Slater & Gordon will be solvent the following represents an overall summary of the approach taken:

- a consideration of the pro forma historical cash flow as a proxy for forecast cash flows
- a consideration of the pro forma trading performance as a proxy for forecast trading performance
- a consideration of the financial position of Slater & Gordon as at 30 June 2017
- an assessment of any adjustments that ought to be made to the financial statements of Slater & Gordon in order to properly assess liquid assets, current assets and liabilities and net assets, including a consideration of any valuation reports concerning asset values
- a consideration of any unused sources of finance available, assets available for sale, and existing arrangements with principal financiers
- a consideration of the information provided by the Directors and Management
- financing analysis including facility agreements, drawn and undrawn facilities, and debt amortisation requirements
- ability to raise equity
- other considerations, including
 - litigation
 - audit opinions, and the basis of going concern assumptions.

Further details of our approach and methodology are contained in Appendix 7 of this report.

10.2 Primary test – cash flow

10.2.1 Overview

We have considered the ability of Slater & Gordon to meet its debts as and when they fall due having regard to the pro forma cash flows of the Company on the basis that the Recapitalisation is approved and also if the Recapitalisation was not approved.

The Company has released the following commentary as part of Note 1.1 of its financial statements for the year ended 30 June 2017:

“The Group will not have sufficient free cash flow to pay interest and repay the facilities in May 2018, or earlier, accordingly, the Group requires the ongoing support of its lenders to continue as a going concern.”

We have analysed the historical cash flows on a pro forma basis in order to consider the ability of Slater & Gordon to meet its debts as and when they fall due. In considering the pro forma cash flows we have analysed the following sources of information:

- historical cash flows for the periods ended 30 June 2013 to 30 June 2017
- adjustments to the historical cash flows to reflect the impact of significant items
- the current financial arrangements and debt maturity profile
- the SFA dated 29 May 2015
- restated SFA dated 23 December 2016 and subsequent amendment dated 31 March 2017
- the proposed debt profile following the Recapitalisation.

We have also met with Management to discuss the current trading performance.

10.2.2 Observations on the pro forma cash flow – Pre-Recapitalisation

Table 15 sets out the historical pro forma Cash Flow Available for Debt Service (CFADS) of Slater & Gordon for the 12 months ended 30 June 2013, 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017, being the latest financial information available.

Table 15: Historical pro forma cash flow available for debt service

Period					
\$million unless otherwise stated	FY13	FY14	FY15	FY16	FY17
Operating cash flow	32.7	54.4	40.8	(104.2)	(39.1)
Gross operating cash flow ¹	39.1	67.4	53.4	(92.5)	(43.8)
Normalised CFADS before tax	32.7	54.4	56.0	(57.6)	10.2

Source: Company Annual Reports and Presentations, KPMG Corporate Finance analysis

Note: 1. Gross operating cash flow is defined as net cash (utilised)/provided by operating activities before interest received, borrowing costs paid, income tax paid and payments to former owners.

In regards to the above, we note:

- normalised CFADS before tax ranged from \$32.7 million to \$56.0 million before the PSD acquisition. Following the PSD acquisition, normalised CFADS decreased to negative \$57.6 million in FY16 and has improved to \$10.2 million in FY17
- the Company commenced an organisational restructure and a turnaround strategy at the end of FY16 which is expected to run until they are completed in FY20
- to normalise the operating cash flow we have adjusted the cash flow for non-recurring restructuring costs and consultancy fees related to the restructure
- to date, the turnaround strategy have been focused on working capital and cost-out initiatives (such as cost savings from a reduction in headcount, reduction in real estate footprint, marketing and IT service costs). In the future, the turnaround strategy will shift towards productivity initiatives (including integrating and streamlining of systems and processes, investments in technology, and improving staff engagement to increase productivity).

In the table below, we have assessed the CFADS of Slater & Gordon against its debt service obligations adopting the following assumptions:

- we have adopted the following CFADS scenarios to ensure we adequately consider the range of possible outcomes:
 - Low: the Company continues to perform in line with FY17 performance
 - Mid: the Company will return to its FY13 level of performance of \$32.7 million per annum (ie its performance prior to the PSD acquisition, which implicitly assumes PSD is cash flow neutral)
 - High: the Company will increase to its FY15 level of performance of \$56.0 million, being its record level of performance. This is higher than maintainable EBITDA (as set out in further detail in Section 11.4) and therefore allows for some performance improvement
- the Recapitalisation is unlikely to affect the Company's current tax position
- the first tranches of debt mature in May 2018 when approximately \$431.3 million becomes due. As a result, we have considered an analysis of CFADS for an 11 month period

- as at 30 June 2017, Slater & Gordon had drawn facilities, excluding derivative financial instruments, of \$780.9 million (net: \$747.7 million) and net finance costs for the year ended 30 June 2017 were \$50.7 million, including \$9.6 million of non-recurring finance costs. Normalised financing costs were \$41.1 million for the 12 months ended 30 June 2017. We have assumed this level of annual interest expense for the purposes of our analysis (which equates to approximately 5.6 percent per annum).

Table 16: Pro forma cash balance as at 31 May 2018

\$million unless otherwise stated	Low	Mid	High
Cash flow from operating activities			
CFADS before tax	10.2	32.7	56.0
Pro forma interest expense	(42.2)	(42.2)	(42.2)
Annual CFADS less interest expense	(32.0)	(9.5)	13.8
Pro forma cash balance at 31 May 2018			
Cash balance as at 30 June 2017	33.3	33.3	33.3
11 months of CFADS less pro forma interest expense	(29.3)	(8.7)	12.6
Debt maturity (May 2018)	(431.3)	(431.3)	(431.3)
Pro forma Surplus / (deficit)	(427.4)	(406.7)	(385.4)

Source: Company Annual Reports and Presentations, KPMG Corporate Finance analysis

Note: Tables may not add due to rounding.

Under the scenarios above, the Company would not be able to repay the debt maturing in May 2018 from its own cash reserves.

As such, it is necessary to also consider whether the Company would be able to repay the debt by refinancing with new lenders. In this respect we note that the SFA included the following debt covenants:

- a minimum interest coverage ratio (EBITDA / interest expense) of 2.75x
- a maximum leverage ratio (Net debt / EBITDA) no greater than 2.95x at the commencement of the facility, reducing to 2.25x after three years.

Whilst these covenants were removed as part of a series of addendums to the SFA, in our view, they represent a guide as to what an incoming lender would likely require in the event of refinancing the Company's debt. Given the nature of the recent performance, in our view it is also reasonable to consider that an incoming lender may require stricter covenants.

In the table below, we have calculated the level of EBITDA required to be achieved by the Company in order to maintain its existing debt levels and meet the above covenants.

Table 17: EBITDA required to meet covenants

\$million unless otherwise stated	
Interest coverage ratio	
Estimated annual interest expense	42.2
Minimum interest coverage ratio	2.75x
Implied EBITDA required	116.1
Leverage ratio	
Net debt as at 30 June 2017	747.6
Maximum leverage ratio	2.25x
Implied EBITDA required	332.3
EBITDA required to meet both covenants	332.3

Source: Syndicated Facility Agreement, Company Annual Reports and Presentations, KPMG Corporate Finance analysis.

The level of EBITDA required to meet the above banking covenants would be approximately \$332.3 million if the Company were to maintain its existing debt levels. In our view, given the historical track record of the Company and its current operational challenges, this level of EBITDA cannot be achieved by May 2018 when the first tranches of debt fall due. In this regard, the Company is unlikely to be able to refinance its debt.

10.2.3 Observations on the pro forma cash flow – Post-Recapitalisation

Table 18 below sets out the pro forma cash flow of the Company assuming the Recapitalisation is approved.

The pro forma cash flow assuming the Recapitalisation is approved adopts the same operational assumptions as the pro forma cash flow assuming the Recapitalisation is not approved, but with the new financial arrangements in place.

The Post-Recapitalisation financial arrangements are set out in the table below.

Table 18: Post-Recapitalisation Financial Arrangements

\$'000	Functional Currency	GBP Face value	AUD	Total (AUD) ¹	Interest rate (PIK)	Interest frequency	Term	Covenants
Australian New Super Senior Facility ²	AUD		65,000	65,000	BBSY + 10%	PIK at 6 months capitalised and added to principle	3 years	Minimum balance of \$2.5 million
UK New Super Senior Facility ²	GBP	14,780	25,000	25,000	BBSY + 10%	PIK at 6 months capitalised and added to principle	3 years	Minimum cash balance of £2.5 million
Restated Facility ³	AUD		60,000	60,000	BBSY + 2%	PIK at 6 months capitalised and added to principle	5 years	None
Convertible Note Facility ⁴	AUD		84,574	84,574	0%	N/A	5 years	None
Total facilities				234,574				

Source: Management

Note: 1. As at 30 June 2017. Assumed GBP: AUD of 0.5912

2. The New AUD Super Senior Facility comprises \$40 million of facilities already provided and an additional \$25 million facility. The Super Senior GBP Incremental Facility is a \$25 million facility equivalent in GBP

3. The restated facility represents the residual of the existing SFA amended to reflect a debt of \$60 million

4. The Convertible Note relates to the UK business only and includes mandatory repayment of any monies recovered from the Watchstone-related claims - \$84.6 million reflects the A\$ equivalent of the £50 million held in escrow in relation to those claims.

The estimated annual interest expense immediately following the restructure and resulting pro forma cash flow post restructure is set out below.

Table 19: Pro forma cash flow available for debt service – Post-Recapitalisation

\$million unless otherwise stated	Low	Mid	High
Cash flow from operating activities			
CFADS before tax	10.2	32.7	56.0
Interest expense	(0.5)	(0.5)	(0.5)
Annual CFADS less interest expense	9.8	32.3	55.5

Source: Company Annual Reports and Presentations, KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding.

2. Interest expense relates to interest on obligations under hire purchase

The table above illustrates the Company is expected to have sufficient cash flow to meet its debt service obligations following the Recapitalisation.

Key risks to the ability of the Company to meet its debt service obligations following the Recapitalisation relate to:

- the ability of the Company to achieve any of these scenarios of CFADS will be affected by:

- the number of new cases opened
- level of case intake volumes, average fee per case, dilution rates, file velocity, success rates and costs per case
- successful execution of the reorganisation and the turnaround strategy
- successfully resolve project litigation (NWNF)
- the level of NIHL cases settled which can be impacted by negative counterparty behaviour and case limitation dates
- the availability of After the Event (ATE) disbursement funding.

Furthermore, the low, mid and high scenarios assume:

- no adverse financial impact of the Shareholder Claimant Scheme and Watchstone claim
- no further changes in legislation governing the Group
- no action by Australian or UK regulators.

The business has faced several challenges executing the turnaround strategy, most notably staff dis-engagement, unplanned attrition, difficulties filling some roles, and a disparity of legacy systems and processes impacting the timing of several initiatives. This, together with the publicity of the Company's challenges negatively affecting the brand and adverse counterparty behaviour, has resulted in the Company continuing to underperform Management's expectations, particularly in regards to case resolution levels. Whilst the Company has detailed plans to address these challenges (including improved career planning and learning and development programs to improve staff engagement), in our view, the timing and quantum of benefits from the turnaround strategy and recovery of the brand / improvement in counterparty behaviour remains uncertain.

10.3 Indicative Test – Balance Sheet Test

10.3.1 Overview

We have also considered the consolidated statement of financial position of Slater & Gordon before and after the Recapitalisation to assist with forming a view on the solvency of the Group. This test is to be viewed as indicative only as it represents the financial position of the Company at a single point in time and does not consider the ability of the Company to generate future profits or cash flows available for debt servicing.

We have analysed the latest consolidated statement of financial position available being 30 June 2017.

10.3.2 Statement of financial position as at 30 June 2017

Table 120 sets out the statement of financial position of the Company as at 30 June 2017, pro forma adjustments and pro forma statement of financial position assuming the Recapitalisation is approved.

Table 20: Pro forma statement of financial position as at 30 June 2017

\$million unless otherwise stated	Pre Recapitalisation	Pro forma Adjustments	Post Recapitalisation AUS	Post Recapitalisation UK
Assets				
<i>Current assets</i>				
Cash and cash equivalents	33.3	0.0	8.3	25.0
Receivables	395.5	0.0	79.1	316.4
Work in progress	294.9	0.0	113.5	181.4
Current tax assets	0.0	0.0	0.0	0.0
Other current assets ¹	21.1	5.2	10.8	15.6
Total current assets	744.8	5.2	211.6	538.3
<i>Non-current assets</i>				
Property, plant and equipment	26.6	0.0	11.2	15.3
Receivables	91.5	0.0	28.4	63.1
Work in progress	220.1	0.0	127.2	92.9
Intangible assets ²	13.1	10.0	0.0	23.1
Deferred tax assets	34.7	0.0	26.3	8.4
Other non-current assets	0.5	0.0	0.5	0.0
Total non-current assets	386.5	10.0	193.7	202.8
Total assets	1,131.3	15.2	405.3	741.2
Liabilities				
<i>Current liabilities</i>				
Payables ³	(418.6)	23.0	(47.9)	(347.7)
Short term borrowings ⁴	(466.2)	464.4	(1.8)	0.0
Current tax liabilities	(8.2)	(0.0)	(2.9)	(5.3)
Other current liabilities	(1.8)	(0.0)	(0.0)	(1.8)
Provisions	(54.5)	(0.0)	(36.2)	(18.3)
Total current liabilities	(949.5)	487.4	(88.8)	(373.2)
<i>Non-current liabilities</i>				
Long term borrowings ^{5, 6}	(314.7)	126.8	(103.3)	(84.6)
Deferred tax liabilities	(93.4)	(0.0)	(93.4)	(0.0)
Derivative financial instruments	(1.4)	(0.0)	(0.9)	(0.5)
Provisions	(21.2)	(0.0)	(9.1)	(12.0)
Total non-current liabilities	(430.7)	126.8	(206.7)	(97.1)
Total liabilities	(1,380.1)	614.3	(295.5)	(470.3)
Net assets	(248.8)	629.5	109.8	270.8
Equity				
Total equity attributable to equity holders in the Company	(248.6)	629.5	109.8	271.0
Non-controlling interest	(0.2)	0.0	0.0	(0.2)
Total equity	(248.8)	629.5	109.8	270.8

Source: Management

Notes: 1. The pro-forma adjustment relates to the prepayment of the commitment fee in relation to the new working capital facilities

2. The pro-forma adjustment relates to the sale of the intellectual property by the Australian entity to the UK entity, offset against \$10.0 million of intercompany debt

3. The pro-forma adjustment relates to the payment of Scheme costs partially funded through the Super Senior advance of \$40 million

4. Short term borrowings are converted to long term borrowings other than lease commitments
5. Long term borrowings includes \$3.3 million of lease liabilities
6. All borrowings are considered by the company to be non-current
7. Tables may not add due to rounding.

As at 30 June 2017 the Company had a current ratio of approximately 0.8x and current liabilities exceeded current assets by \$204.7 million, implying the Company has insufficient liquidity to meet its short term needs. The Company's total liabilities exceeded its total assets by \$248.8 million, with near term borrowings begin to mature from May 2018, indicative of liquidity concerns arising within the next 12 months.

If the Recapitalisation is approved, total assets are expected to exceed total liabilities by \$380.7 million.

From the perspective of creditors, on a Pre-Recapitalisation basis, debt of \$780.9 million comprises (refer to Table 20):

- long term borrowings of \$314.7 million
- short term borrowings of \$451.2 million
- super senior facility of \$15.0 million

From the perspective of creditors, on a Post-Recapitalisation basis, debt of \$189.7 million comprises (refer to Table 20):

- long term borrowings of \$60.0 million
- working capital facility of \$40.0 million
- non-current lease liabilities of \$3.3 million
- current lease liabilities of \$1.8 million
- convertible notes with an estimated value of \$84.6 million for accounting purposes.

10.4 Indicative Test – Profit and Loss

10.4.1 Overview

Profit and loss is an indicator of solvency only, as it:

- does not show the cash flow arising from the financial performance
- may be influenced by particular accounting policies (such as the recognition and valuation of work in progress and estimates of depreciation)
- excludes investments required to maintain operations
- does not show changes in the capital structure (such debt refinancings / amortisation or equity distributions / raisings).

10.4.2 Pro forma financial performance Pre-Recapitalisation

We have analysed the pro forma financial performance of the Company assuming the Recapitalisation is not approved below.

The Company has not released any prospective financial information. In this respect, we have adopted the following pro forma profit and loss scenarios to ensure we adequately consider the range of possible outcomes:

- Low: the Company continues to perform in line with its adjusted Last Twelve Months (LTM) trading performance
- Mid: based on the lower end of assessed maintainable EBITDA (adopted for the purposes of the Valuation as set out in Section 11 of this report)
- High: based on the higher end of assessed maintainable EBITDA (adopted for the purposes of the Valuation as set out in Section 11 of this report).

Table 21: Pro forma profit and loss Pre-Recapitalisation

\$million unless otherwise stated	Low	Mid	High
EBITDA	(127.9)	52.2	58.9
Depreciation	(11.2)	(11.2)	(11.2)
EBIT (before significant items)	(139.2)	41.0	47.7
Pro forma Interest expense (net)	(42.2)	(42.2)	(42.2)
Pro forma Net Profit / (Loss) Before Tax	(181.4)	(1.2)	5.5

Source: Slater & Gordon Annual Reports, presentations and KPMG Corporate Finance analysis

Note: Tables may not add due to rounding.

Under the above scenarios, the Company would not generate sufficient EBIT to cover its interest expense. We note this analysis excludes the impact of principal repayments (including those due in May 2018).

10.4.3 Pro forma financial performance Post-Recapitalisation

The pro forma financial performance assuming the Recapitalisation is approved adopts the same operational scenarios as the pro forma financial performance assuming the Recapitalisation is not approved, but with the new financial arrangements in place.

Table 22: Pro forma profit and loss Post-Recapitalisation

\$million unless otherwise stated	Low	Mid	High
EBITDA	(127.9)	52.2	58.9
Depreciation	(11.2)	(11.2)	(11.2)
EBIT (before significant items)	(139.2)	41.0	47.7
Pro forma interest expense (net) post Recapitalisation	(0.5)	(0.5)	(0.5)
Pro forma Net Profit / (Loss) Before Tax	(139.6)	40.5	47.2

Source: Slater & Gordon Annual Reports, presentations and KPMG Corporate Finance analysis

Note: Tables may not add due to rounding.

If the Company was to continue to incur losses similar to those in FY2017, the Company would not generate sufficient EBIT to cover its costs. Under the mid and high scenarios, the analysis indicates that the Company would, in the absence of other factors, be able to meet its obligations.

10.5 Other solvency considerations

10.5.1 Debt obligations and covenants

A description of the Pre-Recapitalisation financial arrangements is set out in Table 23 below.

Table 23: Pre-Recapitalisation Financial Arrangements

\$'000	Functional Currency	GBP Drawn	AUD Drawn	Capitalised interest AUD	Total (AUD) ¹	Interest rate ²	Maturity
Tranche							
GBP multicurrency facilities							
Tranche A	GBP	157.5		10.7	277.1	LIBOR	29-May-18
Tranche B	GBP	157.5		12.6	279.0	LIBOR	31-Mar-19
Tranche C	GBP	47.0		3.8	83.3	LIBOR	29-May-18
Capitalised Fees	AUD				(1.2)		
Deferred Establishment Fee	AUD				3.6		
Liability							
AUD multicurrency facilities							
Tranche C	AUD		24.3	1.5	25.8	BBSY	29-May-18
Tranche D	AUD		45.0	2.6	47.6	BBSY	31-May-19
Tranche E	AUD		45.0	0.1	45.1	BBSY	29-Mar-18
Super Senior Facility	AUD		15.0		15.0	BBSY	
Lease liabilities	AUD				5.1		
Capitalised fees	AUD				0.5		
Total facilities					780.9		

Source: Management

Note: 1. As at 30 June 2017. Assumed GBP/AUD of 0.5912. As at 30 June 2017 total drawn facilities were \$780.9 million
2. Additional margin applied on interest rate.

This amount includes \$31.4 million of interest which was capitalised at 30 June 2017.

The Post-Recapitalisation financial arrangements are set out in Table 18 and will result in a substantial debt reduction.

10.5.2 Audit opinions

EY was Slater & Gordon's auditor for the year ended 30 June 2017. EY issued an unqualified audit opinion and included the following paragraph in its audit report.

“Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1.1 in the financial report which indicates that the consolidated entity incurred a net loss after tax of \$546.8 million, negative net

cash flow from operating activities of \$39.1 million and, as at 30 June 2017 the Group's total liabilities exceeded its total assets by \$248.8 million. The note also details that the Group's Syndicated Facility Agreement is fully drawn, with \$450.2 million of the drawings repayable in May 2018 in accordance with the agreement.

Note 1.1 describes the conditions that raise uncertainty regarding the consolidated entity's ability to continue as a going concern. It details uncertainties relating to cash flows which will not be sufficient to repay a portion of the Group's consolidated entity's borrowing facilities of \$450.2 million due in May 2018, or earlier, if that was required. It also details that the Group has reached agreement with its lenders to provide additional liquidity support required for it to remain able to pay debts as and when they fall due through to the proposed date of the recapitalisation of the Group and also details the consolidated entity's reliance on the recapitalisation and the ongoing support of its lenders to continue as a going concern.

Note 1.1 references Note 5.2 and Note 8 that detail the recapitalisation agreement entered into by the Group with its lenders and the settlement of shareholder class actions that both remain subject to conditions precedent and approvals as detailed in Note 5.2 and Note 8.

These conditions along with other matters as set forth in Note 1.1 indicate the existence of material uncertainties that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern."

10.5.3 Disbursement funding

In addition to the financial arrangements above, the Company operates a disbursement funding facility with EAFP within the Australian PI business. Under the terms of this facility, EAFP is repaid the principal and interest on disbursement funding by the client for successful cases. In the event the case is not successful, Slater & Gordon provide a guarantee over the principal and EAFP writes off the interest. The EAFP Disbursement Funding facility was \$16.0 million as at 30 June 2017.

The Company is in the process of establishing disbursement funding for ATE cases in the UK. This new stream of funding is expected to provide the funder with recourse back to a third party policy as opposed to a Slater & Gordon guarantee.

10.5.4 Litigation

As mentioned previously, Slater & Gordon is subject to a shareholder class action lawsuit. Maurice Blackburn is representing Shareholders for legal proceedings filed 12 October 2016 against Slater & Gordon in the Federal Court of Australia (the Hall Proceeding). The Hall Proceeding seeks compensation for damages suffered from misleading and deceptive conduct

by Slater & Gordon, claiming it breached its continuous disclosure obligations for the period from 30 March 2015 to 24 February 2016.

On 21 September 2017, the Company announced it had signed a binding agreement to settle the class action lawsuit. The binding settlement will also resolve all potential shareholder claims and will be implemented via the Shareholder Claimant Scheme and is subject to approval by the Federal Court. The terms of the binding agreement provide for a \$32.5 million Scheme Fund (for Shareholder Claimants) comprising funds from responsive directors and officers liability insurance policies with an additional \$4.0 million drawn down from the Super Senior AUD Incremental Facility and made available to Hall Proceeding Claimants. If the Shareholder Claimant Scheme and Hall Proceeding are not resolved, this may create additional liability for Slater & Gordon adding to its debt burden.

10.5.5 Ability to raise equity

Given the level of debt, in our view there would be limited ability to raise additional equity in the absence of the Recapitalisation. Slater & Gordon does not hold any instruments in its capital structure which would give it the right to call up partially paid capital or convertible instruments.

10.6 Conclusion on solvency

It is our view that Slater & Gordon is at risk of becoming insolvent at some future time without the continued support of its lenders and at the latest by May 2018 when the first three tranches of the SFA fall due as the Company and its subsidiaries (including its UK operations) will be unlikely to be able support this level of debt and successfully refinance.

