

APPENDIX 4E STATEMENT
(Listing rule 4.3A)

PRELIMINARY FINAL REPORT
for the year ended 30 June 2018

Results for announcement to the market				
	30 June 2018	30 June 2017	% change to prior year	
	\$'000⁽¹⁾	\$'000⁽¹⁾		
1. Revenues from ordinary activities	159,250	181,473	down	12.2%
2. (Loss)/profit from ordinary activities after tax attributable to members	113,726	(546,549)	up	120.8%
⁽¹⁾ Revenues from ordinary activities reflect continuing operations. The prior period comparative amount has been restated to exclude discontinued operations.				

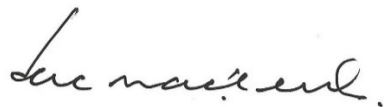
Dividend information	
3. Total dividend per ordinary share	No dividends were proposed for the years ending 30 June 2018 and 30 June 2017.
4. Record date for determining entitlements to the final dividend	Not applicable

5. Net tangible asset per security	30 June 2018	30 June 2017
	\$'000	\$'000
Net Tangible Assets	62,498	(261,928)
	Number of shares	Number of shares
Total number of ordinary shares of the Company	69,527,235 ⁽²⁾	347,245,601
Net tangible asset backing per ordinary security	89.89 cents	(75.43 cents)
⁽²⁾ Total shares as at 30 June 2018 reflects the effect of the 100 to 1 share consolidation that took place on 8 December 2017 and the issue of 66,050,874 new shares to the senior lenders as part of the Senior Lenders' Scheme of Arrangement completed on 22 December 2017.		

6. Details of entities over which control has been lost		
On 15 December 2017, the Group transferred control of Slater & Gordon (UK) 1 Limited and its subsidiaries to its Senior Lenders, as part of a Scheme of Arrangement with its Senior Lenders. Further details of the Scheme are provided in the consolidated financial report.		
	30 June 2018	30 June 2017
	\$'000	\$'000
7. Loss after tax of entities over which control has been lost	(48,830) ⁽³⁾	(473,453)
⁽³⁾ In addition, a net gain after tax from disposal of discontinued operations of \$211,747 has been recognised in Profit / (Loss) from ordinary activities after tax attributable to members		

Additional information supporting the Appendix 4E disclosure requirements can be found in the Director's report and the consolidated financial report for the year ended 30 June 2018.

This report is based on the consolidated financial report which has been independently audited by Ernst and Young. The Independent Audit Report provided by Ernst and Young is included in the consolidated financial report for the year ended 30 June 2018.

A handwritten signature in black ink, appearing to read 'James MacKenzie', is positioned above the printed name and title.

Sign here:

Date: 29 August 2018

James MacKenzie
Director

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

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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Directors' Report

The Directors present their report, together with the financial report of the consolidated entity consisting of Slater & Gordon Limited ("the Company") and its controlled entities (jointly referred to as "the Group"), for the financial year ended 30 June 2018 and the auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards ("IFRS").

Directors

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

- James MacKenzie – Chair (appointed 22 December 2017)
- Merrick Howes (appointed 22 December 2017)
- Elana Rubin (appointed 6 March 2018)
- Hayden Stephens (appointed 6 December 2017)
- Nils Stoesser (appointed 22 December 2017)
- Jacqui Walters (appointed 6 March 2018)
- Tom Brown (ceased as Non-Executive Director 22 December 2017)
- Andrew Grech (ceased as Non-Executive Director 6 December 2017)
- James M. Millar (ceased as Non-Executive Director 22 December 2017)
- John Skippen (ceased as Chair and Non-Executive Director 22 December 2017)

Details of the skills, experience, expertise and special responsibilities of each Director are set out in the "Information on Directors and Company Secretary" section of this report.

Principal Activities

The principal activity of the Group during the financial year until December 2017 was the operation of legal practices in Australia and the United Kingdom ("UK") providing legal services in two main areas of consumer law – Personal Injury Law and General Law. From December 2017, the principal activity of the Group was the operations of legal practices in Australia.

Review of Operations

The Slater and Gordon vision

The Company's vision is to help everyday Australians secure a better future by being trusted legal advocates for clients and by building strong relationships within the communities in which the Company operates.

The Company does not represent the big end of town. The Company helps unlock justice for everyday Australians who it believes have a right of redress or compensation, where there is a considerable power imbalance. The Company's clients come to the Company at what is often the most vulnerable time of their lives. Without the Company's services, many of the Company's clients would not be able to access justice.

The Company treats clients with compassion and respect and the Company prides itself on delivering the highest quality legal services to them. This absolute focus on client results makes the Company fierce in its representation and permeates the firm. The Company has a shared purpose with its clients – the Company's success is dependent upon their success.

The Company has a history of innovating and is active in protecting and enhancing the legal rights of clients. The Company's advocacy extends beyond individual cases to include the issues of social justice and individual rights more broadly.

The Company's diversity mirrors the diversity of its clients and its communities.

The Company has three core values:

- + **Do it right** – be passionate about the quality of the work and always achieve the highest professional standards in order to exceed client's expectations
- + **Work well with others** – share knowledge, experience and ideas. Encourage respect and collaboration within the firm and the community
- + **Take the lead** – challenge ourselves to be the best, strive for innovation and be committed to doing everything that can be done to help clients achieve their goals

Directors' Report

Strategic pillars

- Stable foundations – a sustainable and profitable base
- Use and strengthen our brand
- Get governance right – balance risk and return
- Help our people be successful
- Increase efficiency and productivity
- Grow existing services
- Grow new services consistent with brand and aspiration

Managing risks

The following details some of the material business risks that could affect the growth of the Company's core services. These are not listed in order of significance and do not comprise every risk that the Company may be exposed to.

Description of key risk	Key risk mitigation
Regulatory & Industry Reform The Company's operations are subject to extensive regulation. Adverse regulatory or legislative changes may adversely impact the Company's operations, financial performance and position.	Comprehensive stakeholder engagement, informed discussion, government consultation to advocate our position, modelling of the potential impact of changes and business model and the optimisation of practice management service offerings are initiatives we use to monitor, manage and protect against potential legislative changes.
Operations There are a number of key operational risks which arise directly from the operations of the Company as a major participant in the Australian legal services industry, including strategic and business decisions, technology and cyber risk, reputation risk, fraud, compliance with legal and regulatory obligations, counterparty performance under outsourcing and referral arrangements, business continuity planning, legal risk, data integrity risk, client default risk, key personnel risk and external events. The Company's financial performance and position have been, and in the future may continue to be, impacted by these risks.	The Company has business performance improvement programs in place designed to standardise, centralise, optimise and promote efficient and innovative operating platforms, IT systems and people strategies.
Competition and Market Share The Company operates in a competitive market, competing for its offering of personal injury and/or other legal services. Competition is on the basis of a number of factors, including the quality of advice and service, innovation, reputation and price. The financial performance may be adversely impacted as a result of these risks.	Monitoring of competitive markets to understand competitive activities and the ongoing demand for our services and continued expansion of business development initiatives.
People The Company may be unable to attract, retain and develop talented people which may limit its ability to deliver its growth initiatives.	People, culture and remuneration initiatives are being undertaken to further support and engage our people.
Capital Management Following the recapitalisation, funding and management of capital and liquidity remains a key focus. Additional funds may need to be obtained through capital raisings or cash flow may need to be managed through seeking to negotiate current debt arrangements.	Close involvement of the Company's lenders to ensure liquidity needs are monitored closely and arrangements are put in place where necessary to bridge short term liquidity needs.

Refer to the Company's Corporate Governance Statement for details of the Company's risk management framework.

Directors' Report

Financial review

The Group reported a net loss before tax from continuing operations of \$29,238,000 for the year ended 30 June 2018, an improvement of 70% from the prior year. The improvement was substantially driven by cost reductions in employee and rental costs, consistent with the strategy to review the business footprint. The prior year also included significant non-recurring expenses, particularly consultant fees (FY18 \$7,103,000: FY17 \$17,669,000) and an impairment charge of \$10,959,000.

The Group permanently reduced its outstanding secured debt under the Recapitalisation (refer below). As at 30 June 2018, the Group's total borrowings were \$155,119,000. The Group has a positive net current asset balance of \$122,398,000 and positive overall net asset balance of \$63,295,000.

Significant Changes in the State of Affairs

On 6 December 2017, Andrew Grech resigned as a Director and Hayden Stephens was appointed as a Director. On 22 December 2017, the Company completed a major restructure with the approval and implementation of two schemes of arrangements.

The Senior Lender Scheme of Arrangement resulted in:

- A reduction of \$636.6 million in secured debt owed by the Company and its Australian subsidiaries;
- Separation of the UK operations and UK subsidiaries from the Group and transfer of those entities to an entity wholly owned by the Company's senior lenders; and
- The issuance of 66,050,874 ordinary shares in the Company to the senior lenders, representing 95% of the Company's total issued capital.

The Shareholder Claimant Scheme of Arrangement resulted in the compromise and settlement of all shareholder claims against the Company arising out of the matters which were the subject of a number of shareholder class actions. All class actions were settled by the establishment of a settlement fund with KordaMentha appointed administrator of the fund from which shareholders claims are to be paid.

The Senior Lender Scheme of Arrangement has been implemented and is now complete. The Shareholder Claimant Scheme of Arrangement remains on foot until the settlement fund has been paid out in full.

Further, following implementation of the Senior Lender Scheme of Arrangement in December 2017, a number of changes to the Company's Board took effect, with Merrick Howes, James MacKenzie and Nils Stoesser appointed to the Board and Tom Brown, James Millar and John Skippen resigned.

In March 2018, Elana Rubin and Jacqui Walters were appointed to the Board.

Events Subsequent to Reporting Date

The Directors are not aware of any significant events since the end of the reporting period.

Likely Developments

The Group is now focused on organically growing its core service areas of Personal Injury Law, Union Services, Class Actions, Industrial and Employment Law and Commercial and Estate Litigation in Australia.

Environmental Regulation

The Group's operations are not subject to any significant environmental regulations or laws in Australia.

Environmental, Social and Corporate Governance

Pursuant to ASX Corporate Governance Principle and Recommendation 7.4, which provides that companies disclose any material exposure to economic, environmental or social sustainability risks, the Company does not consider that the operations are materially exposed to environmental or social sustainability risk.

Dividends Paid, Recommended and Declared

The Group has not declared or paid any dividends in respect of the 30 June 2018 financial year.

The dividends paid and declared since the start of the financial year are as follows:

	2018 \$'000	2017 \$'000
<i>Dividends on ordinary shares</i>		
No interim dividend paid in 2018 (2017: No interim dividend paid)	-	-
No final dividend for 2017 (2016: No final dividend paid)	-	-
	-	-

Directors' Report

Share Options

No options over unissued shares or interests in the Company were granted during or since the end of the financial year. There were no options outstanding at the end of the financial year.

Indemnification and Insurance of Directors and Officers and Auditors

During the financial year, the Group has provided an indemnity or entered an agreement to indemnify, and paid insurance premiums for a twelve-month period in respect of Directors, Officers and the Company Secretary of the Company against a liability brought against such an Officer.

Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

The Group has agreed (in certain circumstances) to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement. No payment has been made to indemnify Ernst & Young during or since the financial year.

Information on Directors and Company Secretary

The skills, experience, expertise and special responsibilities of each person who has been a Director of the Company at any time during or since the end of the financial year is provided below, together with details of the Company Secretary as at the year end.

James MacKenzie

B.Bus, FCA, FAICD
Chair

Independent Non-Executive
Director

Appointed 22 December
2017

Experience

James is the Chair of Slater and Gordon, having joined the organisation in December 2017.

James MacKenzie is an experienced Australian company director. He currently serves as President of the Victorian Arts Centre Trust and Chairman of Victorian Funds Management Corporation and Development Victoria.

James was previously Chair of the Transport Accident Commission (TAC) and Worksafe Victoria, Managing Director of Funds Management and Insurance at the ANZ Banking Group, Chief Executive Officer of Norwich Union Australia, and TAC Chief Executive Officer. He has been a member of the COAG Business Advisory Forum and a previous director of VFMC.

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

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

James is Chair of the Board and is also a member of the Audit and Risk Committee and the People and Culture Committee.

Other directorships of listed companies held in the last three years

Melco Crown Entertainment Limited (NASDAQ:MPEL)(2008 to 2016)

Merrick Howes

BA LLB

Non-Independent Non-
Executive Director

Appointed 22 December
2017

Experience

Merrick joined Anchorage Capital Group in Sydney in November 2011. Prior to joining Anchorage, he worked at Aviron Capital, a firm based in Sydney, Australia. Prior to Aviron, Merrick was the Co-founder and Managing Director at Shearwater Capital, where he focused on special situations and distressed debt investments. Prior to Shearwater, he was a Partner and Managing Director in the Principal Investment Area at Goldman Sachs in Australia. Merrick was also a Managing Director and European Head of Global Structured Products at Merrill Lynch in Hong Kong and London. He also worked at Macquarie Bank Limited from 1989 to 1998. Merrick received a BA in Accounting and a Bachelor of Laws from the Australian National University.

Other directorships of listed companies held in the last three years

None

Directors' Report

Information on Directors and Company Secretary (continued)

Elana Rubin

BA(Hons) MA FFin FAICD
FIML

Independent Non-Executive
Director

Appointed 6 March 2018

Experience

Elana has over 20 years' experience as a non-executive company director, across diverse sectors. She is currently a Director of Mirvac and AfterPay Touch Group, as well as a number of unlisted companies and government boards.

Elana was previously the Chair of AustralianSuper and WorkSafe Victoria, and a Director of TAC (Vic). Other previous board roles covered the financial services, insurance, infrastructure, professional services, and not-for-profit sectors.

Before becoming a full time non-executive director, Elana worked for one of the (then) largest industry funds and the ACTU. She is a member of Chief Executive Women and Women Corporate Directors International. Her career reflects an understanding of corporate social licence to operate and a deep commitment to culture, diversity, social equity and participation.

Elana is a member of the Audit and Risk Committee and the People and Culture Committee.

Other directorships of listed companies held in the last three years

Mirvac Limited (ASX:MGR)(2010 to current)

Afterpay Touch Group Limited (ASX:APT)(2017 to current)

Touchcorp Limited (ASX: TCH)(2015 to 2017)

Hayden Stephens

BA LLB

Non-Independent Non-
Executive Director

Appointed 6 December
2017

Experience

Hayden is a Non-Executive Director at Slater and Gordon.

