

ASX Announcement

27 November 2017

Market Update: Business Separation Arrangements

Further to the announcement to the ASX on 31 August 2017 about its recapitalisation proposal ("**Recapitalisation**"), and the Notice of Annual General Meeting and Explanatory Memorandum released to the ASX on 30 October 2017, Slater and Gordon Limited (ASX:SGH) (the "**Company**") provides the following update about the business separation arrangements to be entered into as part of the Recapitalisation.

As set out in the 31 August 2017 announcement, the Recapitalisation involves the Company's UK operations and subsidiaries being separated from its Australian operations, such that the Company will no longer own the UK operations following the Recapitalisation. To effect this separation, the Company and Slater & Gordon UK 1 Limited ("**S&G UK**") will enter into certain transitional arrangements that will be governed by the business separation agreement ("**Business Separation Agreement**").

Transitional Separation Arrangements Update

The transitional arrangements involve the parties to the Business Separation Agreement seeking to procure that the Company is released from parent guarantees and other forms of security and financial support that it has provided to the UK operations, such as parent guarantees for UK leases and other material contracts.

The Company has agreed that the timeframe which is reasonably practical for the UK operations to procure the release of the parent guarantees will be a period of up to 18 months following the date the Recapitalisation is implemented ("**Implementation Date**") (or such longer period as agreed between the Company and S&G UK). Any material exposure under parent guarantees relates to leases for the major office premises used by the UK operations, primarily the Manchester premises.

If, during the transition period, the UK operations default on the UK leases and/or other material contracts the subject of the parent guarantees, and those parent guarantees have not yet been released, the Company may be liable for any unpaid amounts under those contracts at the time of default. Any contingent liability has the potential to be material in the event that the UK operations were in default and the parent guarantees were called upon and the Company was unable to take steps that are typically commercially available to mitigate its loss, such as sub-leasing.

It is not currently possible for the Company to estimate any contingent liability under these guarantees as there would need to be an event of default by the UK operations to cause any liability. In addition, numerous factors would impact on the extent of any potential liability in that event, such as when the guarantee would be called and the amounts outstanding at that time, the Company's ability to take steps to mitigate loss, including sub-leasing the premises, and its capacity to negotiate with the third parties who have the right to call on those guarantees. Liability in respect of these guarantees will only arise if the UK operations default on their obligations under the leases and other material contracts subject to a parent guarantee, prior to an agreement being made to release that guarantee. The UK operations have a number of operational and financial mechanisms in place which seek to prevent an event of default occurring. The Independent Expert has advised that its opinion remains as set out in the Independent Expert's Report provided to Shareholders as part of the Notice of Meeting and Explanatory Memorandum, and to senior lenders as part of the explanatory statement released to the market on 30 October 2017.

Shareholders should note that while the parent guarantees will not be released with effect from the Implementation Date, the Company and its Australian subsidiaries will still be released from their obligation to pay, guarantee, or otherwise secure the payment of, any secured debt in respect of the UK operations from the Implementation Date. As disclosed in the Explanatory Memorandum, because the Company and its Australian subsidiaries are also released from their obligations and/or guarantee to pay all amounts drawn by S&G UK under the syndicated facility agreement as part of the Recapitalisation, this effectively means that there is a reduction in the secured debt owed by the Australian operations of \$636.6 million.¹

The Recapitalisation forms part of the business to be considered by shareholders at the Company's annual general meeting which will be held at the **Marriott Hotel, Corner of Exhibition Street and Lonsdale Street, Melbourne VIC 3000** on **Wednesday, 6 December 2017** at **10.00 am (Melbourne time)**.

¹ Calculated as total secured debt of \$761.6 million as at 30 June 2017 less the Company's gross senior debt position immediately following implementation of the Recapitalisation of \$125 million, excluding transactional and ancillary facilities.

Further Information

For further details about the separation arrangements and the Recapitalisation more generally, shareholders should refer to the Notice of Annual General Meeting and Explanatory Memorandum released to ASX on 30 October 2017, which is also available on the Company's website at www.slatergordon.com.au/investors/recapitalisation.

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Contact:

Melinda George – Head of Corporate Affairs

+613 9602 6947 or investor.relations@slatergordon.com.au

About Slater and Gordon

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