We are of the opinion that the Company will be solvent immediately following the implementation of the Recapitalisation as:

- the Company's CFADS is expected to be sufficient to cover its debt service obligations
- the Company's balance sheet will be in a positive net asset position following implementation of the Recapitalisation
- the Company is expected to generate positive EBIT and net profit before tax under the mid and high scenarios.

The low scenarios are based on the performance for the year to 30 June 2017 which only partially benefits from the reorganisation and the turnaround strategy. In this regard, the low scenarios do not represent base cases or best estimate assumptions, however, they do demonstrate the challenges remaining Post-Recapitalisation and the requirements for sustainable and substantial improvements to the underlying operations.

We highlight that the solvency of the Company remains dependent on the Company improving its underlying financial performance which includes achieving project litigation revenue, successfully executing the reorganisation and turnaround strategy, improving staff morale, complying with banking covenants, and experiencing no adverse external impacts on the businesses (such as changes in legislation and/or regulatory intervention).

11 Valuation of Slater & Gordon

11.1 Overview

We have assessed whether the Recapitalisation is fair by comparing the value of a Share prior to the Recapitalisation on a controlling basis to the value post the Recapitalisation on a non-controlling basis as at the Implementation Date.

This section sets out our assessment of the underlying value of Shares prior to the Recapitalisation (inclusive of a premium for control), and after the Recapitalisation (exclusive of a premium for control) as at the Scheme Implementation Date. When assessing the value of 100 percent of Slater & Gordon's equity, we have considered those synergies and benefits which would generally be available to a pool of hypothetical purchasers. We have not included the 'special value', or the value of synergies specific to a particular acquirer, in this case the Senior Lenders. Accordingly, our valuation of a Share has been determined regardless of the acquirer.

We have also had consideration of the impact of the Recapitalisation upon Shareholders, notably that the Pre-Recapitalisation value of Slater & Gordon is based upon the value of the Australian and UK operations combined, whilst the Post-Recapitalisation value only incorporates the value of the Australian operation, as the UK operations are transferred to UK HoldCo (which will be wholly owned by the Senior Lenders following the Recapitalisation) as a consequence of the Recapitalisation.

We recognise the difficulty in determining an appropriate value for Slater & Gordon as a result of its recent performance. In this regard, we have valued Slater & Gordon as a going concern, which implicitly assumes that existing debt arrangements would continue or be refinanced. While we have not considered the financial distress of the Company in assessing the enterprise value, consistent with the requirements of RG 111, we note that the current level of debt pre-Recapitalisation is unsustainable and exceeds the enterprise value and, therefore, the ability of the Company to continue to trade and avoid a breach of the SFA and other finance documents is limited in the current structure (refer to Section 10 of this report). We note the value of the Company would be less where existing financial distress was considered.

Pre-Recapitalisation

As noted in Section 4, we have based our valuation on a capitalisation of earnings approach. Under this approach, KPMG Corporate Finance estimates the enterprise value of Slater & Gordon prior to the Recapitalisation to be in the range of \$208.8 million to \$294.5 million on a control basis.

Table 24: Pre-Recapitalisation analysis

\$ million	Report Section	Value range Pre-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.4.1.1	580.0	620.0
Maintainable business margin (EBITDA)	11.4.1.2	9.00%	9.50%
Maintainable earnings (EBITDA)		52.2	58.9
EBITDA multiple (on a controlling basis) (times)	11.4.2	4.0x	5.0x
Enterprise value of Slater & Gordon		208.8	294.5
Less: total debt as at 30 June 2017	11.6.1	(782.4)	(782.4)
Surplus assets: Watchstone claim amount		-	73.1
Implied equity value of Slater & Gordon		(573.6)	(414.7)
Issued shares (million) as at 30 June 2017	11.6.3	347.2	347.2
Implied equity value per share on a controlling basis (\$)		(1.652)	(1.194)
Assessed equity value per share on a controlling basis (\$)		nil	nil

Source: Slater & Gordon Management, Annual Reports and Half Year Reports, KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding

2. GBP/AUD exchange rate of 1.63093 as at 1 September 2017 adopted.

In relation to the above table, we note:

- the enterprise value of Slater and Gordon was determined using a capitalised earnings approach, based on a maintainable EBITDA of \$52.2 million to \$58.9 million and a capitalisation multiple of 4.0x to 5.0x
- the maintainable EBITDA range is based on an assessed revenue for Slater & Gordon, which it may be able to achieve in the near term, and a maintainable EBITDA margin, which the business may be able to achieve in the short to medium term. The EBITDA margin is determined with reference to Slater & Gordon's historical financial performance, earnings margins of comparable businesses and our assessment of the cost structure of an "efficient business" that operates in the professional legal industry. The basis for each of these assumptions is discussed in Section 11.4.1 of this report
- the selected EBITDA multiple range includes a control premium of 20 percent and, therefore, the enterprise value of Slater and Gordon's business operations has been determined on a controlling basis. We note that the risks and costs associated with implementing performance improvements, notwithstanding its distressed nature, is captured within the selected range. The selected EBITDA multiple range and control premium are discussed respectively in Section 11.4.2 of this report
- equity value has been calculated by deducting the value of total debt from the enterprise value. Total debt is used as opposed to net debt as all of Slater & Gordon's cash balance is expected to be required for working capital purposes. The calculation of total debt is discussed further in Section 11.6.1 of this report
- equity value has been calculated by including the contingent surplus asset in respect of the Watchstone claim relating to the acquisition of Quindell's PSD, in which the potential outcome and value of the claim are unknown at this time. We note that the impact of the claim on the Pre- and Post-Recapitalisation value differs, as Shareholders' exposure to any

potential damages awarded is different under each scenario. This is discussed in more detail in Section 11.6.2

- equity value per Share has been calculated based on the fully diluted number of Shares on issue as at 30 June 2017. As the VCR Shares and performance rights have been cancelled as at 30 June 2017 or else did not vest, we have not made an adjustment for them. From discussion with Management, it is not likely that the performance rights being assessed will vest, and as such we have not accounted for them in our calculation of the fully diluted number of shares. The number of Shares to be issued upon exercise of the warrants in association with the deferred restructuring fee is currently not determinable. Consequently, we have not made any adjustments in relation to the total number of Shares on issue. This is discussed further in Section 11.6.3 of this report
- in order to determine the break even assumption that would need to be adopted to produce a positive equity value, Pre-Recapitalisation, we have considered the sensitivity of the valuation to the key assumptions on a standalone basis. The key assumptions examined in isolation, under the high scenario, include:
 - *maintainable revenue*, which would need to increase to at least \$1,494.0 million to produce a positive equity value, without considering the resultant required increased in working capital or expenses. The ability to increase revenue to this level is not realistic given the declining trend in revenue, the limited ability to grow market share, and industry changes
 - *maintainable EBITDA margin*, which would need to increase to at least 22.9 percent to produce a positive equity value. This margin is significantly higher than Slater & Gordon's recent historical operating margins and furthermore, the ability to increase margins to this level is considered unlikely (despite Slater & Gordon having recently implemented a business efficiency improvement initiative in Australia, and currently executing upon its UK turnaround strategy initiative, with the aim of improving operational efficiency)
 - *selected EBITDA multiple*, which would need to increase to at least 12.0 times to produce a positive equity value. This would be significantly in excess of any comparable transactions observed in the industry as detailed in Section 11.4.2 of this report
 - *value of contingent asset*, which would need to increase to at least \$487.9 million to produce a positive equity value. This significantly exceeds the net assets of Watchstone (£68.5 million as at 31 December 2016) and the funds held in escrow by several hundred million pounds.

While these assumptions have been considered in isolation, which may not be the case in practice, it illustrates the significant changes required in the Company to achieve a positive equity value Pre-Recapitalisation.

Post-Recapitalisation

In contrast to the Pre-Recapitalisation valuation, we have set out below our assessment of the value per share on a Post-Recapitalisation basis, which is based on an equity value for a minority shareholder and the diluted number of shares Post-Recapitalisation (which is based upon total ordinary shares on issue). Using this approach, KPMG Corporate Finance estimates the value per Share, Post-Recapitalisation, to be in the range of \$0.003 to \$0.011 on a minority basis.

Table 25: Post-Recapitalisation value analysis

\$ million	Report Section	Value range Post-Recapitalisation	
		Low	High
Adopted maintainable revenue	11.5.1.1	205.0	215.0
Maintainable business margin (EBITDA)	11.5.1.2	14.0%	14.5%
Maintainable earnings (EBITDA)		28.7	31.2
EBITDA multiple (on a controlling basis) (times)	11.5.2	4.75x	5.25x
Enterprise value of Slater & Gordon		136.3	163.7
Less: net debt (working capital and senior secured debt facilities)	11.6.1	(111.0)	(106.0)
Estimated remaining Recapitalisation & restructure costs		(0.8)	(0.8)
Surplus asset: Watchstone Entitlement Amount	11.6.2	-	35.9
Equity value of Slater & Gordon on a controlling basis		24.5	92.7
Less: minority discount (16.67%) ²		(4.1)	(15.5)
Implied equity value of Slater & Gordon on a minority basis		20.4	77.3
Issued shares (million) Post-Recapitalisation	11.6.3	6,944.9	6,944.9
Implied equity value per share (\$)		0.003	0.011
Assessed equity value per share (\$)		0.003	0.011

Source: Slater & Gordon Management, Annual Reports and Half Year Reports, KPMG Corporate Finance analysis

Note: 1. Tables may not add due to rounding

2. A 20.0% control premium translates into a 16.67% minority discount.

In relation to the above table, we note:

- the methodology adopted to derive the enterprise value of Slater & Gordon Post-Recapitalisation is consistent with the methodology used to derive enterprise value of Slater & Gordon Pre-Recapitalisation as the considerations are the same
- as a result of the structure of the Recapitalisation, the value of Slater & Gordon is based upon the value of the Australian operations as at the Implementation Date only
- equity value has been calculated by deducting the value of the net restructured debt from the enterprise value. The debt value adopted is a range as at the scheme Implementation Date. The debt balance Post-Recapitalisation is based upon the gross debt drawn down from the New Super Senior Facilities, the Restated SFA and other operating financing facilities. The total amount will depend upon how much is drawn down under the New AUD Super Senior Facilities and the Restated SFA which will be up to \$125.0 million. Based on existing expectations Post-Recapitalisation the net debt amount will be between \$106.0 million and \$111.0 million. The calculation of total debt is discussed further in Section 11.6.1 of this report

- the equity value Post-Recapitalisation takes into account the additional expected costs associated with the Recapitalisation of \$0.8 million, if approved
- equity value has been calculated by including the contingent surplus asset in respect of the Watchstone claim relating to the acquisition of Quindell's PSD, in which the potential outcome and value of the claim are unknown at this time. We note that the impact of the claim on the Pre-Recapitalisation and Post-Recapitalisation value differs, as Shareholders' exposure to any potential damages awarded differs under each scenario. This is discussed in more detail in Section 11.6.2
- the assessed equity value includes a minority discount of 16.67 percent, as a result of the significant dilution that existing shareholders will experience Post-Recapitalisation. The assessed minority discount is the inverse of the assessed control premium of 20.0 percent
- equity value per Share has been calculated based on the diluted number of Shares on issue Post-Recapitalisation. The number of ordinary Shares increases significantly from 347.2 million as at 30 June 2017 to 6,944.9 million, as a result of the Recapitalisation. The calculation of the fully diluted shares Pre-Recapitalisation is discussed further in Section 11.6.3 of this report. We note that our analysis does not considered the impact of the 100 to 1 share consolidation due to the contingent nature of its occurrence. However, even if the share consolidation is implemented, our opinion does not change.

11.2 Methodology

Our valuation of Slater & Gordon was prepared on the basis of 'market value'. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value that should be agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

RG 111 indicates that it is appropriate for an independent expert to consider the following valuation methods:

- the DCF method
- the capitalisation of future maintainable earnings or cash flows (capitalisation of earnings)
- the amount that would be distributed to security holders in an orderly realisation of assets
- the amount which an alternative acquirer might be prepared to pay, and/or
- the most recent quoted price of listed securities.

Each of the above methodologies is generally applicable in different circumstances. In selecting the appropriate methodology by which to value Slater & Gordon, we have considered the Company's prospects and other available information presented to us. An overview of these methodologies is discussed in greater detail in Appendix 6.

Due to the various uncertainties inherent in the valuation process, we have determined a range of values within which we consider the fair value of Slater & Gordon exists.

Given the current issues the Company is facing and where it is in its operational restructuring, all of the aforementioned valuation approaches have their difficulties in application.

Recognising these difficulties, we have used the capitalisation of earnings method, based on maintainable EBITDA, as the primary method. We have adopted this method based on the following considerations:

- a capitalised earnings method is generally appropriate for a business that has a stable earnings history. We note that Slater & Gordon has a long operating history and, prior to June 2015, a consistent earnings trend. Furthermore, despite the recent decline in earnings for Slater & Gordon, Management has initiated an operational restructuring of the business and executed turnaround strategies in both the UK and Australia which is expected to stabilise the earnings going forward. In addition, there are a number of comparable companies that perform similar services within the legal industry with a similar geographical presence to Slater & Gordon from which observable multiples can be identified. We also note that there have been a number of transactions in recent years involving legal firms within Australia and the UK
- a DCF approach is also widely used in the valuation of established businesses. However, the inherent uncertainty associated with Slater & Gordon's near term business operations means that preparing sufficiently reliable cash flow projections, at this point in time, is extremely challenging. This reduces the robustness of any results derived from a DCF analysis. Whilst we have not utilised a DCF approach as our primary valuation approach, we have performed a high level DCF analysis as a cross-check valuation
- a net realisable assets approach is not considered appropriate as this method would not capture the growth potential and goodwill associated with the business
- we have also had regard to trading prices for Shares in our analysis of the assessed value per Share.

Ultimately, the value of the business operations of Slater & Gordon has been determined through an iterative process, ensuring the value derived from our primary capitalised earnings methodology is consistent with the outcomes of our high-level DCF cross check and our analysis of Slater & Gordon's share price performance.

11.3 Selected Valuation Approach – Pre-Recapitalisation and Post-Recapitalisation

11.3.1 Selection of valuation methodology for Slater & Gordon

We have assessed the value of Slater & Gordon, Pre-Recapitalisation and Post-Recapitalisation, (on a standalone basis) by aggregating the estimated market value of their business operations with the realisable value of any other separately valued assets and liabilities, and deducting net debt.

Slater & Gordon's business operations, Pre-Recapitalisation, are SGL-A, SGL-UK and SGS, as discussed in Section 9 of this report. As noted earlier, as a result of the Recapitalisation, Slater & Gordon's business operations, Post-Recapitalisation, only includes SGL-A.

For both the Pre-Recapitalisation and the Post-Recapitalisation valuation of Slater & Gordon, we adopted capitalised earnings as our primary methodology for the reasons set out in Section 11.2 of this report. We note that Slater & Gordon has a long operating history and, prior to June 2015, a consistent earnings trend. Whilst the acquisition of the PSD materially changed the business' earning profile, Management has undertaken actions to extract cost savings in Australia and is currently experiencing positive impacts from the UK turnaround strategy. These initiatives are expected to stabilise earnings going forward. Furthermore, there are sufficient comparable companies that perform similar services within the legal industry with a similar geographical presence to Slater & Gordon. We also note that there have been a number of transactions in recent years involving legal firms within Australia and the UK.

Although we have analysed each of Slater & Gordon's underlying operating divisions (i.e. SGL-A, SGL-UK and SGS) in Section 9 of this report for the Pre-Recapitalisation of Slater & Gordon, we have valued it as a single consolidated business as:

- the value drivers of the three segments are similar, noting that each of the regions in which it operates have different regulatory and legislative conditions, and
- comparable company and transactions generally operate across a number of divisions in which Slater & Gordon operates.

The Post-Recapitalisation value is based upon SGL-A only, and as such, valued the Slater & Gordon business based upon the Australian operations only.

11.3.2 Selection of earnings metric

A capitalised earnings methodology can be applied to a number of different earnings or cash flow measures, including EBITDA, EBIT and Net Profit After Tax (NPAT).

Slater & Gordon and many of the comparable companies have undertaken a number of acquisitions in recent years. As a result, amortisation of intangibles varies widely between peers. In order to ensure consistency between the earnings of Slater & Gordon and the comparable companies, we have selected EBITDA as our earnings measure.

EBITA is also an appropriate earnings metric in the valuation of professional services firms such as Slater & Gordon, however, we note that due to the limited capital expenditure requirements of professional services firms, this earnings metric is substantially the same as EBITDA.

We also note that EBITDA is impacted by movements in WIP and we have considered this in the selection of our earnings multiple (refer to section 11.4.2 and 11.5.2 of this report for further information).

In this regard, EBITDAW is considered a good proxy for operating cash flow. However, as few companies publish EBITDAW figures and, given the challenges in accurately calculating

EBITDAW from publically available information, we have placed a greater emphasis on EBITDA in our analysis of comparable trading and transaction multiples.

In adopting EBITDA, we note the current underperformance of Slater & Gordon and have assessed the value of Slater & Gordon based upon a maintainable earnings framework, whereby an implied maintainable earnings is derived on the basis of Slater & Gordon's assessed maintainable revenue and a maintainable earnings margin that Slater & Gordon would be likely to achieve post the Recapitalisation and business improvement process currently underway. To this, capitalisation multiples are applied, taking into account the risk inherent in the assessed margin, to determine the fair value of Slater & Gordon.

11.3.2.1 Control premium considerations

The multiples applied in a capitalised earnings approach are generally based on data from publicly listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable listed companies are generally based on prices involving trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

RG 111.8 states that a control premium should be applied in transactions where a person acquired, or increased a controlling stake in a company. Further, RG 111.9 notes that experts focus on the substance of control, rather than the legal mechanism used to effect it. We note that the Senior Lenders do not currently have any control of the Company. However, following the Recapitalisation, the Senior Lenders will collectively have ownership of 95 percent of the total Shares on issue immediately following the Recapitalisation.

Therefore, our fairness assessment has been based on comparing the value of a Share prior to the Recapitalisation, on a control basis, to that post the Recapitalisation on a non-controlling basis.

Consistent with these considerations, and in accordance with the requirements of RG 111, in valuing Slater & Gordon we have assumed 100 percent ownership, and therefore included a premium for control when assessing the multiples implied by the comparable companies.

Observations from transaction evidence indicate that takeover premiums concentrate around a range between 20 percent and 35 percent³⁷ for completed takeovers. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be in excess of this range. Takeover premiums vary significantly and include:

- synergies, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- pure control premium in respect of the acquirer's ability to utilise full control over the cash flows of the target entity
- desire (or anxiety) for the acquirer to complete the transaction
- significant cost reductions having already been achieved.

In considering an appropriate control premium to apply to Slater & Gordon we have recognised the inherent uncertainty associated with future earnings due to the current issues with the business operations. We also note that the Company has implemented an operational restructure, turnaround strategies and cost saving initiatives to improve profitability and cost performance. Further, given that we have assumed a maintainable earnings margin in valuing the business, the incremental cost savings that a potential acquirer could achieve are potentially relatively low. Further, it is likely that an acquirer would still consider the uncertainty associated with future earnings when assessing the level of control premium as a separate decision.

Having regard to these factors, we consider the control premium for Slater & Gordon to be at the lower end of the observed range (being 20 percent).

11.4 Pre-Recapitalisation valuation – Capitalised earnings methodology

11.4.1 Maintainable earnings

Maintainable earnings represents the level of earnings that the business can sustainably generate in the future. A selection of maintainable earnings for Slater & Gordon would take into account the following:

- recent and historical financial performance
- the operational initiatives and the continued execution of the turnaround strategies
- the ability of the Company to generate revenue through its key channels (direct-to-consumer marketing, relationship management/business development and use of CMC's)

³⁷ KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2017, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price.

- the ability to improve the management of the selection and diligence around managing case files
- Slater & Gordon's market position and brand strength
- consolidation in the industry
- the legislative and regulatory environment.

The earnings performance for Slater & Gordon prior to 2016 provides some guidance as to an appropriate level of maintainable earnings, however, it is necessary to take into account the following:

- the recent underperformance of each of Slater & Gordon's operating divisions (refer to Section 9 of this report)
- cost savings initiatives, particularly the turnaround strategies discussed in Section 9 of this report
- the impact of the PSD acquisition in 2015
- the change in accounting for revenue recognition as a result of the adoption of AASB-15 in 2016
- the impact of Slater & Gordon's acquisition strategy.

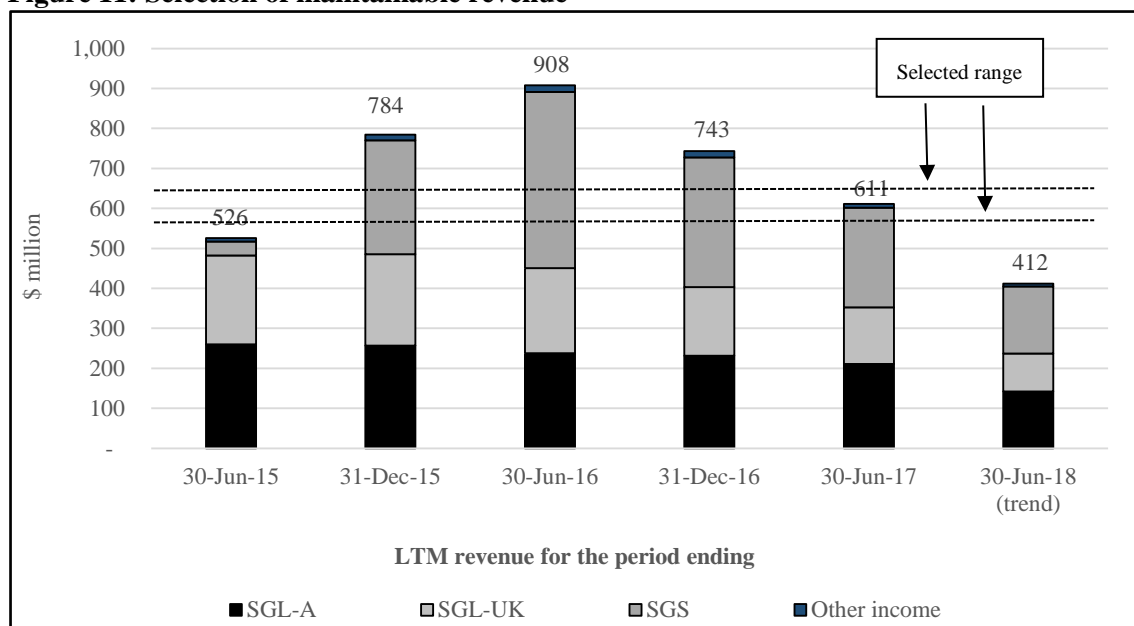
We have taken these factors into account in our assessment of maintainable EBITDA earnings in the following ways:

- analysed margins of competitors to determine a maintainable EBITDA margin and assess the potential impact of the cost savings initiatives
- focussed our analysis of revenue and earnings on recent results that have been restated as a result of the adoption of AASB-15
- placed greater emphasis on results that include a full year's contribution from the PSD.

11.4.1.1 Maintainable level of revenue

The figure below outlines the revenue generated by each of Slater & Gordon's segments since 2015.