Previously, Hayden was Chief Executive Officer, Australia and prior to that held executive leadership positions across group, service and geographic business units.

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 acting for persons in public and product liability law, assisting asbestos disease sufferers and acting for victims of child sex abuse in clergy institutions.

In late 1999, Hayden was appointed leader of the firm's operations in Western Australia and remained in this role until 2004.

Between 2004 - 2009, Hayden held leadership positions in the firm's National Workers' Compensation practice group. Among his achievements in this role, Hayden worked proactively with stakeholders to help shape legislative reform of Victorian personal injuries compensation. Hayden has since continued his work with key stakeholders, State and Federal Government and Regulatory bodies.

Other directorships of listed companies held in the last three years

None

Nils Stoesser

MEng, ACA

Non-Independent Non-
Executive Director

Appointed 22 December
2017

Experience

Nils joined Anchorage Capital Group in May 2016 as a member of the Portfolio Group. As part of the Portfolio Group, Nils is responsible for performing operational due diligence on potential investments, and enhancing Anchorage's ability to drive operational and strategic change in companies where Anchorage has a position of influence. Before joining Anchorage, he was Vice Chairman of the Supervisory Board and Advisor to the CEO and Board of Management at Fokker Technologies Group. Prior to his time at Fokker, Nils was a founding partner of Arle Capital Partners, the successor firm to Candover Partners Limited, where he was a Director. Nils started 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).

Nils is Chair of the People and Culture Committee.

Other directorships of listed companies held in the last three years

None

Directors' Report

Information on Directors and Company Secretary (continued)

Jacqui Walters

BCom (Accounting and Finance) GAICD

Independent Non-Executive Director

Appointed 6 March 2018

Experience

Jacqui joined the Slater & Gordon Board in March 2018. Jacqui has over 25 years' experience in delivering and leading strategy and change projects in both the public and private sector. She has international experience across many industry sectors. Her work has ranged from whole of organisation transformation and restructuring to highly specific areas such as major capital project delivery, new product introduction, professional services strategy and performance, and post-merger culture alignment.

An experienced professional services leader with over 20 years' experience working for top tier management consulting firms, she has established a number of new practices, and held leadership roles focussed on professional services growth strategies and business performance, including merger and acquisition activities. The common theme across Jacqui's broad experience is the desire to solve complex problems, create real value for her clients and build and lead powerful teams.

Jacqui is a founding partner of Era Innovation, a boutique advisory firm working with large corporates to identify, select and commercialise growth opportunities.

Jacqui is a Board Member and Chair of the Risk and Audit Committee for Building Queensland and established and Chairs the Citytrain Response Unit (oversighting the transformation of Queensland Rail and public transport in Queensland).

Jacqui is Chair of the Audit and Risk Committee

Other directorships of listed companies held in the last three years

None

Tom Brown

MA

Independent Non-Executive Director

Ceased 22 December 2017

Experience

Tom Brown was a Non-Executive Director from September 2016.

Tom Brown is one of Australia's most senior HR Directors with more than 20 years' Board level experience across multiple industrial sectors.

Tom has held senior executive positions in global listed companies including Mobil, BHP Billiton, Allied Domecq, Brambles and Rolls Royce in Europe, Africa, the USA and Australia including Board level experience across multiple industrial sectors including Oil and Gas, Mining, FMCG, Industrial Services, Utilities, Aeronautical and Marine.

Tom has led transformation programs in both high growth and turnaround environments.

Other directorships of listed companies held in the last three years

Gooroo Ventures Ltd (ASX:GOO)(2017 to current)

Andrew Grech

LLB MAICD

Non-Independent Non-Executive Director

Ceased 6 December 2017

Experience

Andrew joined Slater and Gordon in 1994 and was appointed Managing Director in 2000. Before being appointed Managing Director, Andrew worked in most of Slater and Gordon's litigation practice areas, across both high-profile class actions and individual compensation claims. Andrew brought to the Board extensive experience as a legal practitioner and law firm manager. Andrew was a Non-Executive Director from 29 June 2017 upon ceasing as Group Managing Director.

Other directorships of listed companies held in the last three years

None

Directors' Report

Information on Directors and Company Secretary (continued)

James M. Millar AM

BCom FCA FAICD

Independent Non-Executive Director

Ceased 22 December 2017

Experience

James was appointed a Director of the Company in December 2015.

James is a former Chief Executive Officer and Oceania Area Managing Partner of Ernst & Young (now EY) and was a member of the Ernst & Young Global Board. His career prior to the leadership roles at Ernst & Young was as a corporate reconstruction professional.

In 2012 James was appointed a Member in the General Division of the Order of Australia for service to Business & Commerce and for Community Leadership.

Other directorships of listed companies held in the last three years

Fairfax Media Limited (ASX:FXJ)(2012 to current)

Non-Director – Macquarie Media Ltd (ASX:MRN)(2015 to current)

Non-Executive Director – Mirvac Limited (ASX:MGR)(2009 to current)

Non-Executive Director – Helloworld Travel Limited (ASX:HLO)(2010 to 2016)

John Skippen

ACA

Chair

Independent Non-Executive Director

Ceased 22 December 2017

Experience

John was a Board member from 2010 and Chair of the Board from 2012.

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

Other directorships of listed companies held in the last three years

Flexigroup Limited (ASX: FXL) (2006 to current)

Super Retail Group Ltd (ASX: SUL) (2008 to 2016)

Company Secretary

Michael Neilson

BA LLB GAICD FGIA

General Counsel and Company Secretary

Appointed 20 April 2018

Experience

Michael is General Counsel and Company Secretary, having commenced in April 2018.

Prior to joining Slater and Gordon, Michael was at Crown Resorts Limited (ASX:CWN), where he was Group General Counsel and Company Secretary for almost ten years and, prior to that, he was General Counsel for Crown Melbourne.

From 1997 to 2004, Michael was at the Lend Lease Group where he was General Counsel and Company Secretary of General Property Trust (ASX:GPT) (which was then managed by Lend Lease) and prior to that General Counsel of Lend Lease Property Management.

Michael started his career in the commercial practice at Herbert Geer & Rundle where he spent ten years before moving in house.

Michael has a strong track record in implementing governance, legal and regulatory frameworks in complex, multinational businesses as well as deep experience managing risk and compliance in challenging environments. Michael is Chair of the Council of Camberwell Grammar School.

Directors' Report

Directors' Meetings

The number of meetings of the Board of Directors and of each Board committee held during the financial year and the number of meetings attended by each Director were:

	Board of Directors		Audit and Risk Committee		People and Culture Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
J MacKenzie ⁶	8	8	2	2	2	2
M Howes ³	8	8	2	1	-	-
E Rubin ⁴	5	5	-	-	2	2
H Stephens ⁸	8	8	-	-	-	-
N Stoesser ⁷	8	7	-	-	2	2
J Walters ⁵	5	5	2	2	-	-
J Skippen ¹	11	11	-	-	-	-
T Brown ¹	11	10	-	-	-	-
A Grech ²	10	10	-	-	-	-
J Millar ¹	11	11	-	-	-	-

1 Ceased as Director on 22 December 2017

2 Ceased as Director on 6 December 2017

3 Commenced as Director on 22 December 2017, ceased as a member of the Audit and Risk Committee on 20 June 2018

4 Commenced as Director on 6 March 2018

5 Commenced as Director on 6 March 2018

6 Commenced as Director on 22 December 2017

7 Commenced as Director on 22 December 2017

8 Commenced as Director on 6 December 2017

Directors' Interests in Shares

Directors' relevant interests in shares of the Company as at the date of this report are detailed below.

	Ordinary Shares of the Company	Performance Rights
J MacKenzie	-	-
M Howes	-	-
H Stephens	12,526	-
N Stoesser	-	-
E Rubin	-	-
J Walters	-	-
J Skippen	1,000	-
T Brown	-	-
A Grech	66,307	-
J Millar	-	-

Directors' Interest in Contracts

Directors' interests in contracts are disclosed in Note 6.1 to the financial statements.

Auditor's Independence Declaration

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

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Directors' Report

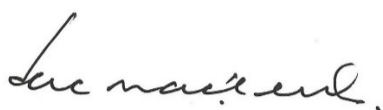
Non-Audit Services

Written approval for non-audit services is provided by resolution of the Audit and Risk Committee and approval is notified to the Board of Directors. There were no non-audit services provided by the auditors of the Group during the year. The Directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Rounding of Amounts

The amounts contained in the Directors' Report and Financial Report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Class Order applies.

The Directors' Report and accompanying Audited Remuneration Report is signed in accordance with a resolution of the Directors.



James MacKenzie

Chair

Melbourne

29 August 2018

Directors' Report

Audited Remuneration Report

1.0 Introduction

FY18 has been a year of renewal for Slater and Gordon. The results show progress has been made, however this year the Company did not meet its financial targets. As a result, Non-Executive Directors (NEDs) and Executive KMP did not receive remuneration increases or Short Term Incentive Plan payments. Despite the challenges of the past year, the Board, management and employees remain committed, optimistic and focused on the long term sustainable success of the Company.

The new Board and management reviewed and will continue to review the remuneration structure to ensure it closely aligns the interests of management with those of our clients, employees and shareholders, while also allowing Slater and Gordon to attract and retain key people who are central to business stability and success.

Changes to Remuneration

During FY18 the Company made changes to the Short Term Incentive Plan. Gateways were introduced to baseline performance and behaviours for participants. The change provides stronger linkages between individual and company performance and reward outcomes.

Long Term Incentives ("LTI") were not offered in FY18. The Company is currently designing a new Long Term Incentive Plan to further provide a direct link between the interests of the participants, shareholders and the long-term success of the Company. Further information on the proposed plan will be provided in the FY19 Remuneration Report.

Changes to Remuneration Report

The Company continues its commitment to providing transparency to employees, clients and shareholders on how NEDs and Executive KMP are remunerated. The Company has made changes to the FY18 Remuneration Report to simplify and improve the overall format and flow of information.

Directors' Report

Audited Remuneration Report (continued)

2.0 Remuneration Report Overview

The Directors present the Remuneration Report (the Report) for the Company and its controlled entities for FY18. This Report forms part of the Director's Report and has been audited in accordance with section 300A of the *Corporations Act 2001*. The Report details the remuneration arrangements for Slater and Gordon's Key Management Personnel (KMP):

- Non-Executive Directors (NEDs)
- Executive KMP

KMP are those persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Company. The table below outlines the KMP and their movements during FY18:

Name	Title	Change during FY18
Non-Executive Directors		
James MacKenzie	<ul style="list-style-type: none">• Chair of the Board• Non- Executive Director	<ul style="list-style-type: none">• Became Chair and Non-Executive Director on 22 December 2017
Merrick Howes	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Became a Non-Executive Director on 22 December 2017
Elana Rubin	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Became a Non-Executive Director on 6 March 2018
Hayden Stephens	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Became Director on 6 December 2017• Ceased as Chief Executive Office on 7 February 2018• Commenced as Non-Executive Director on same date
Nils Stoesser	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Became a Non-Executive Director on 22 December 2017
Jacqui Walters	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Became a Non-Executive Director on 6 March 2018
John Skippen	<ul style="list-style-type: none">• Chair of the Board	<ul style="list-style-type: none">• Ceased as Chair and Non-Executive Director on 22 December 2017
Tom (Thomas) Brown	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Ceased as a Non-Executive Director on 22 December 2017
Andrew Grech	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Ceased as a Non-Executive Director on 6 December 2017
James M. Millar	<ul style="list-style-type: none">• Non-Executive Director	<ul style="list-style-type: none">• Ceased as a Non-Executive Director on 22 December 2017
Other Executive KMP		
John Somerville	<ul style="list-style-type: none">• Chief Executive Officer	<ul style="list-style-type: none">• Became Chief Executive Officer on 7 February 2018
Belinda Nucifora	<ul style="list-style-type: none">• Chief Financial Officer	<ul style="list-style-type: none">• Became Chief Financial Officer on 2 October 2017
Ken Fowle	<ul style="list-style-type: none">• Chief Executive Officer, UK	<ul style="list-style-type: none">• Ceased as an employee of the Company on 15 December 2017
Bryce Houghton	<ul style="list-style-type: none">• Group Chief Financial Officer	<ul style="list-style-type: none">• Ceased as Group Chief Financial Officer on 31 August 2017

Directors' Report

Audited Remuneration Report (continued)

3.0 How remuneration is governed

The People and Culture Committee (formerly known as the Remuneration Committee) assists the Board to oversee the establishment and operation of appropriate policies and strategies that provide the Company with the capability to achieve its short and long-term business objectives, including recommending remuneration changes to the Board for NEDs and Executive KMP.

3.1 Use of remuneration advisors

During FY18, the Company did not use remuneration advisors as defined under the *Corporations Act 2001*.

3.2 Clawback of remuneration

The clawback policy was introduced in June 2016. This policy enables Slater and Gordon to claw back certain elements of an Executive KMP's remuneration if there has been a misstatement of the financial statements which resulted in the Executive KMP receiving a reward which exceeds the outcome that would have been achieved had the misstatement not been made. The clawback provisions are designed to further align the interests of the Executive KMP with the long-term interests of the Company and to ensure excessive risk taking is not rewarded.

3.3 Share Trading Policy

The Company's Share Trading Policy (the "Policy") applies to all Directors, officers, employees, contractors and consultants of Slater and Gordon. The Share Trading Policy outlines how and when Directors, officers, employees, contractors and consultants' may deal in Slater and Gordon securities.

If a Director or Executive KMP acquires securities in the Company, they should not sell or agree to sell any Slater and Gordon securities of that class for at least 30 days.

Directors are prohibited from entering margin loans under the Company's Share Trading Policy. Relevant Persons (as defined in the Policy) require prior approval to enter into a margin loan arrangement where the amount of shares mortgaged, provided as security, lent or charged to a financier, amounts to 1% or more of the issued capital in the Company at the relevant time. A Relevant Persons must notify the Company Secretary immediately if they are given notice by their financier of an intention to make a margin call and sell the Company's securities during a prohibited trading period.

Relevant Persons must not enter into hedging arrangements in relation to securities in the Company that are unvested or subject to disposal restrictions or minimum shareholding requirements.