Figure 11: Selection of maintainable revenue



Source: KPMG Corporate Finance analysis

Note: 1. LTM = Last Twelve Months

2. 30-Jun-18 (trend) revenue was calculated by multiplying the YoY revenue growth rate in FY17 by the revenue in FY17

3. Dotted lines represent low (\$580.0 million) and high (\$620.0 million) maintainable revenue selected.

In relation to the above, we note:

- revenue in all of the periods above reflect the new revenue recognition standard
- the increase in revenue from FY15 to FY16 is primarily due to the PSD acquisition. Analysis of the historical financial performance is discussed further in Section 9 of this report
- the decrease in revenue in CY16 and FY17 is consistent with the revenue trends of comparable companies in Australia and the UK. Specifically, we note:
 - Shine's revenue decreased by 15.4 percent in the six month period to 31 December 2016 compared to the six month period to 30 June 2016, due to significant underperformance of its energy & resource practice area and the continued weakness in its core personal injury practice. However, revenue increased by 8.9 percent in FY17, due to a strong contribution from Emerging Practice Areas (EPA) revenue in 2HY17. EPA revenue increased by 40.4 percent in FY17 as result of the settlement and subsequent administration of the DePuy class action

We note that the performance of Shine's PI Law practice (0.7 percent decrease YoY) is consistent with the experience of SGL-A's PIL practice

- Fairpoint Group Plc's (Fairpoint) legal services division's³⁸ unaudited revenue³⁹ decreased by 4.1 percent in the six months to 31 December 2016 compared to the six month period to 30 June 2016. Fairpoint also expected legal services revenue to decrease by approximately 15 percent in the financial year ended 31 December 2017 due to a reduction in the number of cases settling. Performance of legal services is expected to improve in FY18 as current case loads reaches maturity and marketing spend increases.⁴⁰ We note that Fairpoint is in financial distress⁴¹ though it expects Simpson Millar and its subsidiaries will continue to trade as going concerns.⁴²
- based upon the FY17 trend growth rates, this implied an estimated FY18 revenue of \$412 million.⁴³ However, we note that this analysis discounts any positive impact on the business associated with the execution of the turnaround strategies, reversal of the brand damage as part of a successful execution of the Recapitalisation process which would result in Management being able to refocus their attention upon running the business, rather than on the needs of the Recapitalisation process
- in Australia and the UK, growth of the PIL market has slowed in recent years, due to:
 - a decline in the number of motor vehicle accidents
 - a decline in the number of workplace injuries
 - an increase in adverse regulation in some regions.

Refer to Appendix 4 of this report for further information on industry trends.
- Management expects PIL revenue to stabilise in Australia and the UK as its:
 - rate of resolution improves or stabilises as adverse counterparty behaviour normalises

³⁸ Fairpoint's legal services division operates in the United Kingdom.

³⁹ On 28 March 2017, Fairpoint announced that it expected Legal Services revenue to be £41.8 million for the financial year ending 31 December 2016.

⁴⁰ Announced 28 March 2017.

⁴¹ On 28 June 2017, Fairpoint's shares were suspended from trading as the company announced it would not be able to publish its 2016 results by the end of June, as required by AIM rules, as it had received notice by its bank that they were unwilling to provide the "level of on-going support requested by the company". On 3 July 2017, Fairpoint announced that a new lender had agreed to provide up to £5.0 million in debt to fund the legal services division. At the time of the announcement, Fairpoint's shares remained suspended.

⁴² On 4 August 2017, Fairpoint announced its intention to appoint administrators as "ongoing support for the group's subsidiaries outside of the Legal Businesses is made more difficult due to the existence of the onerous lease on the group's head office".

⁴³ Calculated as \$611 million multiplied by (1-32.7%) where 32.7% is calculated as \$611 million/\$908 million.

- market share stabilises
- organically acquired case intake meets case resolutions
- Management expects the GL practices to grow under a stable capital structure, which have been adversely affected by the current financial distress which has created staff attrition and caused decreases in key referrals
- Slater & Gordon's revenue for FY17 was \$611.0 million.

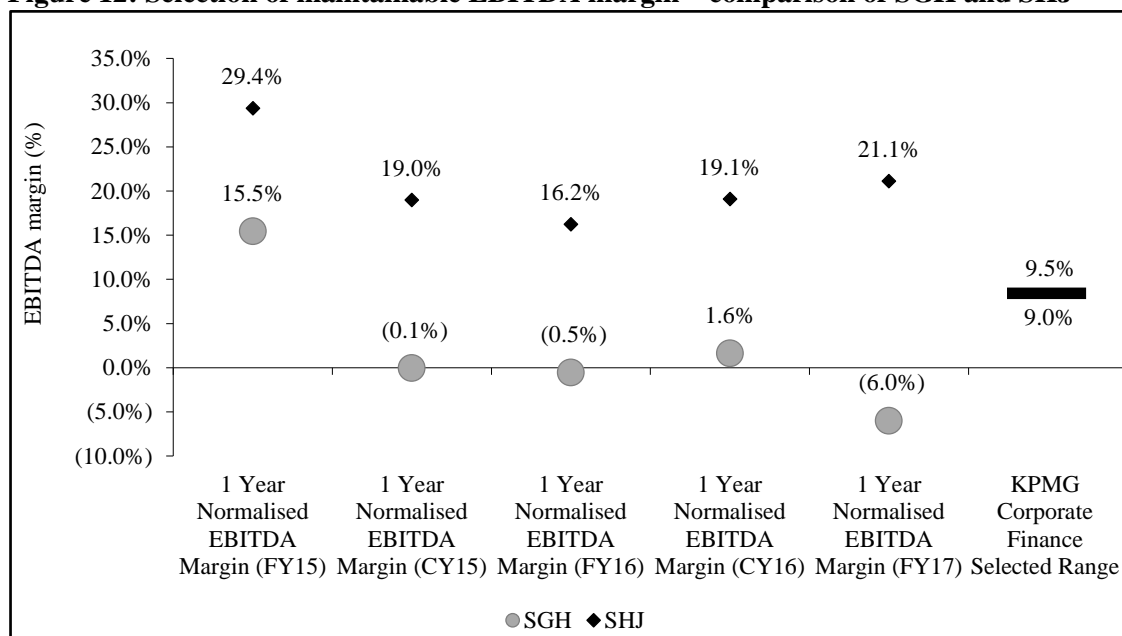
Having regard to the above, we have determined a maintainable revenue range of \$580.0 million to \$620.0 million.

11.4.1.2 Maintainable EBITDA margin

A maintainable EBITDA margin was applied to the maintainable revenue forecast to determine the maintainable EBITDA. The EBITDA margin is determined with reference to the cost structure of an "efficient business" that operates in the professional legal industry, which is based upon analysis of the Company's recent earnings, comparable company analysis and discussion with Management.

The following figure outlines the recent EBITDA margin (normalised) that the Company has been able to achieve compared to the EBITDA margin (normalised) of Shine (SHJ), which we consider to be Slater & Gordon's most comparable peer.

Figure 12: Selection of maintainable EBITDA margin – comparison of SGH and SHJ



Source: KPMG Corporate Finance analysis

Note: The normalised EBITDA margin for SHJ excludes recent transaction costs and net share of profit from associates.

In relation to the above figure, we note:

- Slater & Gordon achieved an EBITDA margin of 15.5 percent for FY15, however, this margin was prior to the inclusion of a full year's contribution from the PSD acquisition
- since the PSD acquisition, normalised EBITDA margins for Slater & Gordon have declined, which is discussed further in Section 9 of this report
- Shine, the most comparable peer, experienced declining margins in FY15, FY16 and 1HY17 due to a challenging operating environment, although, 2HY17 results were positive which resulted in a normalised EBITDA margin of 21.1 percent. We note that the DePuy class action was a strong contributor during the period, resulting in margins that may be abnormally high. Further Shine management have announced that they will increase marketing and innovation spending for FY18 which will provide downward pressure on margins.

When determining an appropriate maintainable EBITDA margin, we considered:

- discussions with Management
- recent performance of the individual operating divisions, noting that Slater and Gordon's UK operating divisions have historically had lower EBITDA margins than its Australian operations
- the challenging operating environment, as demonstrated by Slater & Gordon and Shine's falling EBITDA margins
- the expected improvement in operations from the UK turnaround strategy and other initiatives
- the ability of Slater and Gordon to maintain appropriate margins through reducing variable costs, such as employment expenses, due to the low fixed costs associated with a professional services business.

On the basis of the above, we have selected a maintainable EBITDA margin in the range of 9.0 percent to 9.5 percent. We note that the selected margin is not expected to be achieved in the short term and there is significant risk in executing the initiatives which would result in the achievement of these margin. This risk is reflected in the selection of the EBITDA multiple (refer to section 11.4.2 of this report for more information).

11.4.2 EBITDA multiple

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

In selecting an appropriate range of maintainable EBITDA multiples to apply, we have considered the following:

- the trading and transaction multiples of broadly comparable companies and transactions within the professional legal industry over a similar time period to that for our earnings analysis (refer Appendix 5 of this report)
- the relative size of Slater & Gordon and the comparable companies
- the nature of the environment in which the comparable companies and target company operate
- the fee structure of Slater & Gordon's legal peers. We have placed particular importance on firms that utilise NWNF structures due to the working capital intensity of such businesses and the uncertainty regarding the conversion of revenue into cash flow
- the service mix, target market and geographical presence of Slater & Gordon's peers
- the expected growth profile of Slater & Gordon and continued consolidation in the professional legal industry
- the risk and costs associated with achieving the forecast growth
- the risks associated with Slater & Gordon's ability to maintain and/or grow the business, noting that a large portion of business development is dependent upon the strength of the Slater & Gordon name.

11.4.2.1 Sharemarket evidence

There are few listed law firms in Australia and even less in the UK. While the liberalisation of the law ownership in Australia encouraged some firms to list, the majority of firms in the industry are not considered suited to listing. The legal services industry in Australia and the UK is highly fragmented, comprising small, privately held business and a few major competitors, such as the former 'big six' in Australia and the 'magic circle' in the UK,⁴⁴ which are reliant on partnership models to retain key staff.

The lack of similar fee structures and service line work reduces the comparability of many listed law firms to Slater & Gordon. As a result of being the only listed peer to not be subject to financial distress, predominately practice PIL and utilise a NWNF fee structure, we consider Shine to be most the relevant comparable listed peer to Slater and Gordon.

⁴⁴ The 'big six' is a term that was commonly used to refer to leading law firms in Australia, which included: Allens, Ashurst LLP, Clayton Utz, Herbert Smith Freehills, King & Wood Mallesons, and Minter Ellison. The 'magic circle' is commonly used to refer to the leading five firms in the United Kingdom: Allen & Overy, Clifford Chance, Freshfields Bruckhaus Deringer, Linklaters, and Slaughter and May.

The implied EBITDA multiples (including an applied premium for control) of the identified listed comparable companies are summarised in the table below and set out in more detail in Appendix 5.

Table 26: Share market evidence (including an applied premium for control)⁴

Company name	Market Cap	EBITDA Multiple	
	\$m	LTM ¹	NTM ²
<i>Legal services firms</i>			
Shine Corporate Limited	126	5.2	5.0
Fairpoint Group Plc	7	1.6	n/a ³
Gateley (Holdings) Plc	286	16.1	13.6
<i>IP services firms</i>			
IPH Limited	872	14.3	13.0
Qantm Intellectual Property Limited	193	8.9	9.4
Xenith IP Group Limited	164	22.7	8.2
Murgitroyd Group Plc	71	9.0	n/a ³
Low		1.6	5.0
High		22.7	13.6
Median		9.0	9.4
Average		11.1	9.8

Source: S&P Capital IQ (data as at 1 September 2017) and KPMG Corporate Finance analysis

Note: 1. LTM multiples calculated after normalisation adjustments applied to reported EBITDA

2. NTM multiples based on next twelve months (NTM) of broker consensus forecasts sourced from S&P Capital IQ

3. n/a represents not available

4. Calculation of the multiples was based upon the inclusion of a 20 percent premium to market capitalisation.

In relation to the trading multiples of the identified listed comparable companies, we note:

- a control premium of 20 percent was adopted calculating the multiples
- the multiples at which the comparable companies are currently trading are primarily driven by the size, diversification, revenue stability, cash flow conversion ability and most importantly the growth prospects of the respective companies
- Intellectual Property (IP) services firms tend to undertake engagements on the basis of receiving ongoing retainers. As a result, IP services firms' revenue is relatively stable, displaying annuity like characteristics, and working capital investment tends to be low. Accordingly, we would expect IP services firms to trade at higher multiples than Slater & Gordon, as evidenced by the higher average LTM EBITDA trading multiples of 13.7 times

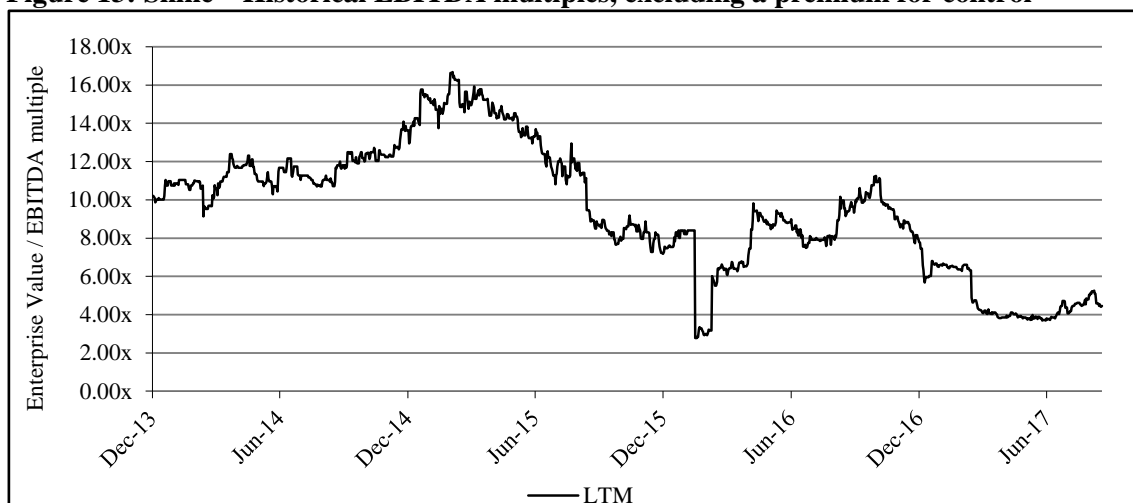
The comparability of IP services firms to Slater & Gordon is further reduced by the lack of a similar fee structure and dissimilar service lines, which are subject to different competitive and legislative environments

- Gateley (Holdings) Plc (Gateley) offers legal services predominately to corporate clients.⁴⁵ Its legal offering encompasses five operating segments⁴⁶ that generally bill work on the basis of fixed fee arrangements and are not subject to the revenue uncertainty and cash flow conversion issues of PIL work. Accordingly, we consider Gateley to have limited comparability to Slater & Gordon and we would expect Gateley to trade at a premium to PIL peers, as evidenced by its trading LTM EBITDA multiple of 16.1 times. The comparability of Gateley's LTM multiples are further reduced by a number of acquisitions in the 2016 calendar year
- whilst we have included Fairpoint within our comparable company set, the business is considered to be in financial distress. As such, we have not considered it in our analysis of comparable company LTM EBITDA multiples
- Shine is considered highly comparable to Slater & Gordon as it utilises similar fee structures and derives the majority of its revenue from PIL (66.0 percent in FY17; 72.0 percent in FY16). Similar to Slater & Gordon, Shine is also focused on diversifying its revenue into other service lines, with its EPA revenue increasing from 22 percent of revenue in FY15 to 24 percent in FY17. Shine's implied LTM EBITDA multiples implied have experienced significant volatility since listing, as shown in the figure below.

⁴⁵ As at 30 April 2017, Gateley had 4,000 corporate clients and 1,500 private clients.

⁴⁶ Gateley has five operating segments: banking and financial services; corporate, business services; employees, pensions and benefits.

Figure 13: Shine – Historical EBITDA multiples, excluding a premium for control



Source: KPMG Corporate Finance analysis, S&P CapitalIQ, downloaded on 1 September 2017

Note: Historical EBITDA multiples are calculated as enterprise value divided by Last Twelve Months' EBITDA and before a premium for control.

After listing in 2013, Shine's historical EBITDA multiple steadily increased, with its share price reaching a peak \$3.36 in March 2015. This reflected an expectation that its historically strong earnings growth would continue, after EBITDA grew at a CAGR of approximately 14 percent⁴⁷ between FY10 and FY14. Earnings growth was driven by a combination of acquisitions, service offering expansion and operational efficiencies.

From March 2015, Shine's share price declined (and its EBITDA multiple contracted) in line with the negative re-rating of Slater and Gordon (which reflected issues associated with its Quindell acquisition). Subsequently, Shine experienced sustained market pressure as its FY16 earnings forecast was downgraded (due to underperformance of its core business and acquisitions), and its WIP recovery rates and provisioning policies were revised. Shine also experienced considerable regulatory headwinds in New South Wales and Queensland, partially offset by the repealing of the Queensland Liberal National Party's Work Cover Laws in September 2015. In December 2016, Shine disclosed impairments, citing challenging conditions in its energy and resources practice. This culminated on 30 December 2016, when the Chief Executive Officer (CEO) at the time stepped down after a year and a half in the position.

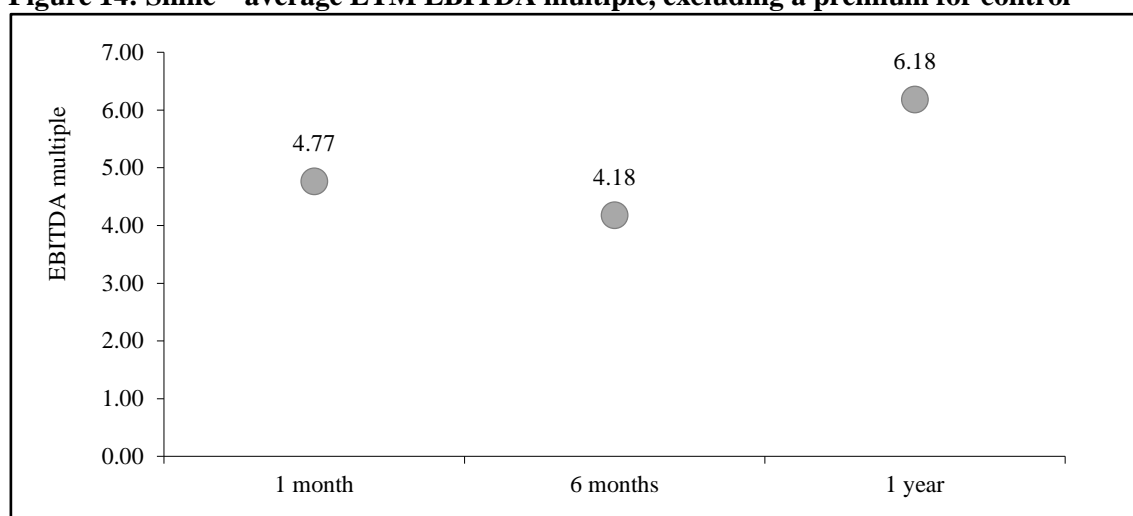
On 25 August 2017, Shine reported FY17 EBITDA of \$36.5 million, an increase in EBITDA of 46 percent. The strong increase was a result of 40.4 percent in EPA revenue, predominately driven by the successful settlement and subsequent administration of the DePuy class action. Shine also reported an increase in WIP on its balance sheet of \$23.3 million, also driven by the DePuy class action and contributed by the acquisition of \$7.0

⁴⁷ CAGR is calculated based on Shine's proforma FY10 EBITDA as stated in prospectus.

million of case files and \$5.0 million of WIP consolidated onto its balance sheet as part of the acquisition of Risk Worldwide New Zealand Limited.

Particular importance is placed on Shine's recent earnings multiples, which reflects the current challenging operating environment and the decline in margins experienced by Shine. We also place more weight on LTM multiples rather than NTM multiples as Shine does not currently receive significant broker coverage. The LTM multiples are illustrated in the figure below.

Figure 14: Shine – average LTM EBITDA multiple, excluding a premium for control



Source: KPMG Corporate Finance analysis, S&P CapitalIQ, downloaded on 1 September 2017

Note. 1. Historical EBITDA multiples are calculated as enterprise value divided by Last Twelve Months' EBITDA
2. All averages are calculated with reference to an end date of 1 September 2017.

Shine is currently trading at around an LTM EBITDA multiple of 5.2x⁴⁸, including a control premium, (4.5x excluding a control premium) which is close to the low end of its historical EBITDA multiple range.

In addition to the current challenging operating environment, Shine's EBITDA multiple may be discounted as a result of:

- the expectation of lower future earnings as the impact of the DePuy class action ceases
- expectations that margins may further be impacted, a result of Management's guidance that spending and marketing would increase in FY18.

We also note that Shine's implied EBITDAW multiple (earnings adjusted to remove the effect of movement in WIP) is 10.9x,⁴⁹ including a control premium (9.4x excluding a

⁴⁸ As at 1 September 2017.

⁴⁹ Adjusted for the acquisition of \$7.0 million of case files and \$5.0 million of WIP consolidated onto its balance sheet as part of the acquisition of Risk Worldwide New Zealand Limited.

control premium). The EBITDAW multiple may provide an indication of pricing from a cash perspective, however, as noted earlier, is not a metric that is usually quoted by comparable companies and as such is difficult to ensure consistency around the determination of this metric. In Shine's case, the EBITDAW multiple would remove the impact of the DePuy class action from earnings, which was a major contributor to increases in WIP during the year.⁵⁰ This may indicate that Shine's normalised, or "through the cycle" EBITDA multiple may be higher once major class action wins have been adjusted.

11.4.2.2 Transaction evidence

The price paid in transactions is widely considered to represent the market value of a controlling interest in a company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control. This premium can differ from transaction to transaction and is dependent on a range of factors, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target. Although there has been substantial consolidation of the legal services industry in Australia and the UK in recent years, most of these transactions involved privately owned firms for which there is insufficient public information to allow implied multiples to be calculated. However, given Slater & Gordon's acquisition strategy, a number of transactions have been identified. This transaction evidence is set out in the table below.

⁵⁰ As noted by Shine management on AR17 results presentation call.

Table 27: Transaction evidence

Date	Target	Acquirer	Acquisition stake	Implied EV (\$ million) ¹	EBITDA Multiple	
					LTM ²	NTM ³
Slater & Gordon transactions						
May-15	Quindell Plc	Slater & Gordon (UK)	100%	1,352	6.9	n/a ⁴
Nov-14	Schultz Toomey O'Brien	Slater & Gordon	100%	20	n/a	n/a ⁴
Nov-14	Nowicki Carbone	Slater & Gordon	100%	46	n/a	n/a ⁴
Feb-14	Pannone LLP	Slater & Gordon (UK)	100%	61	n/a	n/a ⁴
Sep-13	Fentons Solicitors LLP	Slater & Gordon	100%	56	4.5	n/a ⁴
Apr-12	Russell Jones & Walker Ltd.	Slater & Gordon	100%	82	4.9	n/a ⁴
Aug-10	Trilby Misso	Slater & Gordon	100%	57	8.0	n/a ⁴
Law firm transactions						
Feb-17	Griffith Hack	Xenith IP Group	100%	163	10.5	n/a ⁴
Dec-15	Pryers Solicitors LLP	Pure Legal Limited	100%	27	4.8	n/a ⁴
Oct-15	Best Wilson Buckley Family Law	Shine Corporate Limited	100%	6	n/a ⁴	n/a ⁴
Aug-15	Bradley Bayly Legal	Shine Corporate Limited	75%	16	n/a ⁴	n/a ⁴
Aug-15	Colemans-ctts LLP	Fairpoint Group	100%	34	4.7	n/a ⁴
Oct-14	Sciaccas Lawyers Pty Ltd and Sciaccas Family Lawyers Pty Ltd	Shine Corporate Limited	100%	9	n/a ⁵	n/a ⁴
Jul-14	Emanate Legal and Stephen Browne Personal Injury Lawyers	Shine Corporate Limited; SB Law Pty Ltd	100%	36	n/a ⁴	n/a ⁴
Jun-14	Simpson Millar LLP	Fairpoint Group LLC	100%	27	3.6	n/a ⁴
Feb-14	New Law Group	Redde PLC	100%	81	n/a	n/a ⁴
Low					3.6	n/a ⁴
High					10.5	n/a ⁴
Median					4.9	n/a ⁴

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis

Note: 1. Implied EV refers to the total implied enterprise value in respect of the acquisition

2. LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments

3. NTM multiples calculated based on broker consensus forecasts as at the transaction date

4. n/a represents not available

5. As per the ASX announcement released by Shine Corporate Limited, the initial consideration for Sciaccas of \$8.75 million indicates an estimated 4 to 5 times of FY15 EBITDA.

Further details on these transactions are set out in Appendix 5.

Although the target companies are considered broadly comparable to Slater & Gordon, it is necessary to consider their specific attributes of the target companies as well as the prevailing economic conditions at the time of the transaction.

The multiples implied by these transactions reflect a range of business specific factors, including:

- **the type of legal services offered:** target companies in the UK generally covered all fields of law (PIL to intellectual property law) while those in Australia tend to be focused on one particular field. The acquisition of Griffith Hack by Xenith IP Group occurred at a relatively high multiple, reflecting the relatively stable earnings profile (and lower business risks)

associated with intellectual property law, relative to PIL. This observation is consistent with the trading multiples of the comparable companies identified

- **the level of synergies available to the acquirer:** in transactions where it was estimated that the combined entity would be able to achieve significant synergies or where there is a strong strategic rationale for the transaction implied multiples are likely to be higher. Slater & Gordon's acquisition of Trilby Misso Lawyers occurred at a relatively high multiple (8.0x historical EBITDA), reflecting a combination of the level of synergies expected to be achieved as well as Slater & Gordon's strategy of expanding its geographic coverage and providing a growth platform in Queensland
- **the size of the target company:** most of the transactions identified are relatively small, with the exception of Griffith Hack and the PSD acquisition, which were acquired at multiples of 10.5x and 6.9x historical EBITDA respectively. Larger companies often transact at higher multiples as smaller companies are considered riskier as they generally have less access to capital and may have short operational histories
- **the operating and regulatory environment at time of transaction:** the transactions relating to PIL companies occurred prior to a change in the operating and regulatory environment, which means that these same companies would likely transact at lower multiples
- **the percentage interest acquired:** all observed transactions involved the transfer of control between shareholders and, therefore, each of the historical EBITDA multiples reflect a control premium.

Consideration of transaction evidence

Transaction evidence provides some guidance as to an appropriate multiple for Slater & Gordon. In relation to the transactions, we note that for non-Slater & Gordon related transactions, excluding the acquisition of Griffith Hack, the historical EBITDA multiple ranges are in the range of 3.6x to 4.8x. These firms specialised in practice areas, such as clinical negligence, family law and consumer law, which are more akin to PIL and GL as opposed to Griffith Hack which specialises in intellectual property law and would expect to transact at a premium. Slater & Gordon's acquisitions, with the exception of the acquisition of the PSD business and Trilby Misso Lawyers, occurred at historical EBITDA multiples in the range of 4.5x to 4.9x.

Overall, noting the size of the targets relative to Slater & Gordon, Pre-Recapitalisation, the geographic footprint and the diversified nature Slater & Gordon's services, we would expect an acquisition multiple for Slater & Gordon, Pre-Recapitalisation, when not in financial distress, to be greater than most of the transaction multiples identified.

11.4.2.3 Concluded multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined above, we have selected a forward multiple range of 4.0x to 5.0x future maintainable EBITDA having regard to the following considerations, including the following specific attributes of Slater & Gordon Pre-Recapitalisation:

- the approach adopted to determine future maintainable EBITDA, based on the maintainable earnings margin, implies growth in earnings from current levels
- the risks and costs associated with the execution of the turnaround of the business, including the transformation and business efficiency the business is required to go through
- Slater & Gordon has a strong and highly recognisable brand in the PIL field within Australia and the UK, with a 92 year history
- Slater & Gordon has a global presence, with practices across Australia and the UK. This geographical diversification enables the company to operate a global platform in relation to the provision of legal services. However, the synergies available to a global platform for law firms practicing in the PI sector are limited
- risk associated with Slater & Gordon's near term financial performance, noting that the business had been underperforming in recent periods, with a significant driver of this being from the PSD business operations
- Slater & Gordon has recently implemented a business efficiency improvement initiative in Australia, and is currently executing upon its UK turnaround strategy initiative, with the aim of improving operational efficiency. We note we have considered the successful execution in the turnaround strategies in determining a maintainable EBITDA margin
- the changing UK legal regulatory environment, which is challenging and changing Slater & Gordon's current operating model in the region
- Shine's LTM EBITDA multiple of 5.4 times (including a 20 percent control premium). We note that whilst Shine is the most comparable business to Slater & Gordon, in terms of service offering, it has a smaller geographical footprint and faces challenging conditions, largely due to its exposure to the energy and resources sector. We also note that the DePuy class action, which was a major win for Shine, was a strong contributor Shine's FY17 result, which may be impacting its LTM EBITDA multiple
- EBITDA multiples implied by recent transactions, other than the acquisitions of the PSD business, Trilby Misso and Griffith Hack, support the EBITDA multiple range adopted.

11.5 Post-Recapitalisation – Capitalised earnings methodology

11.5.1 Maintainable earnings

In assessing the maintainable earnings of SGL-A, we have considered the same factors as those discussed in Section 11.4.1 of this report, as these factors also apply when valuing the Australian operations only.

The earnings performance for SGL-A prior to 2016 provides some guidance as to an appropriate level of maintainable earnings, however, it is necessary to take into account the following:

- the recent under performance of SGL-A (refer to Section 9 of this report)

- cost savings initiatives, specifically the Australian turnaround strategies discussed in Section 9 of this report
- the change in accounting for revenue recognition as a result of the adoption of AASB-15 in 2016
- the impact of Slater & Gordon's acquisition strategy.

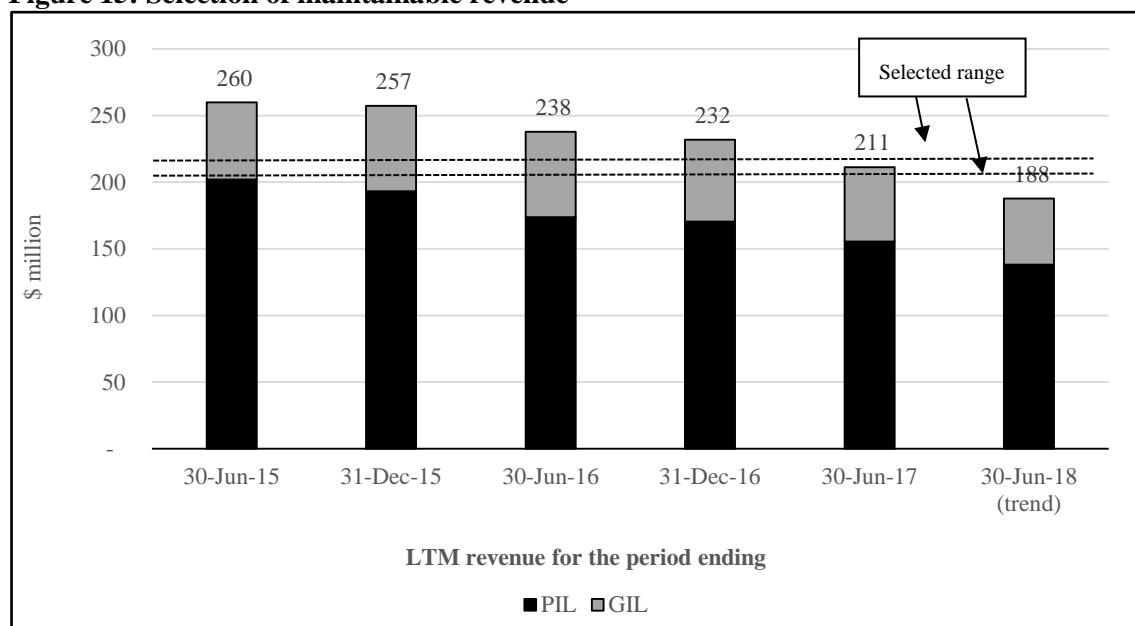
As a result of considering the above, we have:

- focussed our analysis of revenue and earnings on recent results that have been restated as a result of the adoption AASB-15
- analysed margins of competitors to determine a normalised EBITDA margin and assessed what impact the cost savings initiatives may have.

11.5.1.1 Maintainable level of revenue

The figure below outlines the revenue generated by SGL-A since 2015.

Figure 15: Selection of maintainable revenue



Source: KPMG Corporate Finance analysis

Note: 1. LTM = Last Twelve Months

2. 30-Jun-18 (trend) revenue was calculated by multiplying the YoY revenue growth rate in FY17 by the revenue in FY17

3. Dotted lines represent low (\$205.0 million) and high (\$215.0 million) maintainable revenue selected.

In relation to the above, we note:

- revenue in all of the periods above reflect the new revenue recognition standard

- revenue has consistently decrease over the last two years, primarily as a result of increased competition and a number of factors associated with the financial distress of the company, such as high staff attrition and temporary reputational issues
- the decrease in revenue in CY16 and FY17 is consistent with the revenue trends of Shine, Slater & Gordon's most comparable peer. Shine's revenue decreased by 15.4 percent in the six month period to 31 December 2016 compared to the six month period to 30 June 2016, due to significant underperformance of its energy & resource practice area and the continued weakness in its core personal injury practice. However, revenue increased by 8.9 percent in FY17, due to a strong contribution from EPA revenue in 2HY17. EPA revenue increased by 40.4 percent in FY17 as result of the settlement and subsequent administration of the DePuy class action.

Shine's FY17 revenue could be considered abnormally high. We note that the performance of Shine's PI Law practice (0.7 percent decrease YoY) is consistent with the experience of SGL-A's PIL practice

- based upon the FY17 trend growth rates, this implied an estimated FY18 revenue of \$188 million. However, we note that this analysis discounts any positive impact on the business associated with the execution of the turnaround strategies, reversal of the brand damage as part of a successful execution of the Recapitalisation process which would result in Management being able to refocus their attention upon running the business, rather than on the needs of the Recapitalisation process
- the forecast revenue from improvements due to rate of resolution improvements and market share stabilisation
- in relation to the Australian PIL market and Management's expectation around the Australian PIL & GL businesses, these factors are discussed in detail in Section 11.4.1.1 of this report
- SGL-A revenue for FY17 was \$211.0 million.

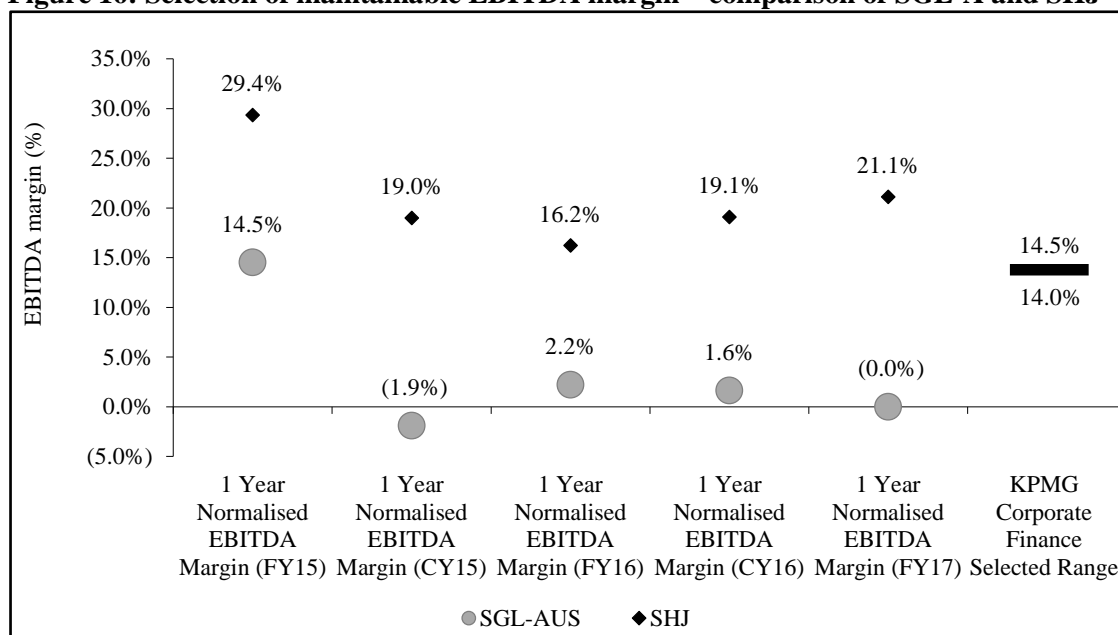
Having regard to the above, we have determined a maintainable revenue range of \$205.0 million to \$215.0 million for SGL-A.

11.5.1.2 Maintainable EBITDA margin

Our approach in determining an appropriate maintainable EBITDA margin for Slater & Gordon Post-Recapitalisation is the same as that adopted when assessing an appropriate maintainable EBITDA margin for Slater & Gordon Pre-Recapitalisation, which is described in Section 11.4.1.2 of this Report.

The following figure outlines the recent EBITDA margin (normalised) that SGL-A has been able to achieve compared to the EBITDA margin (normalised) of Shine, which we consider to be Slater & Gordon's most comparable peer.

Figure 16: Selection of maintainable EBITDA margin – comparison of SGL-A and SHJ



Source: KPMG Corporate Finance analysis

Note: The normalised EBITDA margin for SHJ excludes recent transaction costs and net share of profit from associates.

In relation to the above figure, we note:

- SGL-A was able to achieve a normalised EBITDA margin of 14.5 percent for FY15, however, this margin was prior to increasing resolution rates, increased competition and before the negative effects of financial distress on SGL-A's operations, such as staff attrition and temporary reputational issues
- since FY15, normalised EBITDA margins for SGL-A have declined, as discussed further in Section 9 of this report
- Shine, the most comparable peer, has also experienced declining margins during the period outlined due to a challenging operating environment.

When determining an appropriate maintainable EBITDA margin, we considered:

- discussions with Management
- SGL-A's historical operating margins
- the challenging operating environment, as demonstrated by SGL-A and Shine's falling EBITDA margins
- the expected improvement in operations from the Australian turnaround strategies and other initiatives

- the ability of Slater and Gordon to maintain appropriate margins through reducing variable costs, such as employment expenses, due to the low fixed costs associated with a professional services business.

On the basis of the above, we have selected a maintainable EBITDA margin in the range of 14.0 percent to 14.5 percent. We note that the selected margin is not expected to be achieved by Slater & Gordon, Post-Recapitalisation, in the short term and there is significant risk in executing the initiatives required to generate this margin. This risk is reflected in the selection of the EBITDA multiple (refer to Section 11.5.2 of this report for more information).

11.5.2 EBITDA multiple

Our approach in selecting the EBITDA multiple for Slater & Gordon Post-Recapitalisation is the same as that adopted when selecting an appropriate EBITDA multiple for Slater & Gordon, Pre-Recapitalisation.

11.5.2.1 Sharemarket evidence

The comparable companies considered to determine an appropriate multiple to apply to Slater & Gordon Post-Recapitalisation is consistent with those analysed to value Slater & Gordon Pre-Recapitalisation, as discussed in Section 11.4.2.1 of this report.

We note that while greater emphasis would naturally be placed on comparable companies based in Australia, the most comparable peer to the operations of Slater & Gordon Pre-Recapitalisation is also considered to be Shine.

11.5.2.2 Transaction evidence

Similarly to the comparable companies considered, the comparable transactions considered in relation to determining an appropriate multiple to apply to Slater & Gordon Post-Recapitalisation is consistent with those analysed to value Slater & Gordon Pre-Recapitalisation, as discussed in Section 11.4.2.2 of this report.

11.5.2.3 Concluded multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined above, we have selected a forward EBITDA multiple range of 4.75x to 5.25x having regard to the following considerations, including the specific attributes of Slater & Gordon, Post-Recapitalisation:

- the approach adopted to determine future maintainable EBITDA, based on an 'efficient business' margin, implies growth in earnings from current levels
- Slater & Gordon has a strong and highly recognisable brand in the PIL field within Australia, with a 92 year history
- Post-Recapitalisation, Slater & Gordon will have no operational exposure to the UK legal industry and the issues that the UK business currently face

- Slater & Gordon Post-Recapitalisation will have a strong diversified presence within Australia. This is particularly important as a key risk to legal practices is regulatory change. A diversified presence reduces exposure to change within any one state, as the States are responsible for the majority of laws related to PIL
- risk associated with Slater & Gordon's near term financial performance, noting that the business had been underperforming in recent periods, with a significant driver of this being staff attrition and temporary reputational damage
- Slater & Gordon has recently implemented a business efficiency improvement initiative in Australia, which we note we have considered in the determination of a maintainable margin. While the maintainable margin was determined with respect of variety of factors discussed in section 11.5.1.2 of this report, we note that the selected margin is not expected to be achieved in the short term and there is significant risk in executing the initiatives required to generate this margin. This risk is reflected in the selection of the EBITDA multiple
- recent changes in the Australian regulatory landscape, including the NSW compulsory third party reforms and the repeal of the Newman Government's PIL reforms (refer to Appendix 4 of this report for further information)
- Shine's LTM EBITDA multiple of 5.2 times (including a 20 percent control premium). We note that whilst Shine is the most comparable business to Slater & Gordon Post-Recapitalisation in terms of service offering and geographical exposure, but continues to faces challenging conditions, largely due to its exposure to the energy and resources sector and its, albeit reducing, reliance on the Queensland PIL sector. We also note that the DePuy Class Action, which was a big win for Shine, was a strong contributor Shine's FY17 result, which may be impacting its LTM EBITDA multiple
- EBITDA multiples implied by recent transactions, other than the acquisitions of the PSD business, Trilby Misso and Griffith Hack, support the EBITDA multiple range adopted.

11.6 Other valuation considerations

11.6.1 Net debt

We have assessed the net debt balance to be:

- \$782.3 million Pre-Recapitalisation
- in the range of \$106.0 million to \$111.0 million Post-Recapitalisation.

Net debt includes short and long term borrowings and derivatives for interest rate hedging purposes. In relation to the operations of Slater & Gordon's, we have not adjusted the Pre-Recapitalisation debt balance for cash and cash equivalents of \$33.3 million as it is expected that the cash will be required for working capital purposes as Slater & Gordon is not cash positive at an operational level primarily due to the UK operations and the restructuring costs.

Further details of the debt balance Pre-Recapitalisation is set out in Table 9 of this report.

The debt balance Post-Recapitalisation is based upon the gross debt drawn down from the New Super Senior Facilities, the Restated SFA and other operating financing facilities. The total amount will depend upon how much is drawn down under the New AUD Super Senior Facilities and the Restated SFA which will be up to \$125.0 million. Based on existing expectations Post-Recapitalisation the net debt amount will be between \$106.0 million and \$111.0 million.

11.6.2 Surplus assets and liabilities

Surplus assets represent those assets or investments that are not required in order for Slater & Gordon to continue to realise its principal source of earnings. To determine the equity value, surplus assets must be added back to the enterprise value, whilst surplus liabilities, if any, are deducted.

From discussions with Management, no surplus assets or liabilities were identified. We note, with the exception of the Watchstone claim, we have not included contingent liabilities or assets given the uncertainty of outcomes at the date of this report, as detailed in Section 9.5.3 of this report.

We have viewed the Watchstone claim as a contingent surplus asset. In relation to the Watchstone claim we note:

- under the Pre-Recapitalisation scenario, Slater & Gordon will be entitled to the full amount of the potential damages that may be awarded as a result of the claim. Whilst the claim is for £600.0 million, based on information provided and made available to date, for the purpose of the valuation, an estimate of £50.0 million has been adopted
- under the Post-Recapitalisation scenario, Slater & Gordon would be entitled to the first \$40.0 million should the claim against Watchstone prove successful, provided as a deferred consideration between SGL-A and SGL-UK as part of the Recapitalisation for the transfer of the UK operations to UK HoldCo.

Management advised that should the case head to court, it may take up to four years before the case concludes, though on average it could take approximately two years.

For the purposes of the valuation we have considered the Watchstone claim, as a contingent surplus asset, as follows:

- at the low end of our value range, we assume that the claim is unsuccessful, and as such nil damages are paid
- at the high end of our value range, we assume that the claim takes two years to reach a successful outcome. The full amount Management believe would be made available is awarded.

As the claim is assumed to be successful after two years, the amount available to Shareholders is required to be present valued. As we understand that the funds received in association with the claim would be offset against debt outstanding, the appropriate discount rate to adopt when present valuing the damages would be the cost of debt.

For both the Pre-Recapitalisation and the Post-Recapitalisation value, a cost of debt of 5.6 percent was adopted. This was determined based upon a:

- base rate of 3.7 percent, being the risk free rate we consider to be appropriate for an investment in Australia at this point in time
- a margin of 1.9 percent, based upon the observed spread between the yield of five year BBB rated bonds and the 5 year Australian government bond rate.

Based upon the factors above, should the claim be successful the present value of the surplus asset associated with the Watchstone claim is \$72.7 million (based on the present value of £50 million and exchange rate of GBP/AUD of 1.63093 at 1 September 2017). Should the Recapitalisation be approved, Slater & Gordon would be entitled to the first \$40.0 million of any damages awarded. Based upon the above factors, the present value of this amount is \$35.9 million.

11.6.3 Number of Shares on issue

As noted in Section 9.7, Slater & Gordon has 347,245,601 fully paid ordinary Shares on issue. All other formerly issued performance rights and VCR shares were either extinguished, cancelled by 30 June 2017 or else did not vest based upon the assessment of vesting performance rights in September 2017.

We have not considered the impact of the warrants issued to certain Senior Lenders as the actual number of warrants is not determinable. However, we note that the impact of the warrants would be to dilute the existing Shareholders. As such, our assessment of the number of Shares on issue for Pre-Recapitalisation and Post-Recapitalisation purposes excludes the impact of these warrants.

As such, the number of Shares on issue Pre-Recapitalisation is based upon the number of fully paid ordinary Shares on issue, being 347,245,601.

In considering the number of Shares on issue Post-Recapitalisation, the Shareholders represent 5 percent of Shares on issue immediately following implementation of the Recapitalisation, therefore the shares on issue Post-Recapitalisation will be 6,944,912,020 shares. On the basis that the 100 to 1 shares consolidation occurs, the number of shares outstanding will be adjusted accordingly. However, as the implementation of the share consolidation does not impact upon our opinion, we have not considered it during our analysis of the assessed Share price.

Further detail on the issued capital of Slater & Gordon is detailed in Section 9.7 of this report.

11.7 Valuation cross checks

11.7.1 High level DCF cross check

A DCF approach is widely used in the valuation of established businesses. However, given Slater & Gordon's strategy for further cost and operational effectiveness, its current financial difficulties, the difficulty to project revenue as there are no long term contracts and current

turnaround objectives, the robustness of any results derived from a DCF analysis may be reduced.

However, whilst we have not utilised a DCF approach as our primary valuation approach, we have undertaken a high level DCF analysis based on the Company's ungeared forecast cash flow as a cross-check.

In ascertaining the reasonability of the Pre-Recapitalisation and Post-Recapitalisation value of Slater & Gordon, a high level assessment of the discount rate implied from the value of the business discussed in Section 4 and the forecast cash flow prepared by Management was prepared.