The Company's Share Trading Policy is available on the Slater and Gordon website www.slatergordon.com.au.

Directors' Report

Audited Remuneration Report (continued)

3.4 Executive KMP employment agreements

The following sets out details of the employment agreements relating to Executive KMP:

Length of Contract	Executive KMP are on rolling contracts, which are ongoing employment contracts until notice is given by either party.			
	Resignation	Termination for cause	Termination in case of retirement, redundancy or notice without cause	Termination payment
CEO notice period	Six (6) months	None	Six (6) months	Six (6) months
CFO notice period	Six (6) months	None	Six (6) months	Six (6) months
Statutory Entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.			
Post-Employment Restraints	The employment agreement contains a restraint of trade provision which applies for a period of 9 months and 12 months.			

3.5 Cessation and movement of Executive KMP

Cessation of Chief Executive Officer, Australia

As disclosed to the ASX on 7 February 2018, Hayden Stephens resigned as Chief Executive Officer.

The following arrangements applied to Mr. Stephens:

- Mr. Stephens remained on the Board as a Non-Executive Director.
- Mr. Stephens does not receive a Board director fee, but he continued to receive his CEO remuneration during his notice period as part of his termination arrangements.
- He received no STI and long-term incentive payments for FY18. He received \$52,500 relating to FY17 that was paid in the FY18 year.

Cessation of Group Chief Financial Officer

As disclosed to the ASX on 31 August 2017, and in relation to the Recapitalisation and the stated intention to separate the UK and Australian operations, the Company no longer required the Group Financial Officer role post scheme implementation. Consequently, the Board agreed with the Group Chief Financial Officer, Bryce Houghton, that he would step down from his role. Mr. Houghton ceased in a KMP role on 31 August 2017 and formally ceased employment from 15 November 2017.

In accordance with Mr. Houghton's contract of employment, he received the following upon cessation of employment:

- Six months' salary in lieu of notice; and
- Untaken annual leave accrued to the employment Termination Date, all less applicable tax

He received no STI and long-term incentive payments for FY18 year.

Cessation of Chief Executive Officer, UK

Ken Fowlie ceased as an employee of the Company on 15 December 2017 as a result of the Recapitalisation and separation of the UK and Australian operations.

Mr. Fowlie's employment continues as an employee of the UK operations and therefore no separation payments were made.

3.6 Other transactions and balances with KMP and their related parties

During the year, the Group paid consulting fees to JACM Pty Ltd, of which James MacKenzie (Chair) is a Principal. The amount of \$62,500 was paid to JACM Pty Ltd for consulting services prior to December 2017 and was approved by the Board.

Directors' Report

Audited Remuneration Report (continued)

4.0 Overview of Executive KMP Remuneration

This section of the Remuneration Report outlines the principles applied to Executive KMP remuneration decisions and the framework used to deliver the various components of remuneration, including explanation of the performance and remuneration linkages.

4.1 How Executive KMP remuneration policies and structures are determined

Slater and Gordon's remuneration strategy aligns the interests of the executives with those of clients, employees and shareholders. It is designed to be simple and easy to understand, to reward actual achievement and to drive the long-term, sustainable success of the Company. The performance of the Company is considered in the overall remuneration determinations for Executive KMP.

Slater and Gordon applies a robust and disciplined set of guiding principles to remuneration and reward that provides a level and mix of reward and recognition that:

- Will attract and retain employees with the requisite skills, expertise and motivate high performance;
- Links company and individual performance;
- Maintains the integrity of the Company's remuneration principles, strategies and practices;
- Provides a framework for undertaking reviews of remuneration proposals;
- Is compliant with current governance and legislative requirements related to remuneration practices; and
- Aligns the interests of shareholders and employees to enhance the Company's performance in a manner that supports the long-term financial soundness of the Company.

4.2 Slater and Gordon's Executive KMP Remuneration Structures

Slater and Gordon rewards Executive KMP with a level and mix of remuneration appropriate to their position, responsibilities and performance, in a way that aligns with the business strategy and future success of the Company.

Executive KMP receive fixed remuneration and variable remuneration consisting of short and long-term incentive opportunities. Executive KMP remuneration levels are reviewed annually by the People and Culture Committee with reference to the remuneration guiding principles and market movements.

4.3 Elements of remuneration

Fixed remuneration

Fixed remuneration is set to attract, retain and reflect the scope, contribution, skills, capability and experience of the individual. Fixed remuneration consists of base salary, superannuation (statutory guarantee) and other non-monetary benefits.

Fixed remuneration is reviewed annually with approved changes effective 1 July. The following factors are taken into consideration when reviewing executive remuneration:

- Business performance
- Individual performance
- Economic climate
- External market data

Adjustments to Executive KMP remuneration are reviewed by the People and Culture Committee and approved by the Board.

Directors' Report

Audited Remuneration Report (continued)

4.3 Elements of remuneration (continued)

Short Term Incentive (STI)

STI is designed to provide a tangible link between the interests of the Executive KMP and the financial performance of the Company. Under the STI Plan, all Executive KMPs have the opportunity to earn an annual incentive award which is delivered in cash.

How is it paid?

STI is delivered in cash.

How much can executives earn?

The Company sets STI opportunities annually in the form of an STI cap. STI cap is represented in fixed dollar amounts and not percentages of base salaries.

STI cap - up to 40% of STI cap for on target performance with a maximum stretch opportunity of 100% of STI cap. Individual STI targets for FY18*:

Executive	STI Amount	STI Type	% of Base Salary
John Somerville	\$264,734	cap	50%
Belinda Nucifora	\$215,000	cap	50%

**Hayden Stephens forfeited STI upon resignation from the role of CEO Australia. Bryce Houghton and Ken Fowlie were not invited to participate in FY18 STI program.*

Total Remuneration % (annualised at target) for FY18

Executive	Total Fixed Remuneration	Short Term Incentive
John Somerville	67.5%	32.5%
Belinda Nucifora	67.7%	32.3%

In addition to STI targets, the Board may determine, from time to time, to award a performance or discretionary bonus to Executive KMP. Incentives are aligned to key financial targets being exceeded.

How is performance measured?

Executive KMPs have company and individual Key Performance Indicators (KPIs). Assessment of performance measures is completed after the announcement of financial statements. Performance measures are validated and approved by the Board.

FY18 measures are set out below:

	Financial	Non-Financial
	EBITDA	Business unit KPIs
Executive KMP	100%	0%

The non-financial measures in the STI plan are:

- leading transformation initiatives
- People as measured by the Company's values and behaviours

Who sets STI performance measures?

Financial performance measures are set by the Board, based on the recommendation of the People and Culture Committee.

Individual KPIs are set for Executive KMP (CFO) by the CEO, then reviewed and endorsed by the People and Culture Committee and Board.

CEO individual and financial KPIs are set and approved by the Board.

When is it paid?

The STI outcome is determined after the end of the financial year and after announcement of financial statements. The Board approves the final STI award for the Executive KMP, which is paid approximately three months after the end of the performance period. There are no deferral components.

Directors' Report

Audited Remuneration Report (continued)

4.3 Elements of remuneration (continued)

What happens if an Executive KMP leaves?

The following details the treatment of STIs on termination:

Resignation: Any potential STI payment is forfeited if an employee tenders their resignation. If an employee has given notice, but not actually ceased employment, their unpaid incentives are forfeited irrespective of when the performance period ended.

Dismissal: Any potential STI payment is forfeited if an employee is given notice of dismissal.

Death: Payments will be made to the estate of a deceased employee pro-rated for the eligible period. Payment will be calculated in accordance with the normal timetable and based on the end of year results.

Total & Permanent Incapacity: Employees will be eligible for payments pro-rated for the eligible period. Payment will be calculated in accordance with the normal timetable and based on the end of year results.

Retrenchment or other Company initiated termination: At the discretion of the Board.

Long Term Incentive (LTI)

LTI is intended to provide a direct link between the interests of the executive KMP and the long-term success of the Company. It is also used as an incentive to reward and retain key talent.

LTIs were not offered in FY18 given the financial position of the Company. The Company is currently designing a new LTI Plan to further provide a direct link between the interests of the participants, shareholders and the long-term success of the Company. Further information on the proposed plan will be outlined in the FY19 Remuneration Report.

4.4 Changes for FY18

Further simplifications were made to the STI Plan for FY18 to structure the plan in two parts:

Gateway: Employees are allocated to participant groups with baseline performance gateways set for each group. Importantly, all participants must demonstrate behaviors consistent with Slater and Gordon values and meet expectations in client service. Once the gateway is met, participants become eligible to be considered for an STI payment.

STI Payment: Delivery against individual KPIs.

Directors' Report

Audited Remuneration Report (continued)

5.0 FY18 Executive KMP Performance and Remuneration Outcomes

5.1 Actual Remuneration earned by Executives KMP in FY18:

The actual remuneration earned by Executive KMPs in FY18 is set out in section 7 below.

5.2 STI Performance Measures for FY18

Executive KMP were measured on the achievement of budgeted EBITDA. Financial performance was below the threshold gateway and as a result, the STI award as a percentage of target was 0%.

5.3 Long Term Incentive Outcomes

As disclosed in the FY17 Remuneration Report, Hayden Stephens and Ken Fowlie were participants of the FY15 LTI. Both tranches were assessed by the Board in September 2017, neither performance hurdle was achieved and all Performance Rights were forfeited.

5.4 Overview of company performance (FY14 to FY18)

The table below sets out information about the Company's earnings and movements in shareholder wealth for the past five years up to and including the current financial year.

Company Performance	2014 Restated ⁽²⁾	2015 Restated ⁽²⁾	2016 ⁽²⁾	2017 ⁽²⁾	2018 ⁽³⁾
Revenue (\$'000)	438,228	598,185	908,185	611,485	160,276
Profit before tax (\$'000)	95,747	85,408	(1,029,468)	(551,149)	(29,238)
Profit after tax (\$'000)	68,236	62,374	(1,017,595)	(546,831)	(31,916)
Basic earnings per share (cents) ⁽⁴⁾	3,376.20	2,643.03	(28,877.5)	(15,542.5)	(0.843)
Diluted earnings per share (cents) ⁽⁴⁾	3,316.27	2,624.05	(28,877.5)	(15,542.5)	(0.843)
EBITDAW ⁽⁵⁾	63,321	92,586	49,343	(76,095)	(6,369)
Gross Operating Cash Flow less CAPEX	62,615	33,666	(96,383)	(34,308)	(876)
Dividends per share - paid during financial year (cents)	6.85	8.50	5.50	-	-
Total dividends paid during financial year (cents)	13,770	17,620	19,330	-	-
Share price at 30 June (\$) ⁽¹⁾	515.42	355.60	38.96	8.09	1.92

⁽¹⁾ Share price stated as at 30 June. As 30 June 2018 was a Saturday, the share price stated in 2018 was as at 29 June 2018. All prior year share prices were restated for the impact of the 100 to 1 share consolidation that took place on 8 December 2017.

⁽²⁾ Financial performances were not restated for the discontinued operations that occurred in FY2018. However, the basic earnings per share, diluted earnings per share and share price at 30 June have been restated for the 100 to 1 share consolidation that took place on 8 December 2017.

⁽³⁾ 2018 profit before tax, profit after tax and EBITDAW from continuing operations.

⁽⁴⁾ Basic earnings per share (cents) and diluted earnings per share (cents) were restated for the impact of the 100 to 1 share consolidation that took place on 8 December 2017. 2018 earnings per share is shown excluding discontinued operations. Prior years are shown for the overall business and have not been restated for discontinued operations.

⁽⁵⁾ EBITDAW is defined as Earnings before net interest, taxes, depreciation, amortisation, impairment and movement in WIP.

Directors' Report

Audited Remuneration Report (continued)

6.0 Overview of Non-Executive Director remuneration

6.1 Overview of Non-Executive Director remuneration

Slater and Gordon NED fees are designed to attract and retain high caliber directors who can discharge their roles and responsibilities required in terms of good governance, strong oversight, independence and objectivity.

NED remuneration is based on fixed director fees and superannuation contributions. The chair of the Board attends all committee meetings but does not receive any additional committee fees in addition to base fees.

The People and Culture Committee reviews NED remuneration annually against comparable companies. In determining the level of fees, independent survey data on comparable companies (ASX listed companies of a similar size) was purchased at the time of the review.

6.2 Maximum aggregate NED fee pool

The maximum aggregate amount that may be paid to NEDs for their services is \$950,000 during any financial year, as approved by shareholders at the 2015 AGM held in November 2015. The Board will not seek an increase to the aggregate NED fee pool limit at the 2018 AGM.

The table below summarises Board and Committee fees paid to NEDs for FY18 (inclusive of superannuation). After the appointment of the new Board on 22 December 2017, Slater and Gordon made changes to NED Fees whereby Board Director fees were changed to be inclusive of additional duties including membership and Chairing of Board committees.

		22 December 2017 – 30 June 2018	1 July 2017 – 21 December 2017
Board Chair Fee		\$240,000 ⁽¹⁾	\$240,000 ⁽¹⁾
Board Director Fee		\$175,000 ⁽²⁾	\$120,000
Committee Fees			
Audit, Compliance & Risk	Chair	Nil	\$20,000
	Member	Nil	\$5,000
Nomination Committee⁽³⁾	Chair	Nil	Nil
	Member	Nil	\$5,000
People and Culture Committee⁽⁴⁾	Chair	Nil	\$10,000
	Member	Nil	\$5,000
Annual Fee Pool		\$950,000	\$950,000

(1) Committee fees are not paid to the Chair of the Board.

(2) Non- Executive Director's Merrick Howes and Nils Stoesser do not receive payment of Board director fees from the Company. In place of Board director fee, Non- Executive Director, Hayden Stephens, transitioned from Chief Executive Officer Australia to a Non-Executive Director on 7 February 2018. He does not receive a Board director's fee. He continued to receive his CEO remuneration during his notice period as part of his termination arrangements. This remuneration does not count towards the total NED Annual Fee Pool.

(3) The Nomination Committee was suspended and did not meet during FY18. There is no intention to bring the Committee out of suspension in FY19.