Our DCF analysis assumes that the business operates as a going concern, with no major changes to the competitive and regulatory environment. The resultant implied discount rate ranges for both the Pre-Recapitalisation and the Post-Recapitalisation value ranges is within the range we would consider to be reasonable, and as such supports our assessed valuation of Slater & Gordon derived from our primary capitalised earnings methodology.

11.7.2 Market price

We have performed a cross check of our assessed value per Share against the VWAP of the Shares. In understanding our cross-check, we have considered trading in Slater & Gordon's Shares both prior to and following the announcement of a potential recapitalisation. We have then considered the relevance of share trading over these periods to our assessed Pre-Recapitalisation value per Share (nil) and Post Recapitalisation value per Share (\$0.003 to \$0.011).

Analysis of trading prior to announcement of a potential recapitalisation

Set out in the table below is an analysis of the periodic VWAPs and liquidity of Shares for the 12-month period prior to and including 16 March 2017 (period before the announcement of a potential recapitalisation of the debt facility). For example, '1 week' means five days prior to and including 16 March 2017.

Table 28: VWAP and liquidity analysis – period prior to and including 16 March 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.08	0.09	0.09	1.9	21.1	6.0
1 month	0.07	0.20	0.11	31.5	294.0	83.4
3 months	0.07	0.33	0.15	65.6	428.7	121.7
6 months	0.07	0.44	0.19	104.1	539.2	153.0
12 months	0.07	0.68	0.34	468.8	1,394.9	395.9

Source: IRESS, S&P Capital IQ and KPMG Corporate Finance analysis.

With regard to the table above, we note the following:

- the Shares exhibited very high liquidity over the prior 12 months, with the number of shares traded 4.0 times total shares on issue over the 12 month period and 1.5 times total shares on issue over the 6 month period off a free float of 89 percent

- the VWAP declined from \$0.34 over the full 12 month period to \$0.09 in the week prior to the announcement.

Relevance of trading prior to announcement of a potential recapitalisation to assessed values per Share

Although Slater & Gordon's Shares were highly liquid in the 12 months to 16 March 2017, the Share price in this period is not an appropriate data point to cross-check our assessed value of Slater & Gordon's Shares (either Pre-Recapitalisation or Post-Recapitalisation) as more than seven months have passed since the announcement of a potential recapitalisation on 16 March 2017. During this time, Slater & Gordon has announced a number of matters that would adversely impact the Share price:

- various litigation proceedings being brought against Slater & Gordon (refer to Section 9.9 of this report)
- weak performance of the PSD acquisition (refer to Section 9.1 of this report)
- on 31 August 2017, its full year results for FY17, which indicated a second consecutive year of material EBITDA and operating cash flow losses and a deficiency in net assets as at 30 June 2017
- the increased awareness of Slater & Gordon's financial situation with the trading of its debt in the secondary market. Throughout 2017, Slater & Gordon announced the existence of a secondary market for its debt and that based on the price of debt traded in this market, enterprise value (market capitalisation plus the traded price of debt) was below bank debt obligations.⁵¹ The implication is that Slater & Gordon's traded value of debt and equity could not fully support debt holders, leaving no value for equity holders.

Consequently, we do not consider the Slater & Gordon Share price prior to the announcement of a potential recapitalisation to indicate that our valuation of a Slater & Gordon Share (either Pre-Recapitalisation or Post-Recapitalisation) is inappropriate.

Analysis of trading since announcement of a potential recapitalisation

We have also considered Slater & Gordon's Share trading since the announcement of a potential recapitalisation on 16 March 2017.

⁵¹ On 17 March 2017, Slater & Gordon advised that in excess of 94% of its debt facility had traded from its original syndicate of par lenders to secondary debt buyers. On 31 August 2017, in the preliminary final report for FY17, SGH stated "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."

Table 29: VWAP and liquidity analysis – period prior to and including 12 October 2017

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 week	0.07	0.07	0.07	0.4	6.3	1.8
1 month	0.07	0.08	0.07	1.6	22.7	6.5
3 months	0.07	0.11	0.08	8.2	102.2	29.4
6 months	0.07	0.13	0.09	26.1	290.6	83.4
17 Mar 17 to 12 Oct 17	0.07	0.14	0.09	29.5	318.4	91.3

Source: IRESS, S&P Capital IQ, KPMG Corporate Finance analysis.

With regard to trading in the period since 16 March 2017, we note the following:

- the volume of shares traded over the 6 month period prior to 12 October 2017 of 83.4 percent is significantly lower than in the 6 month period prior to 16 March 2017 (1.5 times). Although the volume of Shares traded over this period suggests the shares are liquid, we note the following:
 - Slater & Gordon's investor base comprises primarily retail shareholders (with no shareholders as at 30 June 2017 holding more than 2.1% (refer to Table 11))
 - trading involved primarily small parcels of shares (the average value of a parcel traded since 17 March 2017 is \$1,256)
 - Slater & Gordon is not covered by brokers
- the VWAP declined from \$0.09 over the six month period to \$0.07 in the last week of the period.

Relevance of trading since announcement of a potential recapitalisation to assessed values per Share

We do not consider Share trading since 16 March 2017 to be relevant to a Pre-Recapitalisation assessment of value. Although the Share price will reflect recent company announcements (including the litigation proceedings, performance of the PSD acquisition and FY17 results), it is supported by the proposed Recapitalisation. As a result, it is likely that in the absence of the Recapitalisation, Slater & Gordon's Shares would trade at a price that is materially lower.

The most recent VWAP (\$0.069 over the week ended 12 October 2017) exceeds our assessed Post-Recapitalisation value of the Company of \$0.003 to \$0.011. In itself, a positive quoted market price is indicative of investor sentiment that the Recapitalisation has the potential to provide value to Shareholders. We also do not consider recent Share trading to indicate that our Post-Recapitalisation valuation is inappropriate for the reasons set out below:

- whilst there is an active and liquid market, the trading primarily involves small parcels of shares. The Shares are not followed by brokers nor do they have institutional support. This reduces the reliance that can be placed on the quoted market price as a basis of value
- the full details of the Recapitalisation will not be available until the release of the Senior Lender Explanatory Statement and Shareholder Claimants Explanatory Statement

- Slater & Gordon's trading price may also reflect a degree of optionality in terms of the timing of a turnaround of the business operations and restructure of the debt facility. We recognise that there are a range of potential outcomes for Slater & Gordon's business operations, including a successful turnaround of the business operations and a restructure of the debt facility. In our view, the timing of a turnaround is uncertain and the business is facing considerable distress as a consequence of its financial position, given Slater & Gordon is currently loss making. Our assessed values reflect a judgement based on a range of potential outcomes and the likelihood of these outcomes, which overall results in a Post-Recapitalisation value of \$0.003 to \$0.011 per Share
- we also note the potential for the option value to reflect the possibility of an alternative transaction which results in 'special value' to Slater & Gordon Shareholders. However, as noted in Section 11.2 of this report, in accordance with the requirements of RG111, our valuation excludes any 'special value' not available to a broad pool of potential purchasers
- notwithstanding the low trading price per Share, when value is considered on a Post-Recapitalisation basis, Slater & Gordon's enterprise value would need to be \$645.9 million to \$686.8 million in order to support a Share price of \$0.069 (the VWAP in the week to 12 October 2017). This implies an enterprise value which inherently cannot be supported given:
 - the Company's most recent published financial statements indicate material EBITDA losses in both 2016 and 2017 (that is, even before taking into account interest, depreciation and amortisation), material operating cash flow losses in both 2016 and 2017 (before taking into account capital expenditure requirements) and a deficiency in net assets as at 30 June 2017 (refer to Tables 7 and Table 9)
 - it implies an EBITDA multiple in the range of 20.7 times to 23.9 times (based on our assessed maintainable earnings of \$28.7 million to \$31.2 million)
 - Management has publicly stated since February 2017 that "current levels of bank debt exceed enterprise value" (in other words, there is no fundamental equity value)
- without a recapitalisation process whereby the solvency of Slater & Gordon has been supported by its Lenders it is likely that the Company will be placed into external administration by May 2018, which may lead to the appointment of receivers and administrators. In these circumstances we do not expect that Shareholders would receive any value for their Shares.

Consequently, we do not consider recent Share trading to indicate that our Post-Recapitalisation valuation is inappropriate.

12 Comparison of Outcomes for Senior Lenders under the Senior Lender Scheme

12.1 Return to Senior Lenders if the Recapitalisation is approved

This section sets out our analysis of the return to Senior Lenders if the Recapitalisation is approved.

The total return to Scheme Senior Lenders if the Recapitalisation is approved is comprised of the debt facilities post Recapitalisation, plus the market value of ordinary shares and convertible notes.

Post-Recapitalisation, the debt remaining in Australia comprises the New AUD Super Senior Facility of \$65 million and restatement of the original SFA totalling \$60 million.

The return from the UK Convertible Notes will depend on a range of factors including the success of Watchstone related claims and UK asset divestments. We have assumed a nominal level of return under a low case (the note converts into a nominal number of ordinary shares in S&G UK at the end of the term) and £50 million under a high case (amount of Watchstone claim in escrow) converted to AUD at 0.5912 AUD / GBP.⁵² The Watchstone claim is for a total of approximately £600 million which exceeds the net assets of Watchstone and the funds held in escrow by several hundred million pounds. We have not attempted to quantify the likely return from the claim, the probability of success nor the costs of litigation, but have set out the impact of £50 million under the high scenario (taking into consideration the level of funds in escrow) for illustrative purposes with a present value discount assuming the matter is not resolved for 2 years.

We have adopted 95 percent of the market value of Shares in the Australian operations as set out in Section 11 on a controlling interest basis, representing the level of ordinary shares the combined Scheme Senior Lenders will hold following the Recapitalisation and 100 percent of the UK operations. The value of the UK operations is based on the agreed amount to be paid with regards to the Watchstone Proceeds and the promissory note as detailed in the Senior Lender Scheme. We note this value may differ from a value taking into account a longer term view of the UK operations and an improvement in the business.

⁵² Assumed 0.5912 AUD / GBP as at 30 June 2017.

Table 30: Total return to Scheme Senior Lenders if Recapitalisation is approved as at 30 June 2017

\$million	Reference	Low	High
Gross debt as at 30 June 2017	Table 23	780.9	780.9
Total return to Senior Lenders (controlling basis)			
Super Senior Facility	Table 20	40.0	40.0
Restated SFA	Table 20	60.0	60.0
Market value of 95% of ordinary shares in Australian operations ¹	Table 3	23.3	54.1
Value of 100% of shares issued in UK HoldCo ²	Note 2	52.0	92.0
Surplus Asset Watchstone claim less Watchstone Proceeds ³	Note 3	0.0	44.6
Total return to senior lenders (controlling basis)		175.3	290.7
Return % (controlling basis)		22.4%	37.2%

Source: KPMG Corporate Finance analysis

Note: 1. The market value of the Australian shares does not include the value of the Watchstone Proceeds
2. The value of the UK operations is based on the agreed amount to be paid with regards to the Watchstone Proceeds, the promissory note and the intercompany loan (as at 30 June 2017 adjusted for the value of Intellectual Property) as detailed in the Senior Lenders Scheme. Pending the outcome of the Watchstone claim, the value of the Watchstone Proceeds is in the range of zero to \$40.0 million. We note the value of the UK HoldCo may differ from a value taking into account a longer term view of the UK operations and an improvement in the business
3. Amount attributable to lenders from proceeds of Watchstone claim above the Watchstone Proceeds
4. Tables may not add due to rounding.

The table above sets out the return to Scheme Senior Lenders immediately following the Recapitalisation based on estimates of the market value of each instrument held following the Recapitalisation. However the Scheme Senior Lenders will continue to be exposed to the risks of the Company and the UK operations while they hold these instruments. The proceeds ultimately returned to Scheme Senior Lenders will depend on the future performance of the Company and UK HoldCo, and market conditions at the time of exit.

As the Company will be solvent immediately following the Recapitalisation, the other debts of the Company (such as employee entitlements, trade creditors, disbursement funder, etc.) are expected to be paid in full as and when they fall due in the ordinary course of business.

12.2 Return to Scheme Senior Lenders if the Recapitalisation is not approved

If the Recapitalisation is not approved, Slater & Gordon is expected to become insolvent sometime by May 2018.

Beneficiaries of the Company may realise value through a range of different insolvency scenarios, which could include:

- the Company continuing as a going concern and being sold to third parties (either as a whole or in parts)
- the Company (or parts thereof) being wound down / run off
- some combination of the above.

In our view, the expected return from an insolvency of Slater & Gordon is highly uncertain due to the following risks and challenges:

- the intangible and long lead time nature of the Company's key assets (ie WIP in the form of partially complete cases can take years to complete and do not have a ready liquid market, such as tangible assets like real estate or motor vehicles)
- the complexity associated with operations across multiple sites and jurisdictions
- low staff morale and potential loss of key employees and group practice leaders (which may be of concern to the regulators)
- potential regulatory action by the Australian and/or UK regulators if they are not comfortable with the Company's ability to protect clients' interests and/or the conflict between optimising value for creditors and preserving client interests (which could result in cases being transferred to other service providers for no consideration)
- counterparties may try to frustrate and delay the settlement of cases
- in the face of negative publicity, clients may choose to take their cases elsewhere or be poached by exiting staff and/or competitors. Whilst client files are covered by a lien, it may be difficult to enforce in practice
- the retention of employees and clients will be inextricably linked which will limit reorganisation options
- while in wind down / run off mode, corporate and fixed costs will be spread over a diminishing revenue base as cases are completed, creating challenges to maintaining a self sufficient cash flow, staff engagement and retaining clients
- there is unlikely to be a ready buyer for the Company as a whole, and the Australian and UK operations may need to be split into smaller components
- the UK operations are highly interrelated and interdependent, cross-referring significant proportions of volume/turnover and sharing central services. A partial run-off strategy would have significant consequences for the businesses in run-off and those that continue to trade. This arises from the impact on staff behaviour/morale, brand contagion, client actions, counterparty responses and the associated costs to maintain the status quo. Any breakup of the Company could see the SGL business unravel quickly, with knock on consequences to funding requirements and outcomes.

Considering the above risks and challenges, we have estimated the return to Scheme Senior Lenders if the Recapitalisation is not approved below. In estimating the return to Scheme Senior Lenders if the Recapitalisation is not approved, we have adopted the following assumptions:

- under a low case scenario, the UK companies are placed into administration and no sale is achievable leading to intervention by the SRA. Australia is placed into liquidation resulting in the wind down of the business and distressed realisation of WIP and debtors
- under a high case scenario, the UK companies are either wound down and/or sold off in parts. Australia is also placed into liquidation with distressed realisation of WIP and debtors

- cash on hand is assumed to return between nil under a low scenario (due to being exhausted by the time external administrators are appointed) and 50 percent of book value under a high scenario which assumes some funds have been utilised in trading over the period since 30 June 2017
- receivables comprised approximately \$326 million in disbursements and \$157 million in trade debtors as at 30 June 2017.
 - *Disbursements*: a bulk of disbursements are legal creditors who have entered into agreements with Slater & Gordon to receive payment when proceeds from settled cases are received. We have assumed there would be no surplus proceeds available for Scheme Senior Lenders under either a low or high case scenario from collection of disbursements given these arrangements.
 - *Trade debtors*: we expect there would be considerable difficulty collecting debtors in a liquidation scenario estimating that the realisation costs in many instances may outweigh the receivable value. Australian receivables are assumed to return between 50 percent under a low scenario and 65 percent under a high scenario. UK receivables are assumed to return between 5 percent under a low scenario and 8 percent under a high scenario due to the additional costs estimated to prove disputed claims.
- Australian WIP: as WIP represents an estimate of the value of ongoing cases, there will be additional costs and time required to be invested to complete each case. The realisation rate for WIP is expected to be relatively low. We have assumed Australian based current WIP is realised at a rate of between 15 percent and 25 percent and non-current WIP is not realised under either case given the scenario that regulatory intervention may result in the cases being controlled by another party
- UK WIP: we have assumed the SRA intervenes to protect the interests of clients and assigns the cases to other firms under a low case. As a result, we have assumed no WIP realisation under a low case as we would expect the cost of resolving all outstanding cases would outweigh the value of remaining WIP. Under a high case, we have assumed 6 percent of WIP is recovered which takes into account the additional cost required to resolve all cases before any value can realised
- we have also assumed:
 - the value of property, plant and equipment, which primarily relates to fit out, furniture and technology would be of little commercial value and after costs of realisation would have negligible value (nil) under a low case to 10 percent of book value under a high case
 - trading and administrator's fees would be between approximately \$5.0 million under a low case and \$15.0 million under a high case due to the complexities of operating the businesses during wind down. The costs of recovering receivables and WIP are included in the realisation rates for those assets. Both scenarios exclude the cost of prosecuting the Watchstone claim

- employee entitlements, including redundancy costs would be approximately \$60 million under a low scenario and \$40 million under a high scenario. The high case assumes some employees in the UK subsidiaries are transferred to new employers avoiding some redundancy costs
- we have not attempted to quantify the likely return from the Watchstone claim, the probability of success nor the costs of litigation, but set out the impact of £50 million under the high scenario (taking into consideration the level of funds in escrow) for illustrative purposes. The calculation is a present value amount using an exchange rate at 30 June 2017,⁵³ refer Section 11.6.2 of this report.

Table 31: Total return to Scheme Senior Lenders if Recapitalisation is not approved

\$'000	Book value	Low	High
Assets			
Cash and bank balances	33.3	0.0	16.7
Receivables	395.5	54.1	75.6
Work in progress	294.9	17.0	39.8
Current tax assets	0.0	0.0	0.0
Other current assets	21.1	0.0	0.0
Property, plant and equipment	26.6	0.0	2.7
Receivables (non-current)	91.5	9.8	14.1
Work in progress (non-current)	220.1	0.0	0.0
Intangible assets	13.1	0.0	0.0
Deferred tax assets	34.7	0.0	0.0
Other non-current assets	0.5	0.0	0.0
Watchstone claim ¹	0.0	0.0	75.9
Total assets Available for Creditors	1,131.3	80.9	224.8
Less Realisation Costs			
Trading and administrative costs	-	(5.0)	(15.0)
Total Assets Available for Creditors after realisation costs	1,131.3	75.9	209.8
Liabilities			
Employee Entitlements	(22.9)	(60.0)	(40.0)
Estimated amount available for secured creditors	1,108.4	15.9	169.8
Secured Borrowings	(780.9)	(780.9)	(780.9)
Estimated amount available for unsecured creditors	327.4	(765.0)	(611.2)
<i>Estimated return %</i>		2%	21.7%

Source: KPMG Corporate Finance analysis

- Note 1. On 14 June 2017, Slater & Gordon announced that its subsidiary, Slater & Gordon UK (1) Ltd filed and served a claim in the High Court of England and Wales for approximately £600 million against Watchstone Group Plc relating to the Slater & Gordon acquisition of the Watchstone Professional Services Division in 2015. The value of that claim exceeds the net assets of Watchstone and the monies currently held in escrow by several hundred million pounds
- Note 2. Tables may not add due to rounding.

⁵³ Assumed 0.5912 AUD / GBP as at 30 June 2017.

This analysis shows that the return to Scheme Senior Lenders if the Recapitalisation is not approved is less than the return to Scheme Senior Lenders if the Recapitalisation is approved. As mentioned previously, the expected return from an insolvency of Slater & Gordon is highly uncertain due to the complexity of its operations across multiple sites and jurisdictions. The levels of return ultimately achieved under an insolvency of Slater & Gordon may be different to the levels set out above, and those differences may be material.

13 Shareholder Claimant Scheme

The Shareholder Claimant Scheme forms part of the proposed restructure of Slater & Gordon, which will be effected by the Recapitalisation and the Shareholder Claimant Scheme. It is part of a comprehensive solution to resolve and compromise all potential Shareholder Claims by Shareholder Claimants against Slater & Gordon and its current and former Officers.

13.1 Background

As discussed in Section 9 of this report, two representative proceedings are currently on foot against Slater & Gordon in the Federal Court of Australia, being the Hall Proceeding and the Babscey Proceeding, whilst the Company has also been notified of a further potential class action claim, the Delaney Application. A detailed overview of these claims are discussed in Section 3.2 of the Shareholder Claimant Explanatory Statement.

13.2 Hall Proceeding

On 21 September 2017, as a result of the Court directed mediation process, Slater & Gordon and the claimants to the Hall Proceeding signed a binding settlement agreement, without any admission in respect of liability, to settle all disputes on terms consistent with those set out in the Shareholder Claimant Scheme and give legal effect of any proposed settlement agreed upon. Settlement will be effected by the Shareholder Claimant Scheme becoming effective in accordance with Section 411 of the Corporations Act.

Once the Shareholder Claimant Scheme becomes effective, the Scheme Administrators will receive from the Hall Proceeding Claimant's solicitors the funding from Slater & Gordon's insurers to seed and establish the Scheme Fund. The Scheme Fund will be placed under the exclusive control of the Scheme Administrators⁵⁴ who shall deal with it in accordance with the provisions of the Shareholder Claimant Scheme.

13.3 Shareholder Claim

In assessing the fairness of the Shareholder Claimant Scheme, the nature of the Hall Proceeding, and other current or potential claims of a similar nature, was considered with reference to Section 563A (1) of the Corporations Act. This provision provides that in the event of an insolvency, subordinated claims are postponed until all other debts payable by, and claims against the Company, are satisfied.

Section 563A (2) of the Corporations Act relevantly defines a "subordinated claim" as:

- a) a claim for a debt owed by the company to a person in the person's capacity as a member of the company (whether by dividends, profits or otherwise); or

⁵⁴ Scheme Administrators refer to the administrators of the Shareholder Claimant Scheme.

- b) any other claim that arises from buying, holding, selling or otherwise dealing in shares of a company.

Based upon these definitions, the class claimants' claims from the Hall Proceeding and Babsbay Proceeding, as discussed in Section 9 of this report, and any other claims brought by Shareholders against Slater & Gordon within the meaning of s563A(2) are subordinated claims.

Section 562 of the Corporations Act preserves for the benefit of the subordinate claim holders any proceeds recovered from a responsive policy of insurance "*after deducting any expenses of or incidental to getting in that amount*". The maximum amount available in a winding up to subordinated claimants is, therefore, the indemnity available under relevant and responsive director and officer insurance policies. An overview of the director and officer insurance policies are discussed in Section 3.3 of the Shareholder Claimant Explanatory Statement. From discussions with Management, we were advised that the available proceeds from the relevant insurance policies is estimated to be \$40.0 million.

13.4 Hall Proceeding Settlement

On 21 September 2017, Slater & Gordon entered into the Hall Proceeding Settlement Deed setting out the settlement terms of the Hall Proceeding. The terms are summarised as follows:

- an agreed settlement amount of \$36.5 million, which will comprise the Scheme Fund and funds made available pursuant to the New AUD Super Senior Facility as part of the Recapitalisation
- distribution of the Scheme Fund, post legal and other administrative costs, to Shareholder Claimants being effected by the approval of the Shareholder Claimant Scheme
- Shareholder Claimants, in consideration for the compromise of their claims against Slater & Gordon, will be entitled to prove against and share rateably in the Scheme Fund
- the funds within the Scheme Fund, post legal and other administrative costs, will be distributed to Shareholder Claimants, and all Shareholder Claims will be compromised with the implementation of the Shareholder Claimant Scheme
- the Hall Proceeding will be dismissed with no orders as to costs, and
- settlement is without admission of liability by Slater & Gordon

We also note that as a result of using a litigation funder during the proceeding, upon the successful settlement of the claim, the litigation funder will receive a commission from the funds provided to the Hall Proceeding Claimants.¹¹

13.5 Comparison of rights

In considering the impact of the implementation of the Shareholder Claimant Scheme, certain rights available to the Shareholder Claimant before and after the implementation of the Shareholder Claimant Scheme are considered. The table below summarises the impact of the Shareholder Claimant Scheme on these rights.