(4) Formerly known as the Remuneration Committee

Directors' Report

Audited Remuneration Report (continued)

6.3 FY18 Non-Executive Director Remuneration

The table below includes entries for short term benefits to Merrick Howes and Nils Stoesser, executives employed by Anchorage Capital Group LLC. The Company does not pay any remuneration to Merrick Howes and Nils Stoesser. Australian Accounting Standards require disclosure of fees for their roles as Directors of the Company, where they are paid by their employer, which is the parent entity of the Group. The fees paid by the Company to other Directors was considered to be representative of this..

considered to be representative of this..

		Short-term benefits	Post-employment benefits	
Amounts \$	Year	Fees ⁽¹⁰⁾	Superannuation benefits	Total
Current NEDs				
James MacKenzie (Chair) ⁽¹⁾	FY18	120,282	10,487	130,769
	FY17	-	-	-
Merrick Howes ⁽²⁾	FY18	82,442	-	82,442
Disclosure required by Australian Accounting Standards – no remuneration was actually paid by the Company	FY17	-	-	-
Nils Stoesser ⁽²⁾	FY18	82,442	-	82,442
Disclosure required by Australian Accounting Standards – no remuneration was actually paid by the Company	FY17	-	-	-
Hayden Stephens ⁽³⁾	FY18	-	-	-
	FY17	-	-	-
Elana Rubin ⁽⁴⁾	FY18	51,633	4,905	56,538
	FY17	-	-	-
Jacqui Walters ⁽⁴⁾	FY18	51,633	4,905	56,538
	FY17	-	-	-
Former NEDs				
John Skippen (Chair) ⁽⁵⁾	FY18	164,963	10,410	175,373
	FY17	220,384	19,616	240,000
Ian Court ⁽⁸⁾	FY18	-	-	-
	FY17	48,272	19,497	67,769
Erica Lane ⁽⁸⁾	FY18	-	-	-
	FY17	61,644	5,856	67,500
Rhonda O'Donnell ⁽⁹⁾	FY18	-	-	-
	FY17	80,611	7,658	88,269
James Millar ⁽⁶⁾	FY18	104,320	8,666	112,986
	FY17	134,151	12,580	146,731
Thomas Brown ⁽⁶⁾	FY18	95,890	8,282	104,172
	FY17	102,248	9,714	111,962
Andrew Grech ⁽⁷⁾	FY18	243,552	9,253	252,805
	FY17	-	-	-
Total ⁽¹¹⁾	FY18	997,157	56,908	1,054,065
	FY17	647,310	74,921	722,231

(1) J MacKenzie commenced as Chair and Non-Executive Director on 22 December 2017.

(2) M Howes and N Stoesser commenced as Non-Executive Directors on 22 December 2017 and are not remunerated by the Company for their services as Non-Executive Directors. The Company was not charged for their services. Amounts included in the table are not included in the total NED Annual Fee Pool.

(3) H Stephens transitioned from Chief Executive Officer Australia to a Non-Executive Director on 7 February 2018. He does not receive a Board director's fee. He continued to receive his CEO remuneration during his notice period as part of his termination arrangements. This remuneration does not count towards the total NED Annual Fee Pool. Please refer to table 7.1 KMP Remuneration: Statutory Remuneration Outcomes for H Stephens' remuneration.

(4) E Rubin and J Walters commenced as Non-Executive Directors on 6 March 2018.

(5) J Skippen ceased as Chair and Non-Executive Director on 22 December 2017.

(6) T Brown and J Millar ceased as Non-Executive Directors on 22 December 2017.

(7) A Grech ceased as Group Managing Director on 29 June 2017 and continued as Non-Executive Director of the company until 6 December 2017. The FY17 disclosures represent his remuneration as Group Managing Director of the Company, which was disclosed under Executive Remuneration Table in prior year. The FY18 disclosures reflect the remuneration received as Non-Executive Director.

(8) I Court and E Lane ceased as Non-Executive Directors on 30 August 2016.

(9) R O'Donnell ceased as a Non-Executive Director on 27 February 2017.

(10) The Fees remunerated includes Non-Executive Director fees and end of contract notice period fees, unless otherwise specified under each of the Non-Executive Directors' notes.

(11) The fees shown attributable to M Howes and N Stoesser are not counted towards the maximum aggregate NED fee pool.

Directors' Report

Audited Remuneration Report (continued)

7.0 Actual Executive KMP Remuneration

7.1 Executive KMP Remuneration Table – Statutory Disclosure

Name	Year	Fixed Remuneration					Variable pay			End of Service			Total Remuneration	Proportion of Total Remuneration		
		Short-term			Post-employment	Long-term		Short-term	Long-term							
		Salary	Non-monetary benefits	Other benefits	Super-annuation benefits	Long service leave	Total	Cash Bonus	Performance Rights / Options	Total	Unused Statutory Leave Balances	Contractual Notice Period		Total	Performance related	Delivered as equity
John Somerville ⁽¹⁾	FY18	209,942	-	-	7,942	2,451	220,335	-	-	-	-	-	-	220,335	0.0%	0.0%
	FY17	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
Belinda Nucifora ⁽²⁾	FY18	339,494	-	63,362	14,960	4,238	422,054	-	-	-	-	-	-	422,054	0.0%	0.0%
	FY17	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
Former Executive KMP																
Ken Fowlie ⁽³⁾	FY18	246,974	2,471	-	4,939	-	254,384	-	-	-	-	-	-	254,384	0.0%	0.0%
	FY17	536,160	5,348	-	10,723	-	552,231	-	6,952	6,952	-	-	-	559,183	1.2%	1.2%
Bryce Houghton ⁽⁴⁾	FY18	118,061	2,278	-	3,856	-	124,195	-	-	-	41,616	314,976	356,592	480,787	0.0%	0.0%
	FY17	602,180	11,086	-	40,769	13,053	667,088	97,500	894,430	991,930	-	-	-	1,659,018	59.8%	53.9%
Hayden Stephens ⁽⁵⁾	FY18	579,014	8,960	-	20,049	61,198	669,221	52,500	-	52,500	-	-	-	721,721	7.3%	0.0%
	FY17	461,479	14,865	-	19,616	30,449	526,409	-	6,952	6,952	-	-	-	533,361	1.3%	1.3%
Andrew Grech ⁽⁶⁾	FY18	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	FY17	548,307	-	286,462	31,721	-	866,490	-	(28,953)	(28,953)	280,192	382,896	663,088	1,500,625	(1.9%)	(1.9%)
Total	FY18	1,493,485	13,709	63,362	51,746	67,887	1,690,189	52,500	-	52,500	41,616	314,976	356,592	2,099,281	2.4%	0.0%
Total	FY17	2,148,126	31,299	286,462	102,829	43,502	2,612,218	97,500	879,381	976,881	280,192	382,896	663,088	4,252,187	23.0%	20.7%

⁽¹⁾ J Somerville commenced as Chief Executive Officer on 7 February 2018.

⁽²⁾ B Nucifora commenced as Chief Financial Officer on 2 October 2017.

⁽³⁾ K Fowlie was paid in Pound Sterling, which has been converted to AUD using an average exchange rate of AUD to GBP of : 1.6952

K Fowlie ceased to be part of the Company on 15 December 2017. The details above reflect the remuneration received up to 15 December 2017.

⁽⁴⁾ B Houghton ceased as Group Chief Financial Officer on 31 August 2017 and departed the Group on 15 November 2017. The End of Service benefit represents his termination payment which is paid to him upon cessation as Group Chief Financial Officer of the Company.

⁽⁵⁾ H Stephens transitioned from Chief Executive Officer Australia to Non-Executive Director on 7 February 2018. The details above reflect the full year income including his notice period.

⁽⁶⁾ A Grech ceased as Group Managing Director on 29 June 2017 and continued as Non-Executive Director of the company until 6 December 2017. A Grech's FY18 remuneration has been disclosed under Table 6.3 Non-Executive Director Total Remuneration Table.

Directors' Report

Audited Remuneration Report (continued)

7.2 Executive KMP Equity Plans

As described in Section 5.3, the FY15 LTI plan is the only equity plan in which Executive KMP continued to participate during FY18. The FY15 LTI has two testing dates to determine if any performance rights may vest, being 30 June 2017 for EPS, and 31 August 2017 of RTSR. Formal assessment of performance hurdles were assessed by the Board in September 2017. Neither performance hurdle was achieved and all Performance Rights were forfeited.

7.3 Vesting and Exercise of Performance Rights granted as Remuneration

During FY18, no performance rights or options were vested, exercised, or granted.

7.4 Shareholding of Executive KMP and NEDs

In accordance with the *Corporations Act* (section 205G(1)), the Company is required to notify the interests (shares and rights to shares) of directors to the ASX. In the interests of transparency and completeness of disclosure, this information is provided for each NED (as required under the *Corporations Act*) and all Executive KMP. Please refer section 3.3 for more information on prohibition on hedging and margin lending.

The table below indicates shareholdings of the KMP:

Executive KMP	Number held at 1 July 2017	Impact of share consolidation and issuance ⁽¹⁾	Acquisitions	Disposals	Number held at 30 June 2018
James MacKenzie	-	-	-	-	-
Merrick Howes	-	-	-	-	-
Nils Stoesser	-	-	-	-	-
Hayden Stephens	4,804,115	(4,212,563)	-	(579,026) ⁽²⁾	12,526
Elana Rubin	-	-	-	-	-
Jacqui Walters	-	-	-	-	-
John Somerville	-	-	-	-	-
Belinda Nucifora	-	-	-	-	-
Former Non-Executive Directors					
John Skippen	100,000	(99,000)	-	-	1,000
James Millar	20,000	(19,800)	-	(200)	-
Andrew Grech	7,000,656	(6,930,649)	-	(3,700)	66,307
Ken Fowlie	5,646,221	(5,589,758)	-	-	56,463
Tom Brown	-	-	-	-	-
Bryce Houghton	-	-	-	-	-
Total	17,570,992	(16,851,770)	-	(582,926)	136,296

(1) Refers to the impacts of the 1 for 100 share consolidation and the issuance of a further 66,050,874 shares as part of the Senior Lender Scheme of Arrangement completed on 22 December 2017.

(2) Represents 549,000 shares disposed on 11 September 2017 (pre-share consolidation) and 22,000 shares disposed on 8 March 2018, 8,026 shares disposed on 12 March 2018 (post share consolidation)

Directors' Report

Audited Remuneration Report (continued)

7.5 Movement in Executive KMP Holdings: Performance rights over ordinary shares

During the financial year, the movement in the number and value of performance rights over ordinary shares of Slater and Gordon Limited acquired under LTI, held by executive KMP is detailed below:

	Number held at 1 July 2017	Number offered in year	Offer Value	Number exercised in year	Intrinsic Value (\$)	Number forfeited during year	Number held at 30 June 2018	Intrinsic Value at 30 June 2018 (\$)
John Somerville	-	-	-	-	-	-	-	-
Belinda Nucifora	-	-	-	-	-	-	-	-
Former Executive KMP								
Andrew Grech	-	-	-	-	-	-	-	-
Ken Fowle	16,000	-	-	-	-	16,000	-	-
Hayden Stephens	16,000	-	-	-	-	16,000	-	-
Bryce Houghton	-	-	-	-	-	-	-	-
Total	32,000	-	-	-	-	32,000	-	-

End of Remuneration Report

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

As lead auditor for the audit of Slater and Gordon Limited and Controlled Entities for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Slater and Gordon Limited and Controlled Entities it controlled during the financial year.

Ernst & Young



Christopher George
Partner
Melbourne
29 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2018

	Note	2018 \$'000	Restated ⁽¹⁾ 2017 \$'000
Revenue			
Fee revenue		162,166	194,024
Net movement in work in progress		(2,916)	(12,551)
Revenue from contracts with customers	3.1	159,250	181,473
Other income		1,026	1,541
Total revenue and other income		160,276	183,014
Less expenses			
Salaries and employee benefit expense	3.2	97,048	116,953
Payments to former owners		-	3,875
Share based payment expense to former owners		1,364	4,440
Rental expense		10,331	16,760
Advertising, marketing and new business development expense		12,567	13,975
Administration and office expense		21,407	40,106
Consultant fees		7,103	17,669
Finance costs	3.2	16,371	19,378
Bad and doubtful debts		11,612	14,202
Depreciation and amortisation expense	3.2	3,710	5,488
Other expenses		8,001	15,478
Impairment of intangible assets	4.1	-	10,959
Loss from continuing operations before income tax expense		(29,238)	(96,269)
Income tax expense / (benefit)	3.4	2,678	(21,810)
Loss from continuing operations for the year after income tax		(31,916)	(74,459)
Discontinued Operations			
Pre-tax (loss) from discontinued operations	10.1	(61,059)	(454,880)
Income tax expense / (benefit) from discontinued operations	3.4, 10.1	(2,904)	17,492
Net gain from disposal of discontinued operations	10.1	187,591	-
Income tax (benefit) on disposal of discontinued operations	3.4, 10.1	(16,210)	-
Profit / (loss) from discontinued operations after income tax		145,646	(472,372)
Profit / (loss) for the year after income tax		113,730	(546,831)
Profit / (loss) for the year attributed to:			
Owners of the Company		113,726	(546,549)
Non-controlling interests		4	(282)
		113,730	(546,831)
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		(10,414)	(8,188)
Changes in fair value of cash flow hedges		(250)	1,721
Total items that may be reclassified subsequently to profit or loss		(10,664)	(6,467)
Total comprehensive income / (loss) for the year, net of tax		103,066	(553,298)
Total comprehensive income / (loss) for the year attributed to:			
Owners of the Company		103,067	(553,014)
Non-controlling interests		(1)	(284)
		103,066	(553,298)

(1) The prior year comparative has been restated in accordance with the requirements of the Australian Accounting Standards as a result of the discontinued operations.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2018

	Note	2018 \$'000	Restated ⁽¹⁾ 2017 \$'000
Total comprehensive income / (loss) for the year attributed to owners of the Company from:			
Continuing operations		(31,916)	(74,459)
Discontinued operations		134,983	(478,555)
		103,067	(553,014)
Earnings / (loss) per share from continuing operations:			
Basic (loss) per share	3.6	(0.843)	(21.168)
Diluted (loss) per share	3.6	(0.843)	(21.168)
Earnings / (loss) per share from discontinued operations			
Basic / (loss) earnings per share	3.6	3.847	(134.213)
Diluted earnings / (loss) per share	3.6	3.847	(134.213)

The accompanying notes form an integral part of these financial statements.

(1) The prior year comparative has been restated in accordance with the requirements of the Australian Accounting Standards as a result of the discontinued operations.

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents		18,778	33,303
Receivables	4.2	70,498	395,466
Work in progress	4.3	110,764	294,871
Current tax assets	3.4	-	3
Other current assets		7,871	21,144
Assets held for sale	10.8	133	-
Total current assets		208,044	744,787
Non-current assets			
Property, plant and equipment	4.4	9,372	26,555
Receivables	4.2	16,411	91,492
Work in progress	4.3	115,029	220,094
Intangible assets	4.1	797	13,112
Deferred tax assets	3.4	-	34,718
Other non-current assets		417	536
Total non-current assets		142,026	386,507
Total assets		350,070	1,131,294
Current liabilities			
Payables	4.5	52,091	418,619
Short term borrowings	5.2	11,798	466,240
Current tax liabilities	3.4	-	8,250
Other current liabilities		-	1,815
Provisions	4.6	21,757	54,532
Total current liabilities		85,646	949,456
Non-current liabilities			
Long term borrowings	5.2	143,321	314,702
Deferred tax liabilities	3.4	49,531	93,361
Derivative financial instruments		-	1,419
Provisions	4.6	8,277	21,172
Total non-current liabilities		201,129	430,654
Total liabilities		286,775	1,380,110
Net assets / (liabilities)		63,295	(248,816)
Equity			
Contributed equity	5.5	1,348,581	1,119,235
Reserves		12,885	44,023
Accumulated losses		(1,298,171)	(1,411,897)
Total equity attributable to equity holders in the Company		63,295	(248,639)
Non-controlling interest		-	(177)
Total equity		63,295	(248,816)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For the Year Ended 30 June 2018

2018	Note	Contributed Equity	Accumulated Losses	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2017		1,119,235	(1,411,897)	(598)	27,513	17,108	(248,639)	(177)	(248,816)
Net profit after tax for the year		-	113,726	-	-	-	113,726	4	113,730
Total other comprehensive loss for the year		-	-	(250)	(10,409)	-	(10,659)	(5)	(10,664)
Total comprehensive loss for the year		-	113,726	(250)	(10,409)	-	103,067	(1)	103,066
Transactions with owners in their capacity as owners									
Issuance of shares under Senior Lender Scheme	5.5	221,270	-	-	-	-	221,270	-	221,270
Reclassification to profit or loss on extinguishment of debt		-	-	848	-	-	848	-	848
Reclassification to profit or loss on disposal of discontinued operations		-	-	-	(17,104)	-	(17,104)	178	(16,926)
Transfer from share based payments reserve	5.5	8,076	-	-	-	(8,076)	-	-	-
Performance rights		-	-	-	-	8	8	-	8
Recognition of share based payments expense to former owners		-	-	-	-	3,845	3,845	-	3,845
Total transactions with owners in their capacity as owners		229,346	-	848	(17,104)	(4,223)	208,867	178	209,045
Balance as at 30 June 2018		1,348,581	(1,298,171)	-	-	12,885	63,295	-	63,295
2017	Note	Contributed Equity	Accumulated Losses	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2016		1,116,048	(865,348)	(2,319)	35,699	20,910	304,990	107	305,097
Net loss after tax for the year		-	(546,549)	-	-	-	(546,549)	(282)	(546,831)
Total other comprehensive loss for the year		-	-	1,721	(8,186)	-	(6,465)	(2)	(6,467)
Total comprehensive loss for the year		-	(546,549)	1,721	(8,186)	-	(553,014)	(284)	(553,298)
Transactions with owners in their capacity as owners									
Ordinary and VCR shares issued / (bought back)	5.5	(9,232)	-	-	-	-	(9,232)	-	(9,232)
Cancellation of VCR shares		525	-	-	-	-	525	-	525
Transfer from share based payments reserve	5.5	11,907	-	-	-	(11,907)	-	-	-
Recognition of share based payments expense to former owners		-	-	-	-	7,170	7,170	-	7,170
Costs of share registry	5.5	(13)	-	-	-	-	(13)	-	(13)
Performance rights		-	-	-	-	935	935	-	935
Total transactions with owners in their capacity as owners		3,187	-	-	-	(3,802)	(615)	-	(615)
Balance as at 30 June 2017		1,119,235	(1,411,897)	(598)	27,513	17,108	(248,639)	(177)	(248,816)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2018

	Note	2018 \$'000	Restated ⁽¹⁾ 2017 \$'000
Cash flow from operating activities			
Receipts from customers		212,883	196,004
Payments to suppliers and employees		(209,950)	(213,186)
Payments to former owners		(5,250)	(9,000)
Interest received		-	221
Borrowing costs		(2,483)	(3,885)
Net income tax (paid) / refunded		(3,180)	7,626
Net cash (used in) operating activities of continuing operations		(7,980)	(22,220)
Net cash (used in) operating activities of discontinued operations		(40,262)	(16,868)
Total net cash (used in) operating activities	3.3	(48,242)	(39,088)
Cash flow from investing activities			
Payment for software development		(820)	(1,232)
Payment for plant and equipment		(2,989)	(1,814)
Deposits for bank guarantees		(3,933)	-
Costs associated with acquisition of businesses		-	(2)
Cash balance transferred on disposal of business		(18,439)	-
Payment for acquisition of businesses – deferred consideration		(425)	(2,073)
Net cash flow (used in) investing activities of continuing operations		(26,606)	(5,121)
Net cash (used in) investing activities of discontinued operations		(7,137)	(6,648)
Total net cash (used in) investing activities		(33,743)	(11,769)
Cash flow from financing activities			
Costs of share registry management		-	(13)
Loans repaid / (advanced) to related parties and employees		410	(504)
Proceeds from borrowings		62,854	15,002
Repayment of borrowings		(5,091)	(3,555)
Net cash provided by financing activities of continuing operations		58,173	10,930
Net cash provided by / (used in) financing activities of discontinued operations		8,475	(5,280)
Total net cash provided by financing activities		66,648	5,650
Net decrease in cash held		(15,337)	(45,207)
Net increase / (decrease) in foreign exchange differences		812	(3,984)
Cash at the beginning of the financial year		33,303	82,494
Cash at the end of the financial year		18,778	33,303

The accompanying notes form an integral part of these financial statements.

(1) The prior year comparative has been restated in accordance with the requirements of the Australian Accounting Standards as a result of the discontinued operations.

Notes to the Financial Statements

For the Year Ended 30 June 2018

Note 1: Basis of Preparation

This note sets out the accounting policies adopted by Slater and Gordon Limited (the “Company” or “Parent”) and its consolidated entities (the “Consolidated Entity” or the “Group”) in the preparation and presentation of the financial report. Where an accounting policy is specific to one note, the policy is described within the note to which it relates.

The financial report was authorised for issue by the directors as at the date of the Directors’ Report.

Slater and Gordon Limited is a Company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

1.1. Basis of Accounting

This financial report is a general purpose financial report, for a ‘for-profit’ entity, which has been prepared in accordance with Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements of Slater and Gordon Limited also comply with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The financial report has been prepared under the historical cost convention, except where noted.

The consolidated financial statements provide comparative information in respect of the previous period.

Where necessary, comparative figures have been reclassified and repositioned for consistency with current year disclosures.

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 and accordingly, amounts in the consolidated financial statements and Directors’ Report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Going Concern

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

The Recapitalisation of the Group was deemed effective from 15 December 2017 and implemented on 22 December 2017 after passing the requisite Shareholders’ approval at the AGM on 6 December 2017.

Following implementation of the Recapitalisation, the Directors have determined that there is no longer a material uncertainty that exists in relation to the Group’s ability to continue as a going concern due to the debt facilities having been restated to a sustainable level, additional liquidity being provided via extended working capital facilities and ownership of the UK being separated and transferred.

The Group permanently reduced its outstanding secured debt under the Recapitalisation (refer Note 5). As at 30 June 2018, the Group’s total borrowings (excluding lease liabilities) were \$155,118,000. Of this, \$11,798,000 is presented as current liabilities, being due for repayment in the next 12 months. The remaining \$143,321,000 of debt is non-current. Furthermore, as at 30 June 2018, the Group has a positive net current asset balance of \$122,398,000 and a positive overall net asset balance of \$63,295,000. Based on internal cash flow forecasts to 31 August 2019, the Group expects to remain in compliance with financial covenants under the New Super Senior Facility and has sufficient funds available to meet its obligations.

Consequently, the Directors have concluded that there are reasonable grounds to believe that the Group will continue to be able to pay its debts as and when they become due and payable, and the preparation of the 30 June 2018 financial report on a going concern basis is appropriate.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the parent entity and of all entities which the parent entity controls. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses, have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

Non-controlling interests in the results of subsidiaries are shown separately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position.

Any changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

Notes to the Financial Statements

For the Year Ended 30 June 2018

1.2. Adoption of New Accounting Standards

The Company adopted all the new mandatory standards and interpretations for the current reporting period. This included application of amendments in AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*, which require disclosure of changes in liabilities arising from financing activities, see Note 5.2.2. Except for the above amendment, the adoption of these standards and interpretations did not result in a material change to the reported results and position or disclosures of the Group as they did not result in any changes to the Group's existing accounting policies.

1.3. Significant Accounting Judgements, Estimates and Assumptions

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are outlined in detail within the specific note to which they relate.

1.4. Foreign Currency Translations and Balances

Functional and Presentation Currency

The consolidated financial statements are presented in Australian dollars which is also the functional currency of the parent entity and all Australian subsidiaries. The financial statements of each entity within the consolidated entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency).

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated group are translated into the respective functional currency of each entity at the rate of exchange ruling at the date of the transaction. The assets, liabilities and results of foreign operations where their functional currency is different to the presentation currency are translated as disclosed below.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or re-statement of monetary items are recognised as income and expenses in profit or loss for the financial year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions and are not remeasured unless they are carried at fair value.

Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into the presentation currency of the Group at the closing rate on the reporting date. Income and expenses are translated at average exchange rates for the period, unless the exchange rate fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. All resulting exchange differences are recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Note 2: Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Following the restructure of the Group completed during the period, the Group has one reportable segment, which provides legal services in Australia. Information provided to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance is consistent with amounts presented in the Consolidated Financial Statements. The Group has not restated the corresponding items of segment information for earlier periods. The Group's revenues and non-current assets are wholly based in Australia. The Group is not reliant on any single customer.

As the Group continues to implement its transformation strategy, it will re-evaluate the information provided to the chief operating decision maker, which may change the Group's operating segments going forward.

Notes to the Financial Statements

For the Year Ended 30 June 2018

Note 3: Financial Performance

3.1. Revenue from Contracts with Customers

3.1.1. Accounting Policies

Provision of Legal Services – Personal Injury Law Claims

The Group early adopted AASB 15 *Revenue from Contracts with Customers* during the year ended 30 June 2016. The personal injury law practice operates on the basis of No Win – No Fee conditional fee arrangements, whereby fees are earned only in the event of a successful outcome of a customer's claim. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements (primarily in the UK), fees are fixed as a specified percentage of damages awarded under a claim.

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

The uncertainty around the fees receivable under a contract is generally only resolved when a matter is concluded. In recognising revenue in the personal injury practice, where the Group has sufficient historical experience in similar contracts in order to be able to estimate the expected outcome of a group of existing contracts reliably, revenue from the fees from contracts is estimated using the expected value method base. The estimated amount of variable consideration is based on the expected fee for the nature of the legal service with reference to historical fee levels and relative rates of successful and unsuccessful outcomes. To determine the probability of success of a case, a level of judgement is required to be applied based on past experience and historical performance of similar matters.

Expected fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded.

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

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

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

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

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

The Company arranges for the disbursement activities on behalf of the client; however it does not control the output from those activities. The Company cannot influence the content of the medical reports or court filings, therefore no profit margin is recognised on the activities and the clients are charged the direct cost incurred by the Company. As such, the Company acts as an agent for disbursements, which are only recognised when it is assessed that a reimbursement will be received from the client or on his or her behalf. The disbursements are treated as a separate asset. The amount recognised for the expected reimbursement does not exceed the relevant costs incurred.

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

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.1.1 Accounting Policies (continued)

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

Provision of Legal Services – Litigation and Emerging Services

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

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

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

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

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

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

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

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

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

Provision of Other Services – Slater Gordon Solutions (Discontinued Operations)

Legal Services

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

The legal services practice operates on the basis of No Win – No Fee conditional fee arrangements and applies the same accounting policies as personal injury claims described above. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements, fees are fixed as a specified percentage of damages awarded under a claim.

Vehicle Hire and Repair

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.1.1 Accounting Policies (continued)

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

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

For car hire and repair services provided for not at fault clients, the Group acts as a principal. Although the services are provided by third party suppliers, the Group has the primary responsibility to ensure that the services have been delivered to the clients. The Group cannot vary the prices set by the supplier, as it is governed by an industry framework and the Group collects the revenue from the customer and bears all credit risk.

Revenue resulting from car hire and repair services within SGS Motor Services is recognised on a gross basis.

Medical Reports and Rehabilitation Services

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

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

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

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

Contract Costs

Applying the practical expedient in paragraph 94 of AASB 15 *Revenue from Contracts with Customers*, the Group recognises the incremental costs of obtaining contracts as an expense when incurred.

Critical Accounting Estimate and Judgements

(i). Identifying the Performance Obligation

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

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

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

(ii). Estimating the Transaction Price: Variable Consideration – No Win – No Fee Arrangements

The Group provides various services on the basis of No Win – No Fee conditional fee arrangements. The uncertainty around the fees ultimately receivable under these types of contracts is generally only fully resolved when a matter is concluded.

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

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.1.1 Accounting Policies (continued)

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

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

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

(iii). Measuring the Stage of Completion

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

3.1.2. Disaggregation of Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time, in the major product lines of Personal Injury Law and Litigation and Emerging Services and the geographical regions of Australia:

	Personal Injury Law	Litigation and Emerging Services	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2018			
Type of contract:			
Fixed price	-	664	664
Time and Materials	-	8,327	8,327
No Win – No Fee	150,831	(572)	150,259
Revenue from contracts with customers	150,831	8,419	159,250
Year ended 30 June 2017 Restated			
Type of contract:			
Fixed price	-	433	433
Time and Materials	-	17,066	17,066
No Win – No Fee	147,832	16,142	163,974
Revenue from contracts with customers	147,832	33,641	181,473

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.2. Expenses

3.2.1. Accounting Policies

Interest

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Depreciation

The depreciable amounts of all property, plant and equipment, excluding land, are depreciated over their estimated useful lives, commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates used for each class of assets are:

Class of Fixed Asset	Depreciation Rates	Depreciation Method
Plant and equipment	5.00 – 66.67%	Straight Line and Diminishing Value
Low value asset pool	18.75 – 37.50%	Diminishing Value

Amortisation

Amortisation is calculated using a straight-line method to allocate the cost of intangible assets over their estimated useful lives. Amortisation commences when the intangible asset is available for use.