Table 32: Rights of Shareholder Claimants

Rights of Shareholder Claimants	Pre-implementation of the Shareholder Claimant Scheme	Post-implementation of the Shareholder Claimant Scheme
Make Shareholder Claims against Scheme Company and its Officers	File proceedings in relation to Shareholder Claims against Scheme Company and its Officers and seek recovery of any loss and damage suffered, subject to Scheme Company and Officers ability to satisfy any such judgement given against them	Shareholder Claims are extinguished and Shareholder Claimants' rights are limited to an entitlement to prove against and share rateably in the Scheme Fund
Make Shareholder Third Party Claims against Third Parties arising from or in connection with Shareholder Claims	Make Shareholder Third Party Claims and seek recovery of any loss and damage suffered as a result of a Third Party's conduct, subject to that Third Party's ability to satisfy any such judgement given against them	Shareholder Claimants can pursue Shareholder Third Party Claims provided that they are Permitted Claims
Hall Proceeding, Babscay Proceeding or ACA Potential Claim	Continue proceedings already commenced against the Scheme Company (Hall Proceeding, Babscay Proceeding) or commence proceedings (ACA Potential Claim)	All proceedings will be dismissed with no orders as to costs. Shareholder Claimants will release the Released Persons, which includes the Scheme Company and its Officers, from Claims and are barred from commencing new proceedings unless they are Permitted Claims. Shareholder Claimants will be able to submit a Proof of Debt and share rateably, subject to adjudication of that Proof of Debt, in the Scheme Fund

Source: Explanatory Statement Section 2.9 of the Shareholder Claimant Scheme.

In relation to the rights, we note that should the Shareholder Claimant Scheme be approved:

- the proceedings brought forth by the Shareholder Claimants will be dismissed and all Shareholder Claims are extinguished. However, the Shareholder Claimants will gain the right to prove against and share rateably in the Scheme Fund, that is known and guaranteed, for a distribution, whilst avoiding a potentially lengthy court case which has an uncertain outcome
- the rights of Shareholder Claimants to make a Permitted Claim against a Third Party is crimped insofar that any claim lodged cannot result in a risk of financial contagion to Slater & Gordon or its Officers, as such claims are extinguished. Permitted Claims are those in which there is no right for a Third Party to seek indemnity or contribution from Slater & Gordon or its Officers. Thus, in addition to the distribution a Shareholder Claimant will

receive as a result of the Shareholder Claimant Scheme approval, provided their claim is proven, the Shareholder Claimant is able to pursue a claim against a Third Party provided the condition relating to financial risk contagion to Slater & Gordon or its Officers holds.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin, Joanne Lupton and Guy Edwards. Ian is an Associate of the Institute of Chartered Accountants in Australia and a Senior Fellow of the Financial Securities Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Joanne is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Securities Institute Australasia and holds a Bachelor of Commerce degree. Each has a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports. Guy is an Associate, Institute of Chartered Accountants Australia and New Zealand, a Registered Liquidator since 2002 and holds a Bachelor of Commerce degree. Guy has over 25 years in providing restructuring and insolvency services.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Recapitalisation is fair and reasonable to Shareholders. KPMG Corporate Finance expressly disclaims any liability to any Shareholders who rely or purport to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Explanatory Memorandum or any other document prepared in respect of the Recapitalisation. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole or other documents prepared in respect of the Recapitalisation. We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Slater & Gordon for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to the shareholders of Slater & Gordon. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements which included but were not limited to:
 - Appendix 4D Half Yearly Report and Financial Accounts
 - 2016 Annual Report to shareholders
 - Market Update Amendment to Syndicated Facility Agreement
- various broker and analyst reports
- various press and media articles
- various reports published by IBISWorld Pty Ltd which included:
 - Personal Legal Services in Australia, IBISWorld Industry Report, March 2017
 - Personal and Workplace Injury Lawyers in Australia, IBISWorld Industry Report, April 2017
 - Legal Services in Australia, IBISWorld Industry Report, March 2017
- various market research reports and websites which included but were not limited to:
 - Australian Bureau of Statistics
 - State of the Legal Market: Australia – 2015, Melbourne Law School
 - UK Legal Services Market Report 2017
 - Office for National Statistics
 - The future of legal services, The Law Society of England and Wales, January 2016
 - IRN Research, 2015. UK PI Market. UK Legal Market Briefing
 - Legal Services Board, 2013. Evaluation: Changes in competition in different legal markets.
 - Ibid
 - An Assessment of the Market for PI, A final report the Solicitors Regulation Authority, October 2016
- financial information from Bloomberg, Thompson Financial Securities, Aspect Huntley and Connect 4.

Non-public information:

- Notice of Annual General Meeting and Explanatory Memorandum, Senior Lenders Explanatory Statement, Shareholder Claimant Explanatory Statement, Senior Lenders Scheme of Arrangement and Shareholder Claimant Scheme of Arrangement, term sheet and share sale agreement in relation to the Recapitalisation
- other confidential documents, presentations and work papers.

In addition, we have had discussions with, and obtained information from, senior Management of Slater & Gordon and its advisors.

Appendix 3 – Slater & Gordon corporate history overview

Year	Description
1935	Slater & Gordon founded
1985	Opens Perth office
1986	Opens Sydney office
1994	Introduces innovative No Win – No Fee legal fee structure
2003	Opens Queensland and ACT offices
2005	Acquired Geoffrey Edwards & Co (Sydney and Newcastle)
2006	Acquired Paul J Keady & Associates (Broken Hill), Gary Robb & Associates (ACT), Reid & Reid (Newcastle) and Maurice May & Co (Sydney and Wollongong)
2007	Becomes world's first publicly listed law firm Opens Adelaide office Acquired McClellands (Sydney and Canberra) and D'Arcys Solicitors (Brisbane) Acquired 3 regional practices: Crane Butcher McKinnon (Coffs Harbour, NSW), Nagle & McGuire (Nowra, NSW) and Edwin Abdo & Associates (Bunbury, WA)
2008	Acquired Secombs Solicitors, a full services legal firm located in Footscray, Melbourne; Blessington Judd, a Sydney based commercial firm; the PI practice of Carter Capner; and, Quinn and Scattini's personal injuries and professional negligence practice areas
2009	Opens Hobart office Acquired Kenyons Lawyers, a Melbourne based practice that generates approximately half of its revenue from motor vehicle injury and workers compensation
2010	Acquired Adams Leyland Lawyers, which predominantly focusses on PI claims Announced \$40 million capital raising to fund acquisition of Trilby Misso Lawyers, a motor vehicle accident claims and workers compensations firm based in south-east Queensland
2011	Acquired Keddies Lawyers, a PI litigation firm based in NSW Acquired Conveyancing Works, a Queensland conveyancing firm
2012	Slater & Gordon entered the UK legal market through the acquisition of Russell Jones & Walker for ~\$80 million Granted regulatory licence to practice in UK, paving the way to complete RJW acquisition Acquired Hilliard & Associates, a Hobart based injury law firm
2013	Announced \$63.9 million capital raising to fund UK expansion and acquisition of Goodmans Law (Liverpool), PI practice of Taylor Vinters (Cambridge) and Simpson Millar (10 offices nationally). Simpson Millar acquisition did not eventuate Acquired John Pickering & Partners LLP, a UK asbestos litigation firm Acquired Fentons Solicitors, a leading UK personal injuries firm
2014	Acquired part of Pannone Solicitors, a UK consumer law firm based in Manchester and London Acquired Victorian PI law firm Nowicki Carbone and Queensland consumer law firm Schultz Toomey O'Brien
2015	Announces \$890 million capital raising to fund \$1,225 million acquisition of Quindell Acquired Leo Abse & Cohen, a consumer and specialist PI firm Acquired Walker Smith Way, a consumer law firm Company notified that ASIC intended to raise queries of the Company's accounts and appointment of Ernst & Young to independently assess responses to ASIC's queries British Chancellor announces PI claims reforms Profit guidance withdrawn, predominantly due to underperformance of segments of UK operations and Company's revised approach to financial forecasting
2016	Operational restructure and integration of PSD commences ASIC discontinues inquiries in relation to Slater & Gordon financial reports for the years ended 30 June 2014 and 30 June 2015 Shareholder class action served on Slater & Gordon ASIC served notices to produce documents relating to ASIC investigation into accuracy of financial records and accounts of the Company for the period 1 December 2014 to 29 September 2015
2017	ASIC investigation concludes with no enforcement action

Source: Slater & Gordon Management and ASX announcements

Appendix 4 – Industry overview

Personal Injury Law

Overview

PIL is the specialisation of providing advice and representation to individuals who have suffered a physical or psychological injury due to the actions or negligence of another individual. As a result of the injury sustained, individuals may be entitled by statutory or common law to make a claim for compensation. These PI claims can be broadly classified under three categories: motor vehicle accidents, workers compensation claims and other civil liability claims.

Unlike other legal services, the majority of PIL services are provided on a NWNF basis. Under this arrangement, a claimant will not be charged legal fees for work performed by their own solicitor if a claim is unsuccessful. However, if a claim is successful, the legal representatives will be entitled to recover their fees and, in some jurisdictions, an additional ‘success fee’ calculated as a percentage of the total legal fees.

As a subspecialty of the broader Australian personal legal services market, PIL accounts for approximately 24 percent of the market.⁵⁵ The Australian PI market is expected to grow to \$1.7 billion in revenue in 2017 and is expected to experience annualised growth of 0.9 percent through to 2022.⁵⁶ Approximately 76 percent of the PI market is located in NSW, Victoria and Queensland.

PIL in the UK is the second largest segment of legal services and is significantly larger than the Australian market. The UK PI market is estimated at £2.5 billion of revenue each year with almost 1 million individual cases reported in financial year 2015.⁵⁷ Similar to the Australian market, the majority of PI claims in the UK are motor vehicle related. In 2015, 76 percent of total claims were motor-related, with the balance predominantly attributable to public liability and employer liability, attributing 10 percent of total cases respectively.⁵⁸

Market structure

The Australian PIL market has continued to consolidate in recent years. Larger firms continue to expand through acquisition, increasing their client base and geographic footprint. Strong affiliations with trade unions have provided these larger firms a stable supply of PI work, allowing the firms to sustain revenue. In comparison, smaller, less profitable firms have been forced to exit the market or have consolidated through acquisition. This consolidation has led to an increased market share concentration and the emergence of three market leaders: Slater & Gordon, Shine and Maurice Blackburn.

⁵⁵ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁵⁶ Personal and Workplace Injury Lawyers in Australia, IBISWorld Industry Report, April 2017.

⁵⁷ The future of legal services, The Law Society of England and Wales, January 2016.

⁵⁸ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

- *Shine* – Shine is an ASX listed company since 2013. Originally based out of Queensland, Shine has expanded through acquisition, establishing itself in NSW, Victoria and Western Australia. Shine specialises predominantly in PI and other compensatory law claims including class actions, professional negligence and human rights claims. The company reached total revenues of approximately \$165 million for FY17, of which \$129 million related to PI services, and estimates its market share in the PI sector is approximately 7 percent⁵⁹
- *Maurice Blackburn* – Established in Melbourne in 1919, Maurice Blackburn is a private law firm specialising in compensation claims and social justice. Unlike its two competitors, Maurice Blackburn has remained unlisted and has avoided acquisitions, growing the company and expanding revenue organically. With over 30 offices across Australia and approximately \$151 million in revenue, the company is estimated to have approximately 9 percent market share of the PI sector.⁶⁰

In the UK, there are over 800 law firms that specialise in PI, whereby at least 50 percent of a firm's annual revenue is generated by PI related services.⁶¹ In addition to specialist firms, there are approximately 2000 additional law firms in the UK that engage in the provision of PI related services, including case management and medical reporting.⁶² The market is highly fragmented with the majority of PI firms being small operations. This is evidenced by 44 percent of PI firms producing less than £500,000 in total revenue, while the next 22 percent of PI firms produce revenues ranging from £1.0 million to £3.0 million per annum.

Although the majority of firms are small, the PI market in the UK is a highly concentrated market as the largest 10 PI firms accounted for 25 percent of market revenue in 2013.⁶³ This is similar to the Australian market and it is predicted to have increased further in recent years to 30 percent given recent mergers and acquisition activity, consolidating the market further.⁶⁴

⁵⁹ Shine Corporate Annual Report 2017 and Investor Presentation 2017.

⁶⁰ Personal and Workplace Injury Lawyers in Australia, IBISWorld Industry Report, April 2017.

⁶¹ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

⁶² Ibid.

⁶³ Legal Services Board, 2013. Evaluation: Changes in competition in different legal markets.

⁶⁴ IRN Research, 2015. UK Personal Injury Market. UK Legal Market Briefing.

Key industry drivers

Motor vehicle accidents

Given motor vehicle accidents account for approximately 75 percent of the total PI market in Australia and the UK, the industry is driven heavily by the number of vehicle accidents. In recent years, fatal vehicle accidents have experienced a decline in both jurisdictions due to improvements in vehicle safety and greater enforcement of laws surrounding speeding and drink driving. In 2014, motor accident claims in the UK had decreased by a total of 7 percent since 2011,⁶⁵ whilst the number of road deaths have steadily declined to 2.8 deaths per 100,000 in 2014, from 5.6 deaths per 100,000 population in 2004.⁶⁶ In Australia, road deaths have also steadily decreased to 4.9 deaths per 100,000 population in 2014, falling from 7.9 deaths per 100,000 in 2004.⁶⁷

Nevertheless, this decline is expected to be partially offset in Australia by an expected increase in non-fatal accidents due to an increase in total vehicle registrations as a result of population growth. Total road related hospitalised injuries in Australia increased by approximately 24 percent over the 2004 to 2014 period.⁶⁸ In comparison, total road accidents in the UK have decreased almost 30 percent in the last 10 years.⁶⁹

Workplace related injuries

Workplace injuries form the second largest portion of PIL claims. Therefore the number of workplace injuries is a key driver for the Australian and UK PI market. Accidents within the workplace are also declining given the increasing work, health and safety regulation imposed upon employers. Government campaigns on the awareness of workplace safety is creating a decrease in work related accidents.

In conjunction with increased regulation, there is a structural shift towards service-based economies in Australia and the UK. Traditionally, the manufacturing sector provided the greatest exposure to dangerous machinery and hazardous equipment, therefore resulting in the highest rate of workplace accidents. With companies shifting manufacturing to locations with lower average wages, along with technological improvements and increased mechanical automation, Australian and UK jobs have been shifting away from manufacturing towards services, resulting in a reduced work accident rate per 1,000 employees. Total serious workplace accidents in Australia (defined as incidents resulting in over seven days absence), has fallen 16

⁶⁵ An analysis of the UK personal injury market, Weightmans.

⁶⁶ International road safety comparisons 2014, Bureau of Infrastructure, Transport and Regional Economics.

⁶⁷ Ibid.

⁶⁸ Road related hospital injuries, National Injury Surveillance Unit, Flinders University.

⁶⁹ UK Department of Transport.

percent in the last 5 years.⁷⁰ UK has experienced a similar decline with serious workplace accidents decreasing 11 percent in the last 5 years.⁷¹

Key industry trends

In recent years, the PI market has continued to consolidate in Australia, with leading firms, Slater & Gordon and Shine, acquiring a number of smaller firms over the last 5 years. Given the reduction in traffic and workplace accidents, this consolidation is expected to continue as less profitable firms are forced out of the market due to declining revenues, a changing statutory framework by legislative reform and an inability to compete with the established market leaders.

Brand awareness continues to emerge as a key factor in PIL. Given the success-based fee arrangements in PIL, new business is generally won through brand awareness and marketing. Therefore firms in the UK and Australia invest a significant portion of revenue to brand and marketing in order to compete with industry leaders.

The UK is also experiencing changes as the PI market continues to see firms diversifying service offerings and specialisations. A survey by the SRA found that 54 percent of respondent specialist PI firms were planning on diversifying into other areas of law within the next two years whilst 37 percent of respondents were planning on diversifying within PIL itself. The move towards diversification reflects the increasing cost pressures due to regulatory reforms and increased competition in the market as it reduces exposure to services with reduced margins and acts as a buffer during market turmoil. However, 9 percent of respondents expressed their intention to leave the PI market within the next two years.

Business structures for PI firms are also shifting. Since 2012, UK has enabled Alternative Business Structures (ABS) to exist for legal service providers. This allows non-lawyers to hold ownership or investment in law firms and allow multidisciplinary practice, including legal professionals working with particular non-legal professionals. It is becoming increasingly popular for ABSs to participate in the PI market, with nearly 4 in 5 ABSs being active in this market in 2015.⁷² It is estimated ABSs now account for approximately 30 percent of total PI revenue in the UK.

⁷⁰ Statistics on workers in Australia, Safe Work Australia.

⁷¹ UK Labour Force Survey.

⁷² An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

Personal Legal Services

Overview

As at 2016, the Australian personal legal services market was approximately a \$7.1 billion market with approximately 9,000 service providers. The personal legal services market represents legal services provided to consumers, households and employees for incidents and transactions across a range of legal matters. The provision of personal legal services consists of four primary services:

- property law – conveyancing and other legal services related to property transactions and disputes
- family law – legal matters in the Family Court including divorce, child support and legal guardianship
- wills and estates – the legal services involved with the preparation of wills and the administration of the estate of a deceased person
- PIL – the legal services provided for a compensation claim in relation to injuries sustained due to the actions or negligence of another, as discussed earlier.

The Australian market for personal legal services is expected to continue to grow at an annual rate of 1.0 percent over the next five years reaching \$7.5 billion in revenue by 2022.⁷³ In the UK, personal legal services is approximately a £7.5 billion industry.⁷⁴

Market structure

The market for personal legal services in both Australia and the UK is highly fragmented, dominated by smaller firms and sole practitioners, with almost 10,000 unique businesses operating across Australia and the UK respectively. Given the diversity of legal disputes and transactions that occur across individuals and households, it is common for practitioners to specialise in a particular area. The largest firms in personal legal services in Australia include Slater & Gordon, Shine and Maurice Blackburn, though, together these firms have a market share under 10 percent. This is similar in the UK, with the larger law firms comprising around 5 percent or less of market share.⁷⁵ As smaller owner-operators continue to be pressured by the industry's largest players, many will incorporate a full service offering to cement their place in the industry.

⁷³ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁷⁴ The future of legal services, The Law Society of England and Wales, January 2016.

⁷⁵ The future of legal services, The Law Society of England and Wales, January 2016.

Key industry drivers

Population size and age

Australia's ageing population is a key driver for personal legal services. As Australia's population continues to age, with more than 23 percent of the population projected to be over 65 by 2056,⁷⁶ the demand for wills is expected to increase. The demand for estate settlements and probate is also expected to be amplified with increased mortality rates as the population ages towards the average life expectancy for Australians. The population of the UK is very similar, with 24 percent of the population projected to be over 65 by 2039.⁷⁷ The general growth in the population for Australia and UK is also expected to foster positive demand for personal legal services given a growing base of individuals.

Divorce rates

Increasing divorce rates are another key driver for family legal services. The number of divorces in Australia is expected to increase annually by 0.6 percent over the next five years through to 2022.⁷⁸ Coupled with the increasing complexity of the division of assets and custody disputes in divorces, the demand for family legal services in Australia is expected to increase. In comparison, the divorce rate in the UK has been steadily decreasing and hit a 40 year low in 2013.

Property sales

The housing market also impacts demand for personal legal services. A strong Australian property market with increasing housing demand facilitates the continued increase in housing transfers. Australia experienced a decline of 0.6 percent in transfers between 2016 and 2017.⁷⁹ This growth is expected to decline in the next five years due to the imposition of more stringent lending conditions and the projected increase in interest rates. The UK property market suffered an approximate 50 percent decline in property sales in 2009, but has recovered strongly recording a 25 percent increase in prices in recent years.⁸⁰

Key industry trends

The trend towards full service firms in Australia is expected to increase competition. As a result, larger firms are expected to invest heavily in brand recognition and capitalise on varied service offerings. Therefore the number of establishments is expected to increase due to expanding networks and brands. This increase in competitive pressure will most likely have the largest impact on sole practitioners and smaller operators.

Changes in technology, including improvements in the provision of and access to online legal services is likely to affect non-contentious, non-complex, process driven work. This includes

⁷⁶ Australian Bureau of Statistics.

⁷⁷ Office for National Statistics.

⁷⁸ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁷⁹ Personal Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁸⁰ Office for National Statistics.⁸¹ Legal Services in Australia, IBISWorld Industry Report, March 2017.

online solutions to wills and conveyancing. This trend towards a greater use in digital legal solutions is likely to affect the margins available to smaller operators and could provide opportunities for larger firms with potential capital to invest market consolidation.

Business Litigation Services

Overview

The business and specialised legal services market provides commercial legal services to businesses and large corporates on commercial transactions and disputes. The legal services market in Australia is a \$23.1 billion industry and approximately 30 percent of this market comprises commercial law services (including intellectual property law).⁸¹

In Australia, the demand for commercial legal services has continued to decline in recent years, falling a further 2 percent in 2015,⁸² driven by declines in dispute resolution, banking & finance and corporate legal services. These practice groups represent approximately 48 percent of all commercial legal services provided in Australia.⁸³

Market structure

The market for business and specialised legal services in Australia is highly competitive and is structured in three tiers: large commercial firms servicing large corporates, mid-tier firms servicing large corporates to medium sized businesses and small firms servicing medium sized to small businesses. The top six commercial law firms in Australia, Allens, Ashurst, Clayton Utz, Herbert Smith Freehills, King & Wood Mallesons and Minter Ellison have an estimated 13 percent of the Australian Legal Services market. Some of the larger firms in Australia are headquartered in the UK including Ashurst and Herbert Smith and Allens' strategic partner, Linklaters.

Key industry drivers

Business confidence index

The business confidence index is a key driver for commercial legal services. A strong business confidence index indicates that businesses have a positive outlook on the future and are more likely to utilise commercial legal services and invest in activities that require such services. The business confidence index is expected to be positive in Australia for 2017. The business confidence index is currently 101.72 for Australia, which is above the OECD total index.⁸⁴

Economic conditions

The demand for particular commercial legal services is also highly dependent on the economic conditions and business environment. In periods of strong economic growth the demand for transactional commercial services, including Initial Public Offerings and mergers and

⁸¹ Legal Services in Australia, IBISWorld Industry Report, March 2017.

⁸² State of the Legal Market: Australia – 2015, Melbourne Law School.

⁸³ Ibid.

⁸⁴ The Organisation for Economic Co-operation and Development.

acquisitions, is high. In comparison, in economic downturns, businesses will require legal services involving restructuring, insolvency and bankruptcy.

Key industry trends

Large professional services firms are beginning to invest in the provision of commercial legal services, expanding their service offerings to clients. This trend is expected to continue, increasing competition in the market and reducing the available client base for larger corporate clients. Nevertheless, commercial legal services remain weighted towards brand recognition and reputation amongst clients. Therefore the industry will also experience increased business development and marketing expenditure due to the increasing competition in the market.

Complimentary Services in the UK

Medical report procurement services

Medical report procurement companies source medical reports for PI claims. The medical reporting market size is estimated to be £890 million per annum.⁸⁵ In 2015, the MedCo System was introduced in the UK to ensure medical reports in soft tissue claims were sourced without bias. Solicitors enter basic information of a claim into an online portal and are provided with a randomised list of experts qualified to provide medical reports. There are currently 165 operational Medical Reporting Operators employing 721 medical experts and servicing 2,184 authorised users.⁸⁶

A survey by ICF Consulting Services on behalf of the SRA, found that 83 percent of respondents used the MedCo System.⁸⁷ Nevertheless, 59 percent of respondents believe the relationships between firms, insurers and medical report providers have not improved and 68 percent of respondents feel the quality of reports has not improved from the introduction of the system.⁸⁸ The potential volume of the market is driven by the volume of PI claims handled. The drivers for PI claims are discussed under PIL.

Rehabilitation services

The private acute medical sector in the UK was approximately £6.4 billion in size in 2011 and has continued to grow.⁸⁹ Self-paying patients accounted for approximately 15 percent of revenue whilst approximately 56 percent came from private medical insurance. In the UK, 11 percent of the population has some form of private medical insurance and the demand for private treatment and insurance is expected to increase with growth in the ageing population. Nevertheless, PI claims registered decreased 3.3 percent in 2014 which drives demand for accident related rehabilitation services. The drivers for PI claims are discussed under PIL.

⁸⁵ Plimsolls Medical Legal Services business intelligence report, January 2017.

⁸⁶ MedCo Registration Solutions fact sheet, April 2017.

⁸⁷ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

⁸⁸ An Assessment of the Market for Personal Injury, A final report the Solicitors Regulation Authority, October 2016.

⁸⁹ The UK private health market, Commission on the Future of Health and Social Care in England.

Vehicle repair and hire services

Approximately 37 million vehicles were licensed for use on UK roads at the end of 2016, an increase of 2.4 percent in the last year, making it the second largest car market in Europe.⁹⁰ In 2016, 56 percent of first registrations were made by companies, though only 9 percent of total cars are company owned. Although vehicle registrations continue to increase, vehicle accidents have declined 30 percent over the last decade, as discussed under PIL. Nevertheless, the average cost of motor insurance claims continues to increase, rising 75 percent in recent years.⁹¹ The drivers for PI claims are discussed under PIL.

Regulation

The legal services industry is highly regulated and therefore regulation plays an integral role in the industry. Stringent regulation is imposed in Australia and the UK on a variety of elements of the legal industry and varies by jurisdiction, including state jurisdiction within Australia. Regulatory and legislative reform is therefore an integral consideration for legal services firms.

Recent reforms that have affected the legal services markets in Australia include:

- *workers' compensation legislation* – legislation introduced a threshold in Queensland based on a worker's Degree of Permanent Impairment which must be met before common law damages are available. Common law damages require that the injury was caused by negligence of another person. Queensland has the lowest threshold of all jurisdictions but some jurisdictions have abolished the worker's right to common law claims entirely
- *caps on general damages* – certain Australian jurisdictions have implemented maximum allowances for compensation for injured and permanent disability claims. The caps vary by jurisdiction and claim type
- *future loss of earnings calculations* – most Australian jurisdictions have legislated a formula to calculate the amount of compensation payable for future loss of earnings which usually includes a maximum amount payable based on average weekly earnings. The formula differs based on jurisdiction
- *accident compensation schemes* – certain Australian jurisdictions have introduced recent changes to compensation in relation to motor accidents, including:
 - New South Wales: the State Government amended compulsory third party insurance claims to provide no-fault statutory benefits for people injured in motor accidents and reduced quantum for damages, with an implementation date of 1 December 2017
 - Victoria: legislation was introduced in 2016 to improve benefits under current workers' compensation and transport accident compensation schemes, WorkSafe and Transport Accident Commission respectively. The amendment will progressively raise the pension

⁹⁰ Vehicle Licensing Statistics, Department for Transport, 2016.

⁹¹ Private motor insurance market investigation final report, Competition and Markets Authority, September 2014.

qualifying age and, thus, the maximum age for compensation. Family members of motor accident victims will be provided an additional capped amount of \$5,000 per claim for travel and accommodation expenses

- Queensland: the National Injury Insurance Scheme was launched in July 2016 to provide eligible persons who sustain serious personal injuries in a motor vehicle accident to receive necessary and reasonable lifetime treatment, care and support.
- *personal injuries legislation* – over recent years significant amendments have been introduced in Victoria to provide personal injury claimants with access to increased damages awards and compensation. The key changes include lowered impairment thresholds for certain injuries and increased caps on general damages, as well as allowing damages for the loss of capacity to care for others

Recent reforms or proposed reforms that have affected or may affect the legal services markets in the UK include:

- *ban on referral fees* – in April 2013, a ban on the payment and receipt of referral fees for PI claimants was introduced. Prior to the reform, referral fees were paid by legal firms and practitioners to third parties who referred claimants. The reform was aimed to reduce the cost of litigation and improve the quality of work provided by solicitors
- *success fees* – success fees as part of conditional fee arrangements are capped at 25 percent of damages recovered
- *reforming the soft tissue injury claims process* – in February 2017, The UK government confirmed its intention to raise the small claims track from £1,000 to £5,000 for road traffic accidents and from £1,000 to £2,000 for other PI claims, though this legislation has not yet been enacted
- *civil liabilities bill* – the UK government is expected to introduce legislation during the current term of parliament to enact reforms introducing a fixed tariff to compensate damages for road traffic accident whiplash claims and introduce a ban on offers to settle without medical evidence in whiplash claims. This bill replaces the prisons and courts bill published by the UK government in February 2017 which proposed the same reforms. The UK government's position remains that the reforms will be in place by October 2018 but this timetable may extend into 2019. Amendments to the proposals have occurred since first introduced and further changes remain possible
- *fixed recoverable costs for clinical negligence claims* – from January 2017 to May 2017, the UK government ran a consultation process seeking views on the proposal for a mandatory system of fixed recoverable costs for lower value clinical negligence claims in England and Wales, with the aim to improve the efficiency and cost-effectiveness of clinical negligence claims. With the consultation process closed, the UK government are currently analysing the feedback

- *rapid resolution and redress scheme for severe birth injury* – from March 2017 to May 2017, the UK government ran a consultation process seeking views on the proposed investigations into severe avoidable birth injury and the support and compensation scheme. The rapid resolution and redress scheme aims to introduce a system of consistent and independent investigations for all instances where there may be severe avoidable birth injury, along with access to ongoing support and compensation for eligible babies through an administrative scheme. With the consultation process closed, the UK government are currently analysing the feedback
- *discount rate for personal injury claims* - with effect from 20 March 2017, the Ogden discount rate was lowered by the UK Government for the first time in sixteen years from plus 2.5 percent to minus 0.75 percent in relation to personal injury damages. The reduced rate will require a higher initial lump sum in the calculation of compensation awards, resulting in lower earnings for motor insurers and higher premiums for customers. Following a consultation process, the UK government announced in September 2017 that it will put forward legislation to amend the way the discount rate is set, with a review to occur every three years by independent experts. It is expected this will result in an initial revision of the discount rate of between 0 – 1 percent, although the exact figure is uncertain.

Appendix 5 – Market evidence

Share market evidence

The following sets out the market metrics for listed companies engaged in legal or IP services.

Table 33: Sharemarket evidence – legal or IP services

Company name	Market Cap	EBITDA Multiple	
	\$m	LTM ¹	NTM ²
Legal services firms			
Shine Corporate Limited	126	4.5	4.2
Fairpoint Group Plc	7	1.6	n/a ³
Gateley (Holdings) Plc	286	13.5	11.6
IP services firms			
IPH Limited	872	11.8	10.8
Qantm Intellectual Property Limited	193	7.5	8
Xenith IP Group Limited	164	19.1	5.2
Murgitroyd Group Plc	71	7.4	n/a ³
Low		1.6	4.2
High		19.1	11.6
Median		7.5	8.0
Average		9.3	8.0

Source: Company financial statements and announcements, S&P Capital IQ (data as at 1 September 2017), KPMG Corporate Finance analysis

- Note:
1. Calculated using latest available financial statements
 2. LTM multiples calculated after normalisation adjustments applied to reported EBITDA
 3. NTM multiples calculated based on broker consensus forecasts
 4. n/a represents not available.

Description of comparable companies

A brief description of the selected comparable companies is provided below:

Shine Corporate Limited

Shine is a listed legal services company in Australia. Shine provide damages based plaintiff litigation services across two operating segments: PI (workers compensation, motor vehicle accidents, medical negligence and public liability) and EPA (land access, family law and others). Shine was founded in 1976 and listed on the ASX in May 2013. Shine is a direct competitor to Slater & Gordon in the Australian market with over 40 offices in Queensland, NSW, Victoria and Western Australia.

Fairpoint Group Plc

Fairpoint is a listed professional services firm in the UK. Fairpoint provides a number of services across four operating segments: individual voluntary arrangements, debt management plans, claims management and legal services. After an acquisition of Colemans Solicitors LLP in August 2015, legal services became Fairpoint's largest operating segment offering a range of consumer-focused legal services including PI, family, complex litigation and others. Fairpoint was founded in 1997 and listed on the AIM in the UK in December 2002. Fairpoint is a direct competitor to Slater & Gordon in the UK market with 12 offices in the UK.

Gateley (Holdings) Plc

Gateley is a listed legal advisory services firm in the UK. Gateley provides a number of legal advisory services across five operating segments: property, corporate, business services, banking and financial services and employee pensions and benefits. Gateley was incorporated in 2014 and listed on the AIM in the UK in June 2015. Gateley is not a direct competitor to Slater & Gordon in the UK but operates in the legal services industry with 10 offices in the UK and 1 office in Dubai. Similar to Slater & Gordon in Australia, Gateley was the first legal services firm to publically list in the UK.

IPH Limited

IPH Limited (IPH) is a listed IP services and products company in Australia. IPH provides IP services and data analytics software across three segments: IP Property Services Australia, IP Property Services Asia and Data and Analytics Software. IPH was founded in 1879 and listed on the ASX in March 2015. IPH is not a competitor to Slater & Gordon in Australia but operates in the legal services industry with a number of offices in Sydney and Asia. Similar to Slater & Gordon, IPH recognise their revenue using a percentage of completion method.

Qantm Intellectual Property Limited

Qantm Intellectual Property Limited (QIP) is a listed IP services company in Australia. QIP provides IP services across two segments: Australia and Asia. IP services relate to the creation, protection, commercialisation, enforcement and management of IP rights. QIP offers patents, trademarks and legal services, as well as patent attorney practice services. QIP was founded in 1879 and listed on the ASX in August 2016. QIP is not a competitor to Slater & Gordon in Australia but operates in the legal services industry with offices in Brisbane, Sydney, Melbourne and Adelaide. Similar to Slater & Gordon, QIP recognise their revenue using a percentage of completion method.

Xenith IP Group Limited

Xenith IP Group Limited (Xenith) is a listed IP services company in Australia. Xenith's IP services relate to the identification, registration, management, commercialisation and enforcement of IP rights in Australia, New Zealand and Pacific Islands. Xenith offers patents, trademarks and industrial design services. Xenith was founded in 1859 and listed on the ASX in November 2015. Xenith is not a competitor to Slater & Gordon in Australia but operates in the legal services industry and is the holding company of Griffith Hack, Shelston IP and Watermark, headquartered in Sydney. Similar to Slater & Gordon, Xenith recognise their revenue using a percentage of completion method.

Murgitroyd Group Plc

Murgitroyd Group Plc (Murgitroyd) is a listed IP services company in the UK. Murgitroyd's IP services relate to the filing, prosecuting, litigating, licensing, assigning, and renewing patents, trademarks, and designs to third party customers, as well as recharged disbursements. It also offers patent and trade mark attorney, and technical support services. Murgitroyd was founded in 1975 and listed on the AIM in the UK in November 2001. Murgitroyd is not a competitor to

SGH in the UK but operates in the legal services industry and operates in the UK, the United States, France, the Republic of Ireland, Italy, Germany, Japan, China, Taiwan, Canada, the Netherlands, and Switzerland. Similar to Slater & Gordon, Murgitoyd recognise their revenue using a percentage of completion method.

Transaction evidence

The following table sets out the implied EBITDA multiples from select transactions that were undertaken by Slater & Gordon and companies operating in the specialised legal services industry.

Table 34: Transaction evidence

Date	Target	Acquirer	Acquisition stake	Implied EV (\$ million) ¹	EBITDA Multiple	
					LTM ²	NTM ³
<i>Slater & Gordon transactions</i>						
May-15	Quindell Plc	Slater & Gordon (UK)	100%	1,352	6.9	n/a ⁴
Nov-14	Schultz Toomey O'Brien	Slater & Gordon	100%	20	n/a	n/a ⁴
Nov-14	Nowicki Carbone	Slater & Gordon	100%	46	n/a	n/a ⁴
Feb-14	Pannone LLP	Slater & Gordon (UK)	100%	61	n/a	n/a ⁴
Sep-13	Fentons Solicitors LLP	Slater & Gordon	100%	56	4.5	n/a ⁴
Apr-12	Russell Jones & Walker Ltd.	Slater & Gordon	100%	82	4.9	n/a ⁴
Aug-10	Trilby Misso	Slater & Gordon	100%	57	8.0	n/a ⁴
<i>Law firm transactions</i>						
Feb-17	Griffith Hack	Xenith IP Group	100%	163	10.5	n/a ⁴
Dec-15	Pryers Solicitors LLP	Pure Legal Limited	100%	27	4.8	n/a ⁴
Oct-15	Best Wilson Buckley Family Law	Shine Corporate Limited	100%	6	n/a ⁴	n/a ⁴
Aug-15	Bradley Bayly Legal	Shine Corporate Limited	75%	16	n/a ⁴	n/a ⁴
Aug-15	Colemans-ctts LLP	Fairpoint Group	100%	34	4.7	n/a ⁴
Oct-14	Sciaccas Lawyers Pty Ltd and Sciaccas Family Lawyers Pty Ltd	Shine Corporate Limited	100%	9	n/a ⁵	n/a ⁴
Jul-14	Emanate Legal and Stephen Browne Personal Injury Lawyers	Shine Corporate Limited; SB Law Pty Ltd	100%	36	n/a ⁴	n/a ⁴
Jun-14	Simpson Millar LLP	Fairpoint Group LLC	100%	27	3.6	n/a ⁴
Feb-14	New Law Group	Redde PLC	100%	81	n/a	n/a ⁴
Low					3.6	n/a⁴
High					10.5	n/a⁴
Median					4.9	n/a⁴

Source: Company financial statements and announcements, S&P Capital IQ, KPMG Corporate Finance analysis

- Note:
1. Implied EV refers to the total implied enterprise value in respect of the acquisition
 2. LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date, after normalisation adjustments
 3. NTM multiples calculated based on broker consensus forecasts as at the transaction date
 4. n/a represents not available
 5. As per the ASX announcement released by Shine Corporate Limited, the initial consideration of \$8.75 million indicates an estimated 4 to 5 times of the FY15 EBITDA.

Description of comparable transactions

A brief description of the selected comparable transactions is provided below, with the exception of the PSD business acquisition from Quindell, which is discussed in detail in Section 9.

Slater & Gordon acquisitions

Acquisition of Schultz Toomey O'Brien by Slater & Gordon

On 31 October 2014, Slater & Gordon acquired Schultz Toomey O'Brien for a total consideration of \$19 million. The consideration comprised of an initial cash payment of \$15.2 million and equity consideration of \$3.8 million. Schultz Toomey O'Brien is a law firm based in Queensland. The acquisition expands family and personal law services and expects to achieve synergies.

Acquisition of Nowicki Carbone by Slater & Gordon

On 31 October 2014, Slater & Gordon acquired Nowicki Carbone for a total cash consideration of \$10 million. Nowicki Carbone is a specialised PIL firm based in Melbourne, Australia. Slater & Gordon retained approximately 100 employees from Nowicki Carbone. The acquisition furthers the PI practice and expects to achieve synergies post acquisition.

Acquisition of Pannone Solicitors LLP and related entities by Slater & Gordon

On 14 February 2014, Slater & Gordon acquired Pannone Solicitors and related entities, Androit Financial Planning Limited (Androit) and Pannone Trust Corporation Limited for a total consideration of \$59.6 million. The consideration consists of a \$37.6 million initial cash payment, 7.9 million of equity in ordinary shares and \$8.1 million in deferred cash consideration. Pannone Solicitors is a UK based law firm specialising in consumer law. Androit is a business specialising in financial planning. Pannone Trust Corporation is a dormant initially intended to act as administrator for appointments of fiduciary responsibility.

Acquisition of Fentons Solicitors LLP by Slater & Gordon

On 27 September 2013, Slater & Gordon acquired Fentons Solicitors for total consideration of \$56 million. The consideration comprises of an initial cash payment of \$43.2m, equity of \$6.8 million in ordinary shares and deferred cash consideration of \$5.9 million. Fentons Solicitors is UK based law firm specialising in PIL. The acquisition allows Slater & Gordon to diversify its personal injuries into a larger UK market and expect to achieve synergies with the Company. The acquisition intends to improve Slater & Gordon's brand and geographic coverage in consumer law across the UK.

Acquisition of Russell Jones & Walker by Slater & Gordon

On 30 January 2012, Slater & Gordon acquired RJW for a total consideration of \$82.5 million. The consideration comprises of \$41 million initial cash payment, equity of \$28.7 million and a deferred cash payment of \$12.8 million. RJW is a UK based law firm and the acquisition includes its subsidiaries New Claims Direct Limited, 4 Legal Limited & 4 Legal Solutions Limited. The firm had approximately 425 employees across 10 locations and specialised in PI

claims. The acquisition was Slater & Gordon's first UK acquisition and aligned with its strategy to expand operations to the UK.

Acquisition of Trilby Misso Lawyers by Slater & Gordon

On 13 August 2010, Slater & Gordon acquired Trilby Misso Lawyers for a total consideration of \$57.6 million. The consideration comprises of \$40.3 million initial cash payment, equity of \$5.3 million in ordinary shares and a deferred cash payment of \$12 million. Trilby Misso is an Australian law firm based in Queensland specialising in PIL. The transaction provides expanded geographic coverage and a growth platform in Queensland.

Law firm acquisitions

Acquisition of Griffith Hack by Xenith IP Group

On 2 February 2017, listed Australian company Xenith completed the acquisition of Griffith Hack for total consideration of \$152 million. The consideration comprises of \$83.6 million in cash and \$68.4 million in equity of Xenith. The transaction included additional earnouts of \$20 million to be funded by cash and equity based on Griffith Hack achieving targets. Griffith Hack is an Australian based law firm specialising in patent, trademark and IP. The firm had approximately 100 professionals and reported revenue of \$74.3 million for year ended 30 June 2016. The acquisition positions Xenith to develop into a leading IP service provider in the Asia Pacific region. It is expected to be earnings accretive.

Acquisition of Pryer Solicitors LLP by Pure Legal Limited

On 10 December 2015, Pure Legal Limited (Pure Legal), a UK based law firm acquired Pryers Solicitors LLP (Pryers). Pryers is also a law firm based in the UK that specialises in medical negligence and PIL. The law firm will be acquired for a total cash consideration of \$27 million, paid out over a period of time. Under the agreement, the existing management team will remain for a minimum of three years. Pryers had approximately 60 staff and provides Pure Legal with the ability to strengthen their practice in clinical negligence and product liability law.

Acquisition of Best Wilson Buckley Family Law by Shine Corporate Limited

On 16 October 2015, Shine acquired Best Wilson Buckley Family Law Pty Ltd for a total consideration of \$6.2 million. The consideration consists of \$2.65 million upfront cash component and \$2 million deferred payment, an earnout of up to \$0.8 million and scrip component is \$0.75 million. Shine will issue 0.36 million shares as consideration with 50 percent of the new shares held in escrow for 12 months following the issue date and 50 percent of the new shares held in escrow for 24 months following the issue date. The acquisition has been largely debt funded. The transaction is expected to be earnings and earnings per share accretive in financial year 2016.

Acquisition of Bradley Bayly Legal by Shine Corporate Limited

On 5 August 2015, Shine acquired the remaining 75 percent in Bradley Bayly Legal for \$13.3 million. The consideration includes cash component of \$8.3 million, deferred cash of \$4 million

and \$1 million in stock of Shine. The transaction is expected to be earnings and earnings per share accretive in 2016.

Acquisition of Colemans LLP by Fairpoint Group Plc

On 17 August 2015, UK listed company Fairpoint acquired UK based law firm Colemans LLP for a total consideration of \$34 million. The initial consideration of \$19 million will be paid up front, 90 percent in cash and 10 percent equity via ordinary shares in Fairpoint. An additional earnout component of \$15 million, comprised of two payments of \$7.5 million, will be based on financial performance and integration targets of Colemans LLP and paid equally in cash and common equity in Fairpoint. Colemans LLP operates across a number of business and personal law specialties. The firm complements former Fairpoint acquisition, Simpson Millar, allowing the group to expand its offering in the areas of family law, care home claims and private clients. It positions Fairpoint towards its goal of creating a top five consumer law firm and is expected to raise consumer legal services to 62 percent of the Group's revenue.

Acquisition of Sciacas Lawyers by Shine Corporate Limited

On 23 October 2014, Shine acquired Sciacas Lawyers Pty Ltd and Sciacas Family Lawyers Pty Ltd (Sciacas Lawyers) for \$8.8 million. Initial consideration will be \$8.75 million with deferred consideration subject to earn-outs linked to ongoing and increased financial performance of the acquired entities. The acquisition will be funded from Shine's existing cash and debt facilities. Sciacas' Founder, Con Sciacca agreed to enter into an employment contract with Shine as a condition of the acquisition and will continue in the business following completion. The acquisition will contribute to Shine's earnings from 1 July 2014, being the date the share transfer will take effect. The acquisition is expected to be earnings per share accretive in financial year 2015.

Acquisition of Emanate Legal and Stephen Browne Personal Injury Lawyers by Shine Corporate Limited and SB Law

On 12 June 2014, Shine and SB Law Pty Ltd (SB Law) acquired Emanate Legal and Stephen Browne Personal Injury Lawyers for \$36 million in cash and stock. As per the terms of the deal, cash consideration consists of \$23.5 million, out of which \$4.4 million is deferred payment, in addition to the cash component, scrip component is 1.9 million shares and potential earn out is \$8.5 million. The earn out payments are linked to earnings, work in progress and business pipeline growth. The deal will be funded via an entitlement offer worth \$29.45 million. Founder of Emanate Legal and the senior team will remain in business. The founder of Stephen Browne Personal Injury Lawyers, his fellow partner and senior management team will remain in the business. The acquisitions are expected to positively impact Shine Corporate Limited's cash flow cycle times and is expected to be immediately earnings per share accretive to Shine.

Acquisition of Simpson Millar LLP by Fairpoint Group Plc

On 17 June 2014, UK listed company Fairpoint acquired Simpson Millar LLP, a UK based law firm for total consideration of \$27 million. An initial \$16 million was paid up front, 78 percent cash consideration and the remaining 22 percent in equity in the form of Fairpoint shares. The transaction also includes an additional \$11 million earnout component based on the financial

performance of Simpson Millar to be paid equally in cash and common stock. Simpson Millar specialises in consumer legal services. The firm has over 250 employees across 13 offices in the UK and allows Fairpoint to diversify revenue.

Acquisition of New Law Group by Redde PLC (previously Helphire PLC)

On 28 February 2014, Redde PLC (Redde) (previously named Helphire PLC at the time of acquisition), a UK listed provider of replacement vehicles, acquired New Law Group for approximately \$80 million. Redde will pay an initial cash payment of \$45.5 million and additional earnouts of \$19.5 million based on the performance of New Law Group. The company will also assume debt of \$15.3 million with the acquisition. New Law Group is a UK based group of law firms headquartered in Cardiff specialising in PI and medical negligence law. The acquisition expands the range of legal services available to Redde's customer base and is expected to be earnings accretive.

Appendix 6 – Valuation methodology

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100 percent) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross check to the conclusions reached under a theoretical discounted cash flow methodology or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the discounted cash flow methodology.

Discounted cash flow

Under a discounted cash flow methodology, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a discounted cash flow analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a discounted cash flow to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the Weighted Average Cost of Capital (WACC), reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged

cash flows and results in an enterprise value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values. A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 7 – Solvency definition and common law principals

Solvency Test

KPMG has assumed the following matters for the purpose of assessing solvency.