Software development costs have been assessed as having a finite useful life and once operating in the Group are amortised over the useful life of 3 years. Trademarks, prior to their full impairment during the prior year, that have been assessed as having a finite useful life were amortised over the useful life of 3 years.

Share Based Payments

The accounting policy for share based payments is included in Note 5.6.

3.2.2. Expense Analysis by Nature

	2018	Restated ⁽¹⁾ 2017
	\$'000	\$'000
Finance costs expense		
Interest and fees on bank overdraft and loans (includes costs of borrowing)	15,941	18,878
Interest on deferred consideration payable to vendor on acquisitions	5	96
Interest on onerous leases	109	-
Interest on obligations under hire purchases	316	404
	16,371	19,378
Salaries and employee benefit expense		
Wages and salaries	87,410	107,306
Post-employment benefits	7,044	8,551
Redundancy costs	2,636	-
Share based payments expense	(42)	1,096
	97,048	116,953
Depreciation and Amortisation		
Property, plant & equipment	3,687	3,720
Software development	23	1,567
Trademarks	-	201
	3,710	5,488

(1) The prior year comparative has been restated in accordance with the requirements of the Australian Accounting Standards as a result of the discontinued operations.

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.3. Cash Flow Information

	2018 \$'000	2017 \$'000
Reconciliation of profit for the period to cash flows from operating activities		
Profit / (loss) after income tax	113,730	(546,831)
Non-cash flows in profit from ordinary activities		
Notional interest on VCR share loans	-	(859)
Depreciation and amortisation	6,386	11,228
Impairment of intangibles	-	361,265
Share based payment expenses	2,182	7,720
Accrual for payments to former owners	-	4,453
Notional interest on deferred consideration	-	96
Bad and doubtful debts	11,612	47,885
Non-cash net gain on disposal of discontinued operations	(197,093)	-
Deferred costs of borrowing	-	12,313
Notional FX (gain) / loss	(1,402)	(1,354)
Interest Rate Swap Expense	-	566
Interest Expense Capitalised	29,958	31,404
Other non-cash items	-	(3,106)
Items shown in investing activities		
Costs associated with the Scheme	5,515	-
Costs associated with acquisition	-	3
Proceeds from disposal of businesses	-	(3)
Changes in assets and liabilities		
Decrease / (increase) in receivables	32,717	(2,234)
Decrease / (increase) in other assets	5,182	3,511
Decrease in work in progress	20,001	52,323
(Decrease) in payables	(30,033)	(33,944)
Decrease / (increase) in income tax payable	(2,108)	15,435
(Decrease) / increase in net deferred tax	(17,285)	(1,183)
(Decrease) in derivatives	(1,677)	-
(Decrease) in other liabilities	(1,840)	-
(Decrease) in vendor liabilities	-	(189)
Increase / (decrease) in provisions	(24,087)	2,413
Cash flows used in operating activities	(48,242)	(39,088)

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.4. Income and Other Taxes

3.4.1. Accounting Policies

Income and other taxes consist of income tax, Goods and Services Tax and Value Added Tax.

Current income tax expense or benefit for the current and prior periods is measured at the amount expected to be recovered from or paid to the tax authorities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, and at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax for the year are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Critical Accounting Estimates and Judgements

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation both in Australia and the UK and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised only if management considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Goods and Services Tax ("GST") and Value Added Tax ("VAT")

Revenue, expenses and assets are recognised net of the amount of GST/VAT, except where the GST/VAT incurred is not recoverable from the Australian Taxation Office ("ATO"), UK Her Majesty's Revenue and Customs ("HMRC") or Malta Inland Revenue ("MIR") and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of GST/VAT.

The net amount of GST/VAT recoverable from, or payable to, the ATO/HMRC/MIR is included as part of receivables or payables in the consolidated statement of financial position.

3.4.2. Income Tax Expense

The major components of income tax expense are:

Consolidated statement of profit or loss and other comprehensive income – profit or loss	2018 \$'000	2017 \$'000
Current income tax (benefit) / expense	1,226	3,636
Adjustment for current tax (benefit) / expense relating to prior periods	(402)	364
Deferred income tax (benefit) / expense relating to the origination and reversal of temporary differences	(17,260)	(8,318)
Income tax (benefit)	(16,436)	(4,318)
Consolidated statement of profit or loss and other comprehensive income – OCI		
Deferred tax credit arising on revaluation of cash flow hedges	-	266
Deferred tax credit arising on foreign exchange gain on revaluation of loans	-	105
	-	371
Income tax recognised directly in equity		
Current tax credit on share issue costs	-	-
	-	-

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.4.2. Income Tax Expense (continued)

	2018 \$'000	2017 \$'000
Deferred income tax (benefit) /expense included in income tax expense:		
(Increase)/decrease in deferred tax assets	(5,831)	(15,483)
Deferred income tax credit relating to items charged to OCI	-	(371)
(Decrease) in deferred tax liabilities	(10,526)	(9,836)
Change in tax rates	-	(945)
Deferred tax (benefit) / expense from prior periods	(903)	882
Derecognition of deferred tax asset on tax losses	-	25,362
(Derecognition) of deferred tax liability on impairment of brand names	-	(7,927)
	(17,260)	(8,318)

The prima facie tax payable on profit before tax differs from the income tax expense as follows:

Accounting (loss) before tax of continuing operations	(29,238)	(96,269)
Profit/(loss) before tax of discontinued operations	126,532	(454,880)
Total accounting profit / (loss) before tax	97,294	(551,149)
At the Australian statutory income tax rate of 30% (2017: 30%)	29,188	(165,344)
Non-deductible expenses	148,126	74,929
Non-assessable income	(136,147)	(872)
Adjustments in respect to prior periods	(1,305)	1,246
Difference in overseas tax rate	(66,655)	45,508
Utilisation of tax losses and reversal of short term timing differences on which no deferred tax asset was previously recognised	(305)	2,833
Deferred tax charged at lower rate	-	1,156
Change in tax rates on deferred tax balances	-	(945)
Write off of deferred tax liability on impairment of brand names	-	(7,927)
Deferred tax assets not recognised	17,503	45,098
Tax benefit on scheme transaction	(7,428)	-
Group relief (claimed)/surrendered	587	-
Income tax (benefit)	(16,436)	(4,318)

3.4.3. Recognised Tax Assets and Liabilities

	2018 \$'000	2017 \$'000
Current tax assets		
Balance at the beginning of the year	3	16,803
Tax refunded	-	(16,138)
Adjustments in respect to prior periods	-	(2)
Disposal of UK operations	(3)	-
Exchange differences	-	(660)
Balance at the end of the year	-	3

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.4.3. Recognised Tax Assets and Liabilities (continued)

	2018 \$'000	2017 \$'000
Current tax liability		
Balance at the beginning of the year	(8,250)	(9,301)
Current income tax benefit/(expense)	-	(3,636)
Tax paid	-	5,051
Adjustments in respect of prior periods	-	(364)
Disposal of UK operations	8,250	-
Balance at the end of the year	-	(8,250)

	2018 \$'000	2017 \$'000
Deferred tax assets		
Provision for impairment	5,747	5,532
Employee benefits	5,360	6,828
Provision for legal costs	1,276	896
Accruals	4,176	9,818
Non-deducted business related costs	3,508	487
Fair value of cash flow hedges	-	256
Unrendered WIP and disbursements not yet deducted	7,428	-
Other	2,812	1,282
Property, plant and equipment	2,459	2,630
Revenue losses carried forward	-	696
Advanced Company Income Tax ("ACIT") refund in Malta	-	6,293
Total	32,766	34,718
Transfer deferred tax assets balance to deferred tax liabilities	(32,766)	-
Balance at the end of the year	-	34,718

Deferred tax liabilities		
Prepayments	(371)	(971)
Work in progress	(67,778)	(72,227)
Unrendered disbursements	(13,458)	(13,689)
Intangibles/Goodwill	(755)	-
Foreign currency translation reserve	-	(6,529)
Other	65	55
Total	(82,297)	(93,361)
Transfer of deferred tax assets balance	32,766	-
Net deferred tax liability balance at the end of the year	(49,531)	(93,361)

3.4.4. Unrecognised Deferred Tax Assets

At 30 June 2018 the Group has unrecognised deferred tax assets of \$104.9m (2017: \$160.8m) relating to unrecognised tax losses.

3.5. Dividends

No interim or final dividend was paid, declared or proposed for the years ended 30 June 2018 or 30 June 2017.

	2018 \$'000	2017 \$'000
Franking credits available		
Franking credits at year end are adjusted for credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends:	-	-

Notes to the Financial Statements

For the Year Ended 30 June 2018

3.6. Earnings / (loss) per Share

The following reflects the loss and share data used in the calculations of basic and diluted loss per share:

	2018 \$'000	2017 \$'000
(Loss) used in calculating basic and diluted earnings / (loss) per share from continuing operations	(31,916)	(74,459)
Gain / (loss) used in calculating basic and diluted earnings / (loss) per share from discontinued operations	145,642	(472,090)
Weighted average number of ordinary shares used in calculating basic earnings / (loss) per share ('000's)	37,859	3,517
Adjusted weighted average number of ordinary shares used in calculating diluted earnings / (loss) per share ('000's)	37,859	3,517

On 8 December 2017, the Company undertook a share consolidation of 1 ordinary share for every 100 on issue (refer Note 5.5). The number of shares used in calculating basic and diluted earnings / (loss) per share has been adjusted retrospectively for the periods presented.

Note 4: Assets and Liabilities

This section shows the assets used to generate the Group's revenue and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are disclosed in Note 5. Deferred tax assets and liabilities are disclosed in Note 3.4.

On the following pages there are notes covering intangible assets, working capital, work in progress, other non-current assets, payables and provisions.

4.1. Intangible Assets

4.1.1. Accounting Policies

Goodwill

Goodwill was initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed.

Goodwill was not amortised, but was tested annually for impairment or more frequently if events or changes in circumstances indicated that it might be impaired. Prior to being fully impaired in the prior year, goodwill was carried at cost less any accumulated impairment losses.

Software Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the entity is able to use or sell the asset; the entity has sufficient resources and intent to complete the development and its costs can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Notes to the Financial Statements

For the Year Ended 30 June 2018

4.1.1 Accounting Policies (continued)

Trademarks and Brand Names

Trademarks acquired in a business combination and recognised separately from goodwill were initially recognised at their fair value at the acquisition date (which is regarded as their cost). The fair value of trademarks was based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned.

Prior to their full impairment in the prior year, trademarks were carried at cost less accumulated amortisation and any accumulated impairment losses.

	Goodwill \$'000	Software Development \$'000	Trademarks & Brand Names \$'000	Assets in Course of Construction \$'000	Total \$'000
Gross Cost	1,119,599	41,605	53,452	-	1,214,656
Accumulated amortisation	-	(23,427)	(12,199)	-	(35,626)
Accumulated impairment loss	(1,119,599)	(5,066)	(41,253)	-	(1,165,918)
At 30 June 2017	-	13,112	-	-	13,112
Gross Cost	-	13,160	-	542	13,702
Accumulated amortisation	-	(7,839)	-	-	(7,839)
Accumulated impairment loss	-	(5,066)	-	-	(5,066)
At 30 June 2018	-	255	-	542	797

Movement in carrying amounts

Balance at 1 July 2016	332,868	17,409	43,693	-	393,970
Additions	-	5,959	-	-	5,959
Reclassifications from property, plant and equipment	-	(52)	-	-	(52)
Exchange differences	(17,922)	(790)	(2,313)	-	(21,025)
Amortisation expense	-	(4,068)	(127)	-	(4,195)
Impairment expense	(314,946)	(5,066)	(41,253)	-	(361,265)
Disposals	-	(280)	-	-	(280)
Balance at 30 June 2017	-	13,112	-	-	13,112

Disposal of UK operations	-	(12,186)	-	-	(12,186)
Additions	-	278	-	542	820
Reclassifications from property, plant and equipment	-	-	-	-	-
Exchange differences	-	382	-	-	382
Amortisation expense	-	(1,331)	-	-	(1,331)
Impairment expense	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at 30 June 2018	-	255	-	542	797

4.1.2. Impairment Testing of Goodwill and Indefinite Life Intangible Assets

For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable, largely independent cash inflows (cash generating units "CGU's"). All goodwill and indefinite life intangible assets were fully impaired in the prior year.

Impairment testing is completed at least annually for goodwill, intangible assets not yet ready for use and indefinite life intangible assets or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Notes to the Financial Statements

For the Year Ended 30 June 2018

4.1.2 Impairment Testing of Goodwill and Indefinite Life Intangible Assets (continued)

An impairment loss is recognised where the carrying amount of the asset or CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its fair value less costs of disposal and value-in-use.

Critical Accounting Estimates and Judgements

Determining whether goodwill is impaired requires an estimation of the value-in-use of the CGU's to which goodwill has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the CGU and a post-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

4.1.3. Impairment Losses Recognised

As at 30 June 2018, the Group did not recognise an impairment expense (2017: \$10,959,000).

4.2. Receivables

4.2.1. Accounting Policies

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Collectability of trade debtors is reviewed at each reporting period. Management considers whether further impairment of debtors is required based on the ageing profile and use calculated historical rates of recovery to determine the required impairment. Debts that are known to be uncollectible are written off when identified.

Disbursements are only recognised when it is assessed that a reimbursement will be received from the client or on his or her behalf. The disbursements are treated as a separate asset. The amount recognised for the expected reimbursement does not exceed the relevant costs incurred. The amount of any expected reimbursement is reduced by an allowance for non-recovery based on past experience.

	2018 \$'000	2017 \$'000
Current		
Trade receivables	49,078	226,412
Impairment of trade receivables	(9,749)	(69,437)
	39,329	156,975
Disbursements	31,473	301,291
Allowance for non-recovery	(3,025)	(65,694)
	28,448	235,597
Other receivables	2,721	2,894
	70,498	395,466
Non-current		
Disbursements	28,510	119,847
Allowance for non-recovery	(12,099)	(28,355)
	16,411	91,492
Impairment of receivables		
Balance at beginning of the year	(69,437)	(92,824)
Receivables written off as uncollectible	9,125	29,647
Provision for impairment recognised	(9,053)	(7,114)
Release of provisions	-	4,853
Movement in provision for discount	-	(9,126)
Disposal of UK operations	59,616	-
Foreign exchange translation differences	-	5,127
Balance at end of the year	(9,749)	(69,437)

Notes to the Financial Statements

For the Year Ended 30 June 2018

4.2.1. Accounting Policies (continued)

As at 30 June, the ageing analysis of trade receivables is as follows:

	Total	Past due but not impaired				
		<30 days	30-60 days	61-90 days	91-180 days	>180 days
2018	39,329	20,513	5,697	2,506	2,874	7,739
2017 ⁽¹⁾	61,796	42,840	4,910	2,712	5,036	6,298

(1) 30 June 2017 was restated to only include Australia portion of the ageing of trade receivables past due but not impaired. Due to the divestment of the UK operations as part of the Recapitalisation, prior year comparatives have been amended to provide for better comparability.

See Note 5.4.4 regarding credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables.

4.3. Work in Progress

4.3.1. Accounting Policies

Work in progress represents client cases which have not yet reached a conclusion and comprises personal injury cases, services performed ancillary to personal injury cases, non-personal injury cases and project litigation cases. Refer to Note 3.1 for further details.

Contracts for legal services are billed based on time incurred. As permitted under AASB 15 *Revenue from Contracts with Customers*, the transaction price allocated to the unsatisfied or partially unsatisfied performance obligations under these contracts has not been disclosed.

The Group allocates work in progress between current and non-current classifications based on a historical analysis of the Group's work in progress balances and velocity rates to determine expected timing of settlements.

	2018 \$'000	2017 \$'000
Current		
Personal injury	98,104	268,424
Litigation and emerging services	12,660	26,447
	110,764	294,871
Non-current		
Personal injury	114,760	219,855
Litigation and emerging services	269	239
	115,029	220,094

Notes to the Financial Statements

For the Year Ended 30 June 2018

4.4. Property, Plant and Equipment

4.4.1. Accounting Policies

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

An asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period. Any depreciation and impairment losses of an asset are recognised in profit or loss.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss when the asset is derecognised.

	Plant & Equipment \$'000	Land & Buildings \$'000	Low Value Asset Pool \$'000	Total \$'000
Gross Cost	77,624	249	2,995	80,868
Less accumulated depreciation	(51,903)	-	(2,410)	(54,313)
At 30 June 2017	25,721	249	585	26,555
Gross Cost	31,462	-	2,763	34,225
Less accumulated depreciation	(22,731)	-	(2,122)	(24,853)
At 30 June 2018	8,731	-	641	9,372

Movement in carrying amounts

Balance at 1 July 2016	32,172	265	770	33,207
Additions	1,858	-	139	1,997
Exchange differences	(920)	(16)	-	(936)
Depreciation expense	(6,730)	-	(303)	(7,033)
Disposals	(659)	-	(21)	(680)
Balance at 30 June 2017	25,721	249	585	26,555
Additions	3,985	-	365	4,350
Exchange differences	515	8	-	523
Depreciation expense	(5,208)	-	(248)	(5,456)
Disposals	(431)	-	(61)	(492)
Disposal of UK Operations	(15,851)	(257)	-	(16,108)
Balance at 30 June 2018	8,731	-	641	9,372

The carrying amount of plant and equipment under finance lease included above amounted to \$1,000 (30 June 2017: \$4,533,000).

Notes to the Financial Statements

For the Year Ended 30 June 2018

4.5. Payables

4.5.1. Accounting Policies

Trade creditors and accruals are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Legal creditors are carried at amortised cost and represent liabilities in relation to disbursements where there is an agreement with the vendor that payment will not be made by the Group, until the Group has received payment from any settlement proceeds on the matter.

Vendor liabilities are carried at net present value and refer to deferred consideration payable to vendors in relation to previous acquisitions.

	2018 \$'000	2017 \$'000
Current		
<i>Unsecured liabilities</i>		
Trade creditors and accruals	22,422	150,026
Legal creditors	29,541	268,009
Vendor liabilities – acquisitions	128	584
	52,091	418,619

4.6. Provisions

4.6.1. Accounting Policies

Non-employee provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result in an amount that can be reliably measured.

Solicitor Liability Claims – Critical Accounting Estimates and Judgements

A provision for solicitor liability claims is made for the potential future cost of claims brought against the Group by former clients. The provision relates to open claims and potential future claims as identified at the end of the reporting period. The provision is determined based on historical data, taking into account the nature of the existing claim, includes the estimated maximum amount payable by the Group under its Professional Indemnity Insurance Policy on all claims notified to its insurer.

Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at the amounts based on remuneration rates which are expected to be paid when the liability is settled. Liabilities arising later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. These estimated future cash flows have been discounted using market yields, at the reporting date, on high quality corporate bonds with matching terms to maturity.

A bonus provision is recognised when it is payable in accordance with the employee's contract of employment and the amount can be reliably measured.

A provision for termination benefits is recognised when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.

Employee benefit obligations are presented as current liabilities if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Onerous Contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs are the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract. The economic benefits expected to be received include direct and indirect benefits under the contract and contractual and non-contractual benefits.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. For leased premises, the provision also includes any costs associated with remediating the premises to the condition agreed in the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract if applicable.

Notes to the Financial Statements

For the Year Ended 30 June 2018

4.6.1. Accounting Policies (continued)

Third Party disbursements

The Group has an agreement with a third party disbursement funder, who funds disbursements in respect of individual matters and is reimbursed out of any settlement proceeds on the matter. The Group has provided a financial guarantee to the funder for the repayment of clients' obligations. The provision for third party disbursements reflects the value of clients' obligations that are not expected to be recovered by the disbursement funder.

4.6.2. Provisions

	2018 \$'000	2017 \$'000
Current		
Employee benefits	15,322	19,176
Solicitor liability claims	3,291	12,479
Provision for third party disbursements	473	880
Provision for onerous contracts	2,671	5,294
Provision for payments to former owners	-	5,550
Other provisions	-	11,153
	21,757	54,532
Non-current		
Employee benefits	2,498	3,429
Provision for onerous contracts	2,929	3,286
Solicitor liability claims	960	-
Provision for dilapidations	-	7,475
Other provisions	1,890	6,982
	8,277	21,172

4.7. Fair Value Measurements

4.7.1. Accounting Policies

Critical Accounting Estimates and Judgements

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

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy, as the lowest level input that is significant to the entire measurement. The fair value of financial assets and financial liabilities not measured at fair value approximates their carrying amounts as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Notes to the Financial Statements

For the Year Ended 30 June 2018

4.7.2. Fair Value Hierarchy

30 June 2018	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	\$'000	\$'000	\$'000	\$'000
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	-	-	-
Contingent consideration *	-	-	-	-
	-	-	-	-

30 June 2017	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	\$'000	\$'000	\$'000	\$'000
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	1,419	-	1,419
Contingent consideration *	-	-	455	455
	-	1,419	455	1,874

* Part of Vendor Liabilities which are included in Payables in the Statement of Financial Position

4.7.3. Valuation Techniques and Inputs used in Level 2 and 3 Fair Value Measurements

The fair value of the interest rate swaps is measured with reference to market data which can be used to estimate future cash flows. The key input into this valuation is the interest rate swap revaluation statement as provided by Westpac Banking Corporation and National Australia Bank. As at 30 June 2018, all interest rate swaps have been extinguished.

The fair value of contingent consideration payable in prior business combinations was measured with reference to current fee and performance forecasts which were used to estimate future cash flows. The key inputs into this valuation were the estimated future cash flows and the average discount rate of 9% was used to determine the present value of the future cash flows. As at 30 June 2018, there was no contingent consideration for prior business combinations.

Note 5: Capital Structure and Financing

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

5.1. Cash and Cash Equivalents

5.1.1. Accounting Policies

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and short-term deposits with an original maturity of three months or less. For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding banking overdrafts.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST/VAT component of investing and financing activities, which are disclosed as operating cash flows.

5.2. Financing Arrangements

5.2.1. Accounting Policies

Borrowing Costs

Borrowing costs can include interest expense, finance charges in respect of finance leases, amortisation of discounts or premiums, ancillary costs relating to borrowings, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed in the period which they are incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.2.2. Financing Arrangements

Separation of UK operations

On 6 December 2017, the Company's shareholders approved a Recapitalisation of the Group with the implementation of a creditor's Scheme of Arrangement ("the Senior Lender Scheme"). The Senior Lender Scheme was effective from 15 December 2017 and implemented on 22 December 2017. The effect of the implementation of the Senior Lender Scheme on the financial performance and position of the Group is disclosed in Note 10.

The key outcomes of the Senior Lender Scheme were as follows:

Separation of UK operations

Under the Senior Lender Scheme, effective from 15 December 2017, all UK operations and UK subsidiaries were separated from the Group and transferred to a new UK holding company ("Slater and Gordon UK Holdings Limited"). Slater and Gordon UK Holdings Limited is wholly owned by the Senior Lenders. Subsequently, the Group has ceased to have any equity interest in the UK operations or UK subsidiaries.

As consideration for the transfer of the UK operations, the Australian Group received:

- a) A promissory note of \$40.0m, which was applied to reduce outstanding debt under the Australian Restated Syndicated Facility Agreement (no cash directly transferred) (see below for more information).
- b) A right to receive the first \$40.0m of net proceeds from Watchstone-related claims in the UK (refer Watchstone Receivable below for further information). This amount represents a contingent asset as the realisation of income from the underlying Watchstone-related claims is not virtually certain (refer Note 7.3).
- c) Assignment to Slater and Gordon UK Holdings Limited of \$1.3m of intercompany payables owed by the Australian Group to the UK operations.

Immediately prior to the transfer of the UK operations, secured debt owed by the UK subsidiaries to the Senior Lenders of \$674.2m was released. As partial consideration for this, S&G UK has issued interest-free convertible notes with a face value of £250.0m to the Senior Lenders. The convertible notes entitle the holders to payment of any amounts, up to £250.0m, received by S&G UK in respect of the net proceeds which may be received from successful settlement of the Watchstone-related claims. The payment entitlement under the convertible notes is after settlement of the Watchstone Receivable held by the Australian Group of \$40.0m (refer below for more information) and repayment of the new Super Senior Facility of S&G UK, which has a facility limit of £14.8m.

Issue of shares in the Company to the Senior Lenders

Prior to implementation of the Senior Lender Scheme, the Company undertook a share consolidation of 1 ordinary share for every 100 on issue on 8 December 2017. On implementation of the Senior Lender Scheme, the Senior Lenders were issued with 66,050,874 shares in the Company, representing 95% of the equity of the Australian Parent Company. The Senior Lenders were also issued with 100% of the equity in a new company, Slater and Gordon UK Holdings Limited, which owns the UK operations that were separated from the Company as described above.

The number of shares in the Australian Parent Company issued to each Senior Lender within the Senior Lenders group was based on their commitments under the Super Senior Facility and Syndicated Facility Agreement.

New Australian Debt Facilities

Outstanding secured Australian debt has been permanently reduced by a combination of refinancing and restating debt.

The debt facilities of the Company on implementation of the Senior Lender Scheme were as follows:

- a) Refinanced Super Senior Facility (\$65.0m): Prior to implementation of the Senior Lender Scheme, the limit of this facility was \$40.0m, which was fully drawn down. The facility limit was increased by \$25.0m to \$65.0m under the Senior Lender Scheme. The facility has a 3 year term commencing from the implementation date (being 22 December 2017), with interest not payable until the end of the term. The facility is used for working capital purposes. The total undrawn amount of the facility is nil at 30 June 2018.
- b) Restated Syndicated Facility Agreement (\$60.0m): Prior to the implementation of the Senior Lender Scheme, the total balance owing under the Syndicated Facility Agreement was \$125.6m. The balance owing was restated to \$60.0m through the issuance of shares in the Australian Parent Company and application of the promissory note of \$40.0m (discussed above) received as consideration for the transfer of the UK operations. The balance owing was restated to \$60.0m with the following key amendments:
 - a 5 year term from the implementation date of the Senior Lender Scheme, and
 - interest is not payable until the end of the term.

Payment of the deferred restructure fee relating to the previous restructure of the facility in May 2016, which comprised warrants and cash of \$1.6m and GBP£5.3m, has been further deferred and is now due at the end of the new 5 year term.

- c) Existing lease facilities of less than \$5.0m.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.2.2. Financing Arrangements (continued)

Watchstone Receivable

As noted above, as partial consideration for the transfer of S&G UK shares from the Company to Slater and Gordon UK Holdings Limited, the Company has recourse to the first \$40.0m of any proceeds that S&G UK receives from successful settlement of the Watchstone-related claims (refer to Note 7.3). These are required to be applied by the Company first to reduce the Super Senior Facility. This amount represents a contingent asset, and has not been recognised as a receivable as the inflow of economic benefits is not considered virtually certain. It has been disclosed as a contingent asset (refer Note 7.3 for details).

Security

The security that was provided over the Australian Operations in respect of secured facilities of the UK Operations was released in full on implementation of the Senior Lender Scheme. No ongoing security has been provided by the Australian Group for UK debt. For details of other security provided to S&G UK by the Australian Operations, please refer Note 6.1.

Disbursement asset backed facility

In June 2018 the Company entered into a disbursement asset backed facility with an external funder. The initial drawdown on the facility occurred on 29 June 2018 for \$13,000,000. Interest on the facility is payable annually in advance. The facility is secured against disbursement assets (security pool). Future receipts of the security pool must be applied in repayment of the facility when they are received, accordingly the amount classified as current is based on expected disbursement repayments. Any outstanding balance is fully repayable on 29 December 2020. The facility contains a redraw facility (maximum of \$5,000,000) available until 30 September 2018, subject to the Company satisfying certain conditions.

Net Debt

As at 30 June 2018, the Group has fully drawn its Syndicated Facility Agreement and Super Senior Facility.