Corporations Law definition

Section 95A of the Corporations Act states:

- “a person⁹² is solvent if, and only if, the person is able to pay all the person's debts, as and when they fall due” (Section 95A(1)); and
- “a person who is not solvent is insolvent” (Section 95A (2)).

Case law guidance

Financial Position and commercial realities

Palmer J in *Southern Cross Interiors Pty Ltd (In Liq) v Deputy Commissioner of Taxation* provided some much needed guidance in determining solvency for the purposes of Section 95A:

- ‘ (i) whether or not a company is insolvent for the purposes of CA ss95A, 4598, 588FC, or 588G(1)(b) is a question of fact to be ascertained from a consideration of the company's financial position taken as a whole:
- (ii) in considering the company's financial position as a whole, the court must have regard to commercial realities; commercial realities will be relevant in considering what resources are available to the company to meet its liabilities as they fall due, whether resources other than cash are realisable by sale or borrowing upon security, and when such realisations are achievable:
- (iii) in assessing whether a company's position as a whole reveals surmountable temporary illiquidity or insurmountable endemic illiquidity resulting in insolvency, it is proper to have regard to the commercial reality that, in normal circumstances, creditors will not always insist on payment strictly in accordance with their terms of trade but that does not result in the company thereby having a cash or credit resources which can be taken into account in determining solvency:

⁹² ‘a person’ includes a company for the purposes of the definition.

(iv) *the commercial reality that creditors will normally allow some latitude in time for payment of their debts does not, in itself, warrant a conclusion that the debts are not payable at the times contractually stipulated and have become debts payable only upon demand;*

(v) *in assessing solvency, the court acts upon the basis that a contract debt is payable at the time stipulated for payment in the contract unless there is evidence, proving to the Court's satisfaction, that:*

- *There has been an express or implied agreement between the company and the creditor for an extension of the time stipulated for payment; or*
- *there is a course of conduct between the company and the creditor sufficient to give rise to an estoppel preventing the creditor from relying upon the stipulated time for payment; or*
- *there has been a well-established and recognised course of conduct in the industry in which the company operates, or as between the company and its creditors as a body, whereby debts are payable at a time other than stipulated in the creditors' terms or trade or are payable only on demand;*

(vi) *it is for the party asserting that a company's contract debts are not payable at the times contractually stipulated to make good that assertion by satisfactory evidence.*

'Surmountable temporary illiquidity' compared to insurmountable 'Endemic illiquidity'

"The concept of surmountable temporary illiquidity referred to in Palmer J's third proposition is frequently raised and from time to time relied upon judicially to support a finding against insolvency. I regard it as important to approach questions of illiquidity, whether temporary or endemic, in a way which does not depart from the terms of s 95A (1) and its reference to ability to pay all debts as and when they become due and payable; ability to raise money from assets and pay a debt before the creditor's patience is exhausted is not enough, in my opinion.

Section 95A....does not require that the debtor meet its liabilities only from the funds that it presently has available. A debtor may look to the proceeds from realisation of assets provided that the process could not extend the time when debts become due for the purpose of assessing insolvency" Bryson AJ, JTS Property & Investments No1 Pty Ltd v Sadri [2010] NSWSC 1384.

Debtors' ability to borrow

"It is no longer necessary in order to assess solvency to ascertain whether the company is able to pay all of its debts "from its own monies" In my opinion, s95A requires the Court to decide whether the company is able, as at the alleged date of insolvency, to pay all of its debts as they become payable by reference to the commercial realities. If the Court is satisfied that as a matter of commercial reality the company has a resource

available to pay all of its debts as they become payable then it will not matter that the resource is an unsecured borrowing or a voluntary extension of credit by another party.”

“The ability of the company to meet its debts as and when they fall due must be determined in the circumstances as they were known or ought to have been known at the relevant time, not in hindsight. There may be consideration as to the immediate future depending on circumstances including the nature of company's business and known future liabilities.”

“In considering a company's ability to pay debts “as they become due”, it is appropriate to consider the immediate future, precisely how far into the future being a matter that depends on circumstances including the nature of the company's business and, if known, the future liabilities. Giles JA, Lewis v Doran (2005) 219 ALR 555; 54 ACSR 410 [2005] NSWCA 243

Future profitability

“...nor is it appropriate to base an assessment of insolvency upon the prospect that a company might restore its financial position by trading profitably in future periods.”

Powell v Fryer [2001] SASC 59

Tests Applied

In assessing the solvency of the Company, KPMG has completed the following analyses:

- Review of the Trading Performance and Cash Flows (Section 10.2) including profit by division, abnormal and non-recurring items, cash flow analysis, and thus a cash flow test of solvency including assessing temporary illiquidity, realisation of assets and application of proceeds
- Review of the Financial Position (Balance Sheet) (Section 10.3) including assets available for immediate sale, working capital and quick asset position and trends, ageing of payables and receivables, further borrowings
- Financing analysis (Section 10.5) including facility agreements, drawn and undrawn facilities, and debt amortisation requirements
- Ability to raise equity (Section 10.5.5)
- Ability to raise debt secured against assets or unsecured
- Other considerations (Section 10.5):
 - Creditor payments including the Australian Tax Office (ATO), creditor arrangements, correspondence, payment plans, indulgences, unpaid amounts;
 - Audit opinions, and going concern; and
 - Consideration of Directors' minutes, reports to the Board.

Methodology

For the purpose of considering whether Slater & Gordon would be solvent immediately following the restructure or whether Slater & Gordon would likely become insolvent without the restructure, the following represents an overall summary of the approach taken:

- A consideration of the trading performance of Slater & Gordon over the period
- A consideration of the financial position of Slater & Gordon⁹³ as at 31 December 2016
- An assessment of any adjustments that ought to be made to the financial statements of Slater & Gordon in order to properly assess liquid assets, current assets and liabilities and net assets, including a consideration of any valuation reports concerning asset values;
- An assessment of trading arrangements, levels of creditors and any indulgences granted by creditors
- A consideration of any unused sources of finance available, assets available for sale, and existing arrangements with principal financiers; and
- A consideration of the information provided by the directors and management of Slater & Gordon and the documents in Slater & Gordon's possession.

⁹³ Having regard to the Deed of Cross Guarantee, ASIC Class Order, and Tax Arrangements.

Appendix 8 – Glossary

Abbreviation	Description
AASB	Australian Accounting Standards Board
AASB-15	AASB-15 Revenue from Contracts with Customers, AASB's standard relating to revenue recognition from contracts
ABS	Alternative Business Structures
ACT	Australian Capital Territory
AIM	Alternative Investment Market – a sub-market of the London Stock Exchange
Anchorage	Anchorage Capital Group LLC
Androit	Androit Financial Planning Limited
Annual General Meeting	Annual General Meeting of Slater & Gordon
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATE	After The Event
ATO	Australian Taxation Office
AUD	Australian Dollar
Babscay Proceeding	Proceedings by Babscay Pty Ltd on behalf of persons who acquired an interest in shares of Slater & Gordon between 24 August 2012 and 19 November 2015 with a Federal Court of Australian proceeding number VID659 of 2017
BBSY	Australian base interest rate
British Chancellor	UK Chancellor of the Exchequer
BLS	Business Litigation Services
Board	The board of directors of the Scheme Company
Business Separation and Transitional Arrangements Agreement	The business separation agreement to be entered into between to be entered into between, among others, the Scheme Company, UK HoldCo and S&G UK in relation to the separation of the Scheme Company's Australian and UK Operations, in respect of which each party has duly executed its counterpart and is holding such counterpart in escrow until the implementation of Step 11 (Business Separation Agreement) of the Scheme
CAGR	Compound Annual Growth Rate
CFADS	Cash Flow Available For Debt Service
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
Claims	Slater & Gordon Solutions Claims business unit
Client	Slater & Gordon Limited
CMC	Claims Management Companies
the Company	Slater & Gordon Limited
Convertible Note Facility	The secured convertible loan note facility to be entered into between S&G UK as issuer and the Scheme Senior Lenders as note holders in the form as agreed between the parties to that agreement
Corporations Act	Corporations Act 2001 (Cth)
Corporations Regulations	Corporations Regulations 2001 (Cth)
CY	Current Year
DCF	Discounted Cash Flow
Delaney Application (aka ACA Potential Claim)	Notification given by ACA Lawyers on behalf of Robert Delaney that Mr Delaney intends to commence representative proceedings in the Federal Court against the Scheme Company
Director	A director of Slater & Gordon

Discount Rate	The rate at which future cash flows are discounted under a DCF methodology
DLG	DLG Legal
EAFP	Equal Access Funding Proprietary Limited
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBITDAW	Earnings Before Interest, Tax, Depreciation and Amortisation and movement in Work in progress
Effective	Coming into effect, pursuant to Section 411 (10) of the Corporations Act, of the Second Court Orders
Eligible Shareholders	Shareholders as at the Meeting Record Date
ELPL	Employer Liability and Public Liability
EOP	Employee Ownership Plan
EPA	Emerging Practice Areas
EPS	Earnings Per Share
Explanatory Memorandum	The explanatory memorandum to the Notice of Meeting for the Annual General Meeting which details the Recapitalisation
Fairpoint	Fairpoint Group Plc
Financial Conduct Authority	A financial regulatory body in the UK
FIRB	Foreign Investment Review Board
FNOL	First Notice of Loss
FY	Financial Year
Gateley	Gateley (Holdings) Plc
GBP	British Pound
GL	General Law
the Group	Slater & Gordon and its subsidiaries
Group Litigation	Class Actions or Collective Redress Action in the UK
Hall Proceeding	Shareholder class action seeking compensation for Shares purchased during the period 30 March 2015 and 24 February 2016, with a Federal Court of Australia proceeding number VID1213/2016 commenced by Matthew Hall against the Scheme Company
Hall Proceeding Claimants	Matthew Hall and the Group Members, as defined in paragraph 1 of the statement of claim dated 12 October 2016 filed in the Hall Proceeding
Hall Proceeding Settlement	The settlement of the Hall Proceeding pursuant to the Hall Proceeding Settlement Deed
Hall Proceeding Settlement Deed	The deed of settlement in respect of the Hall Proceeding Settlement announced to ASX on 21 September 2017
HY	Half Year
IER	Independent Expert Report
Implementation Date	The earlier of the: <ul style="list-style-type: none"> a) fifth Business Day after the Effective Date, except in the case where the Implementation Date would fall on a date between 24 December 2017 and 3 January 2018 (inclusive), in which case the Implementation Date will be 5 January 2018; and b) Sunset Date, but, in any event, not earlier than the Business Day after the Calculation Date
Incremental Facilities	The Super Senior AUD Incremental Facility and the Super Senior GBP Incremental Facility, collectively
IP	Intellectual property
IPH	IPH Limited
KPMG Corporate Finance	A division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services License Number 246901

LIBOR	London Interbank Offered Rate
LLP	Limited Liability Partnership
Long Term Incentive Plan	Slater & Gordon's Employee Ownership Plan
LTM	Last Twelve Months
Majority Supporting Lenders	Supporting Lenders who together hold more than 75 percent by value of the total aggregate amount of all outstanding senior debt
Management	Management team of Slater & Gordon
Managing Director	Formerly, Andrew Grech, currently vacant
Murgitoryd	Murgitoryd Group Plc
New Lender	Each individual secured lender
New Lenders Group	The collective of individual secured lenders
New AUD Super Senior Facility	A new AUD denominated \$65 million senior secured term loan facility made available to the Scheme Company under the New AUD Super Senior Subscription Agreement
New GBP Super Senior Facility	A new GBP denominated senior secured term loan facility to be provided by the Participating Senior Lenders pursuant to the New GBP Super Senior Facility Agreement for an aggregate principal amount equal to the GBP denominated commitments made available under the Super Senior GBP Incremental Facility
New Super Senior Facilities	The New AUD Super Senior Facility and the New GBP Super Senior Facility
NIHL	Noise Induce Hearing Loss
Notice of Meeting	Notice to Shareholders stating the date, time and place of the Shareholders' meeting
No Win, No Fee	A success fee arrangement whereby a law firm is paid only if a case is successful
NPAT	Net Profit After Tax
NSW	New South Wales
NTM	Next Twelve Months
NWC	Net Working Capital
NWNF	No Win, No Fee
OECD	Organisation for Economic Co-operation and Development
Officer	Has the meaning given to that term by section 9 of the Corporations Act, and includes any current or former director or officer of the Scheme Company
Permitted Claim	Claims in which there is no right for a Third Party to seek indemnity or contribution from Slater & Gordon or its Officers
PI	Personal Injury
PIL	Personal Injury Law
PIK	Payment In Kind
PLS	Personal Legal Services or Personalised Legal Services
Pryors	Pryors Solicitors LLP
Project Litigation	Slater & Gordon's Project Litigation team focusing on class actions and large litigations
Proof of Debt	Has the meaning given to it in clause 11.1(a) of the Scheme
PSD	Professional Services Division
Pure Legal	Pure Legal Limited
QIP	Qantm Intellectual Property Limited
Quindell	Quindell Plc
Recapitalisation	The proposal for Slater & Gordon to recapitalise the Company's equity and debt obligations as announced on 31 August 2017
Recapitalisation Resolution	Resolution to be put to Shareholders at the Annual General Meeting to be held on 6 December 2017 relating to the Recapitalisation
Released Person	The Company, its related bodies corporate and their related entities and any present and past officers, employees, servants or agents of these entities

Redde	Redde Plc
Restated SFA	Refers to the amended and restated SFA in respect of the SFA Facility
RG 111	ASIC's Regulatory Guide section 111 – 'Content of Expert Reports'
RJW	Russell, Jones and Walker
RSD	Restructuring Support Deed
RTA	Road Transport Accidents
S&G UK	Slater & Gordon (UK) 1 Limited
SB Law	SB Law Pty Ltd
Senior Lenders	Senior Lenders of Slater & Gordon
Scheme Administrators	Administrators of the Shareholder Claimant Scheme
Scheme Company	Slater & Gordon Limited
Scheme Fund	The total funds available to be distributed to all Shareholder Claimants which is based upon a \$32.5 million contribution from relevant Slater & Gordon insurers, less associated costs
Scheme Senior Lenders	Senior Lenders of the Scheme
Sciaccas Lawyers	Sciaccas Lawyers Pty Ltd and Sciaccas Family Lawyers Pty Ltd
Securityholders	Shareholders and Senior Lenders of Slater & Gordon, as a whole
Senior Lender Scheme	Creditors' scheme of arrangement with the scheme Senior Lenders to implement the Recapitalisation
Senior Lenders Explanatory Statement	Explanatory Statement to the Senior Lenders in respect of the Senior Lender Scheme
Serious Fraud Office	UK body which investigates and prosecutes serious and complex fraud
SFA	Syndicated Facility Agreement dated 29 May 2015 between Senior Lenders and Slater & Gordon
SFA Facility	The AUD denominated secured term loan facility "F" totalling \$119,226,456.17 plus the amount of any additional interest capitalised or accrued but unpaid under the Senior Facilities up to and including the Implementation Date, and made available to the Scheme Company under the Restated SFA
SGL-A	Slater & Gordon Lawyers Australia
SGL-UK	Slater & Gordon Lawyers United Kingdom
SGS	Slater & Gordon Solutions
SGSH	Slater & Gordon Health
SGSM	Slater & Gordon Solutions Motor
Share	Fully paid ordinary shares in the capital of the Scheme Company
Shareholder Claims	Any Claim against the Scheme Company arising from or in connection with any fact, matter, circumstance or event occurring at any time in the 6 year period on or before the Proof Lodgement Date and which arises: <ul style="list-style-type: none"> (a) in a person's capacity as: <ul style="list-style-type: none"> (i) a member of the Scheme Company (including as a Shareholder); or (ii) a holder or beneficiary (whether directly or indirectly) of any Security or Financial Product in the Company; or (b) from a person buying, acquiring, holding, selling, transferring, converting or otherwise dealing (whether directly or indirectly) in any Shares, Security or other Financial Product in the Company
Shareholder Claimants	Any person who has a Shareholder Claim, including, without limitation: <ul style="list-style-type: none"> a) the Hall Proceeding Claimants; b) those that, but for the exercise of a right to opt out of the Hall Proceeding, would be Hall Proceeding Claimants; and c) claimants in any proceedings or potential proceedings based on Related Shareholder Claims, including the Babscay Proceeding and the Delaney Potential Claim and those that, but for the exercise of a right to opt out of

	the Babs cay Proceeding or the Delaney Potential Claim, would be Babs cay Proceeding Claimants or Delaney Potential Claimants
Shareholder Claimants	An information booklet approved by the Court and including the Scheme and an explanatory statement in accordance with the Corporations Act
Explanatory Statement	Creditor's scheme of arrangement between Slater & Gordon and the Shareholder Claimants
Shareholder Claimant Scheme	Any claim against a Third Party arising from, or in connection with, a Shareholder Claim, including Permitted Claims and claims against Third Party respondents who may seek contribution or indemnity from the Company
Shareholder Third Party Claim	Shareholders of Slater & Gordon
Shareholders	Shine Corporate Limited
Shine	Shine Corporate Limited
Slater & Gordon	Slater & Gordon Limited
Small Ordinaries	S&P/ASX Small Ordinaries Index
SRA	Solicitor's Regulation Authority, a regulatory body for solicitors in England and Wales
SSP	Serious & Specialised Personal Injury
Super Senior AUD Incremental Facility	\$25 million AUD denominated tranche of additional funding to working capital facility
Super Senior GBP Incremental Facility	\$25 million equivalent GBP denominated tranche of additional funding to working capital facility
Super Senior Facility	Refers to the original Super Senior Facility under the original RSD
Super Senior Incremental Facilities	Refers to the additional \$50 million funding commitment on the Company's existing \$40 million working capital facility by the Senior Lenders as announced on 5 May 2017
Super Senior Secured Facilities	Refers to the aggregate of the Super Senior Facility, Super Senior AUD Incremental Facility, and Super Senior GBP Incremental Facility
Supporting Lenders	Lenders who collectively represent over 75 percent of the Company's secured debt by value and over 50 percent of the number of Senior Lenders
Third Party	Any person who is not a Released Person
UK	United Kingdom
UK HoldCo	The new UK holding company to which all UK operations and subsidiaries will be transferred on implementation of the Senior Lender Scheme
VCR	Vesting Convertible Redeemable
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital
Watchstone	Watchstone Group Plc (previously Quindell Plc)
Watchstone Entitlement Amount	The first \$40 million of the Watchstone Proceeds
Watchstone Proceeds	The net cash proceeds received from Watchstone (or any of its related entities or associates) in connection with the Watchstone Sale Agreement, including the release of any proceeds from any escrow account held in connection with the Watchstone Sale Agreement or any other proceeds received on account of settling any Claim against Watchstone or any other person in relation to the Watchstone Acquisition
WIP	Work in progress
Xenith	Xenith IP Group Limited
YoY	Year-On-Year



KPMG Corporate Finance
A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

ABN: 43 007 363 215
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

PART TWO – FINANCIAL SERVICES GUIDE

Dated 27 October 2017

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) and Adele Thomas as an authorised representative of KPMG Corporate Finance, authorised representative number 404180 and Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 (**Authorised Representative**).

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Slater & Gordon Limited (Client) to provide general financial product advice in the form of a Report to be included in the Notice of Meeting and Explanatory Statement (Document) prepared by the Client in relation to the Recapitalisation between the Client and Senior Lenders.

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance professional fees of \$575,000 for preparing the Report as stated in the Engagement Letter. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received. Over the past three years professional fees of \$679,363 have been received by KPMG Australia from Slater & Gordon. None of those services have related to the Recapitalisation or alternatives to the Recapitalisation.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Recapitalisation.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act.

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance

A division of KPMG Financial Advisory Services (Australia) Pty Ltd

Level 38, Tower 3, 300 Barangaroo Avenue
Sydney NSW 2000
Australia

PO Box H67
Australia Square
NSW 1213

Telephone: (02) 9335 7000

Facsimile: (02) 9335 7200

Ian Jedlin
C/O KPMG
PO Box H67
Australia Square
NSW 1213

Telephone: (02) 9335 7000

Facsimile: (02) 9335 7000

CORPORATE DIRECTORY

Company

Slater and Gordon Limited
ACN 097 297 400
485 La Trobe Street
Melbourne VIC 3000

Directors

John Skippen
James M. Millar
Tom Brown
Andrew Grech

Company Secretary

Kirsten Morrison

Independent Expert

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

Corporate Adviser

Moelis & Company
Level 27, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Lawyers

Arnold Bloch Leibler
Level 21, 333 Collins Street
Melbourne VIC 3000

Auditor

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Share Registry

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford, VIC 3067

Shareholder Information Line

Within Australia: 1300 393 803
Outside Australia: +61 3 9415 4050

SLATER
AND GORDON
GROUP

ABN 93 097 297 400

SGH

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:



Online:

www.investorvote.com.au



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

Proxy Form

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Vote and view the annual report online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I999999999

PIN: 99999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



For your vote to be effective it must be received by 10.00am (Melbourne time) on Monday, 4 December 2017

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐

Change of address. If incorrect, mark this box and make the correction in the space to the left.
Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

IND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

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I/We being a member/s of Slater and Gordon Limited hereby appoint

☐

the Chairman
of the Meeting OR



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Slater & Gordon Limited to be held at the Marriott Hotel (Exhibition Room), Corner of Exhibition Street and Lonsdale Street, Melbourne Victoria on Wednesday, 6 December 2017 at 10.00am (Melbourne time) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 1 & 2 (except where I/we have indicated a different voting intention below) even though Resolutions 1 & 2 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

The Chairman of the Meeting intends to vote undirected proxies in favour of each Resolution with the exception of Resolution 2 where the Chairman of the Meeting intends to vote against.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Resolutions 1 & 2 by marking the appropriate box in step 2 below.

STEP 2 Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Spill Meeting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Retirement and re-election of Director - John Skippen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Election of Director - Hayden Stephens	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Election of Director - Merrick Howes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Election of Director - Nils Stoesser	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Election of Director James MacKenzie	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Issue of Shares under the Senior Lender Scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Share Consolidation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each Resolution with the exception of Resolution 2 where the Chairman of the Meeting intends to vote against. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN

Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact
Name

Contact
Daytime
Telephone

_____ / _____ / _____

Date

SGH

2 1 5 7 8 4 A

Computershare +



**SLATER
AND GORDON
GROUP**

ABN 93 097 297 400

SGHRM

MR RETURN SAMPLE
123 SAMPLE STREET
SAMPLE SUBURB
SAMPLETOWN VIC 3030

Dear Securityholder,

We have been trying to contact you in connection with your securityholding in Slater & Gordon Limited. Unfortunately, our correspondence has been returned to us marked "Unknown at the current address". For security reasons we have flagged this against your securityholding which will exclude you from future mailings, other than notices of meeting.

Please note if you have previously elected to receive a hard copy Annual Report (including the financial report, directors' report and auditor's report) the dispatch of that report to you has been suspended but will be resumed on receipt of instructions from you to do so.

We value you as a securityholder and request that you supply your current address so that we can keep you informed about our Company. Where the correspondence has been returned to us in error we request that you advise us of this so that we may correct our records.

You are requested to include the following;

- > Securityholder Reference Number (SRN);
- > ASX trading code;
- > Name of company in which security is held;
- > Old address; and
- > New address.

Please ensure that the notification is signed by all holders and forwarded to our Share Registry at:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 3001
Australia

Note: If your holding is sponsored within the CHESS environment you need to advise your sponsoring participant (in most cases this would be your broker) of your change of address so that your records with CHESS are also updated.

Yours sincerely

Slater & Gordon Limited