The Group has cash on hand of \$18,778,000 (30 June 2017: \$33,303,000), offset by debt of \$143,701,000, deferred restructure and underwriting fees of \$11,417,000 and finance lease liability of \$1,000 resulting in net debt of \$136,341,000 (30 June 2017: \$747,700,000). The Group's net debt position has improved since 30 June 2017 by \$611,359,000, primarily as a result of implementation of the Senior Lender Scheme.

Debt reconciliation	Super senior facility	Syndicated Facility Agreement	Debt raising costs under SFA	Fees	Disburseme nt asset backed facility	Finance Lease Liability	Derivat ives	Total
	\$'000	\$'000	\$'000 ⁽¹⁾	\$'000	\$'000	\$'000	\$'000	
Balance at 1 July 2017	15,000	761,599	(749)	-	-	5,092	1,419	782,361
Drawdowns	58,475	-	-	-	12,922	-	-	71,397
Repayments	-	-	-	-	-	(5,407)	(972)	(6,379)
Restated/extinguished as part of Senior Lender Scheme	(9,013)	(735,744)	749	11,114	-	-	-	(732,894)
Foreign currency translation movement	386	19,534	-	164	-	-	379	20,463
Changes in fair values	-	-	-	-	-	-	(826)	(826)
Accrued interest	4,666	15,876	-	139	-	316	-	20,997
Balance at 30 June 2018	69,514	61,265	-	11,417	12,922	1	-	155,119

(1) Relates to debt raising costs previously capitalised in the carrying amount of borrowings which were restated on extinguishment of related borrowings on implementation of the Senior Lender Scheme.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.2.3. Summary of Borrowing Arrangements

At reporting date, the following banking facilities had been executed and were available.

		2018 \$'000	2017 \$'000
Total banking facilities			
Bank overdrafts		-	1,691
Super senior facility		65,000	40,000
Syndicated facility agreement		60,000	761,599
Disbursement backed asset facility		13,000	-
Finance lease facility		1	6,800
Total credit facilities		138,001	810,090
Facilities utilised	Maturity		
<i>Current</i>			
Disbursement asset backed facility	Ongoing until 29 Dec 2020	8,519	-
Super senior facility ⁽¹⁾	24 Dec 2018	1,678	15,000
Underwriter fees	24 Dec 2018	1,600	-
Debt raising costs ⁽²⁾		-	(749)
Syndicated facility agreement ⁽³⁾		-	450,192
Finance lease liability	2 Jul 2018	1	1,797
		11,798	466,240
<i>Non-current</i>			
Disbursement asset backed facility	Ongoing until 29 Dec 2020	4,403	-
Super senior facility ⁽³⁾	22 Dec 2020	67,836	-
Deferred restructure fee	22 Dec 2022	9,817	-
Syndicated facility agreement ⁽³⁾	22 Dec 2022	61,265	311,407
Finance lease liability		-	3,295
		143,321	314,702

⁽¹⁾ Includes accrued interest capitalised prior to Recapitalisation of \$1,678,000 under current.

⁽²⁾ As at 30 June 2017 this comprises the unamortised value of borrowing costs on establishment of \$4.4m and refinancing of net debt facilities of \$(3.6m). These costs are deferred on the balance sheet and amortised to the Statement of Profit or Loss and Other Comprehensive Income (Finance costs) over the earliest maturity date of the facility.

⁽³⁾ Includes capitalised interest costs as agreed with the lenders.

A portion of the bills of exchange was the subject of interest rate swaps to hedge the risk of an adverse interest rate movement. Hedging was discontinued on implementation of the Senior Lender Scheme. Refer to Note 5.4 for more details.

5.3. Leasing

5.3.1. Accounting Policies

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception of the lease and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if the right is not explicitly specified in the arrangement. The lease is classified at the inception date as a finance lease or an operating lease.

Finance Leases

A lease that transfers substantially all of the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease, at the inception date fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the Statement of Profit or Loss and Other Comprehensive Income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the Group will obtain ownership of the asset, or if not, over the shorter of the estimated useful life of the asset and the term of the lease.

The Group leases a certain number of its fixed assets under finance leases. These were substantially settled during the year.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.3.1 Accounting Policies (continued)

Future minimum rentals payable under finance leases as at 30 June are, as follows:

	2018 \$'000			2017 \$'000		
	Minimum payments	Interest	Present value of payments	Minimum payments	Interest	Present value of payments
Within one year	1	-	1	2,053	(256)	1,797
One year or later and not later than five years	-	-	-	3,484	(189)	3,295
	1	-	1	5,537	(445)	5,092

Operating Leases

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the relevant taxation authority.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are, as follows:

	2018 \$'000	2017 \$'000
Within one year	13,525	25,665
One year or later and not later than five years	24,531	62,194
Greater than five years	8,250	49,717
	46,306	137,576

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.4. Financial Risk Management

5.4.1. Accounting Policies

The Group's principal financial instruments comprise cash and cash equivalents, loans and receivables, trade payables and loans. The classification of financial instruments depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial Assets

Loans and receivables are non-interest bearing, non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The loans are initially recognised based on fair value plus directly attributable transaction costs and are subsequently stated at amortised cost using the effective interest rate method.

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence of impairment.

For loans and receivables carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

Non-Derivative Financial Liabilities

Non-derivative financial liabilities include trade payables, other creditors and loans from third parties including loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt, net of directly attributable transaction costs less principal payments and amortisation using the effective interest rate method.

Non-interest bearing financial liabilities for deferred cash consideration on the acquisition of acquired firms is measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in profit or loss.

Derivative Financial Instruments

The Group designates certain derivatives as either:

- hedges of fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- hedges of highly probable forecast transactions (cash flow hedges).

During the period, the Group only had cash flow hedges, relating to interest rate risk management. Hedging was discontinued from the date of implementation of the Senior Lender Scheme due to the extinguishment of the hedged item. All related hedging instruments had been closed out as at 30 June 2018.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the hedge reserve which forms part of equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated Statement of Profit or Loss and Other Comprehensive Income.

Amounts accumulated in the hedge reserve in equity are transferred to profit or loss in the periods when the hedged item will affect profit or loss.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.4.2. Interest Rate Risk

The Group's exposure to interest rate risk and the effective interest rates of non-derivative financial assets and financial liabilities both recognised and unrecognised at the end of the reporting period are as follows:

	Variable interest rate		Fixed interest rate		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<i>Financial assets</i>						
Cash and bank guarantees on deposit ⁽¹⁾	22,711	33,303	-	-	22,711	33,303
Total financial assets	22,711	33,303	-	-	22,711	33,303
<i>Financial liabilities</i>						
Other current liabilities	-	1,815	-	-	-	1,815
Finance lease liability	-	-	1	5,092	1	5,092
Disbursement backed asset facility	-	-	12,922	-	12,922	-
Super senior facility	-	15,000	69,514	-	69,514	15,000
Debt raising costs under the SFA	-	-	9,817	-	9,817	-
Syndicated facility agreement	61,265	674,312	-	87,287	61,265	761,599
Total financial liabilities	61,265	691,127	92,254	92,379	153,519	783,506

(1) This includes cash and cash equivalents of \$18,778,000 and restricted bank guarantees on deposit of \$3,933,000.

Interest rate swap transactions were entered into by the Group to exchange variable interest payment obligations to fixed, to protect long-term borrowings from the risk of increasing interest rates. The Group used swap contracts to maintain a designated proportion of fixed to floating debt until the date of capitalisation. Hedging was discontinued from the date of implementation of the Senior Lender Scheme due to the extinguishment of the hedged item. All swaps had been closed out as at 30 June 2018.

At the end of the reporting period, the details of outstanding contracts, all of which are to receive floating/pay-fixed interest rate swaps, are as follows:

Maturity of notional amounts	Effective average fixed interest rate payable		Notional principal value	
	2018	2017	2018 \$'000	2017 \$'000
0 to 2 years	-	2.39%	-	68,830
2 to 5 years	-	2.32%	-	18,457
			-	87,287

Interest rate swaps were measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as the profit or loss associated with the hedged risk is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The balance of the cash flow hedge reserve was reclassified from equity to profit or loss on discontinuation of hedge accounting on implementation of the Senior Lender Scheme and extinguishment of the hedged item.

Interest Rate Sensitivity

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the end of the reporting period, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity would be as follows:

	2018 \$'000	2017 \$'000
+/- 100 basis points:		
Impact on profit after tax	-	-
Impact on equity	-	1,168

As all borrowings at 30 June 2018 are measured at amortised cost and not fair value, any movement in interest rates does not impact the carrying value of those borrowings but would impact their related interest charges.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.4.3. Foreign Exchange Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk relates primarily to amounts payable in foreign currency (GBP£4,740,000 at 30 June 2018). The Group's investment in the UK operations was transferred under the Senior Lender Scheme on 15 December 2017. The balance accumulated in the foreign currency translation reserve (\$17,104,000 gain) was reclassified from equity to profit or loss on transfer of the UK operations.

The Group has no other significant exposures to foreign exchange risk.

Foreign Exchange Rate Sensitivity

If foreign exchange rates were to increase/decrease by 10 per cent from rates used to determine fair values as at the end of the reporting period, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year would be as follows:

	2018 \$'000	2017 \$'000
Impact on profit after tax – 10% decrease in AUD/GBP exchange rate	(583)	-
Impact on profit after tax – 10% increase in AUD/GBP exchange rate	530	-

5.4.4. Credit Risk

Credit risk arises from the financial assets of the Group. The main exposure to credit risk in the Group is represented by receivables (debtors and disbursements) owing to the Group. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of those assets as disclosed in the statement of financial position and notes to the financial statements.

The Group held cash and cash equivalents and restricted bank guarantees on deposit of \$22,711,000 at 30 June 2018 (30 June 2017: \$33,303,000). The credit risk associated with cash and cash equivalents is considered minimal as the cash and cash equivalents are held with reputable financial institutions in Australia.

Receivables

There is also credit risk associated with unrendered disbursements and trade receivables. Once client matters are billed, a significant portion of receivables related to the personal injuries business are considered low risk. This is because these receivables are collected directly from settlements paid by insurers into trust funds held on behalf of the Group's clients. For the non-personal injury law business, the Group is exposed to the credit risk associated with the client's ability to meet their obligations under the fee and retainer agreement. The Group minimises the concentration of this credit risk by undertaking transactions with a large number of clients.

Management of Credit Risk

The Group actively manages its credit risk by:

- assessing the capability of a client to meet its obligations under the fee and retainer agreement;
- periodically reviewing the reasons for bad debt write-offs in order to improve the future decision making process;
- maintaining an adequate provision against the future recovery of debtors and disbursements;
- including in practitioner's Key Performance Indicators ("KPI's") measurements in respect of debtor levels, recovery and investment in disbursements;
- providing ongoing training to staff in the management of their personal and practice group debtor portfolios; and
- where necessary, pursuing the recovery of debts owed to the Group through external mercantile agents and the courts.

Due to the nature of the "No Win No Fee" arrangements applicable to the majority of the legal matters managed by the Group an increase in the required processing time between initiation and settlement and an increase in the ageing of receivables, particularly disbursements, does not always increase the associated credit risk.

Management performs periodic assessment of the recoverability of receivables, and provisions are calculated based on historical write-offs of the receivables as well as any known circumstances relating to the matters in progress.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.4.5. Liquidity Risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of operating cash flows and committed available credit facilities. The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. Refer to the statement of cash flows and Note 3.3 Cash Flow Information, for further information on the historical cash flows. Further information in relation to bank facilities available and utilised are outlined in Note 5.2 Financing Arrangements.

KPIs are set for practitioners relating to budgeted fee events, which are closely monitored by senior management.

Maturity Analysis

The table below represents the estimated and undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities. Cash flows for floating rate financial instruments have been presented based on the rate prevailing at the balance date.

2018	< 12 Months	1-5 years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000
Non-derivative financial liabilities				
Payables	52,091	-	52,091	52,091
Borrowings	14,026	175,599	189,625	155,119
Financial liability maturities	66,117	175,599	241,716	207,210

2017

Non-derivative financial liabilities				
Payables	418,619	-	418,619	418,619
Borrowings	499,121	322,287	821,408	780,942
Other current liabilities	1,815	-	1,815	1,815
Financial liability maturities	919,555	322,287	1,241,842	1,201,376

Refer to Note 5.4.2 for the maturity analysis of interest rate swaps.

5.4.6. Fair Value Risk

The fair value of financial assets and financial liabilities not measured at fair value approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements.

The Group measures its interest rate swaps at fair value. These fair values are based on level 2 fair value measurements, as defined in the fair value hierarchy in AASB 13 *Fair Value Measurement* with reference to market data which can be used to estimate future cash flows and discount them to present value. Management's aim is to use and source this data consistently from period to period.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.5. Contributed Equity

	2018 Shares	2018 \$'000	2017 Shares	2017 \$'000
Ordinary shares fully paid	69,527,235	1,348,581	347,245,601	1,119,235
Balance at the end of the year	69,527,235	1,348,581	347,245,601	1,119,235
Movement in Ordinary Share Capital				
Balance at the beginning of the year	347,245,601	1,119,235	352,377,933	1,116,573
Issued during the year				
• EOP Share Buy Back	-	-	(5,132,332)	(9,232)
• Consolidation of share prior to Recapitalisation ⁽¹⁾	(343,769,240)	-	-	-
• Issuance of shares under Senior Lender Scheme	66,050,874	221,270	-	-
• Equity Incentive Plan	-	-	-	-
• Transfer from share-based payment reserve	-	8,076	-	11,907
• Costs of share registry management	-	-	-	(13)
Balance at the end of the year	69,527,235	1,348,581	347,245,601	1,119,235
Total Share Capital balance at the end of the year	69,527,235	1,348,581	347,245,601	1,119,235

⁽¹⁾ On 8 December 2017, the Company undertook a share consolidation of 1 ordinary share for every 100 on issue.

Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

During the financial year ended 30 June 2018, the Company did not pay a dividend (30 June 2017: \$Nil).

5.6. Share-Based Payment Arrangements

5.6.1. Accounting Policies

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The consolidated entity operates share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Notes to the Financial Statements

For the Year Ended 30 June 2018

5.6.2. Employee Equity Incentive Plan (“EIP”)

For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period.

The Company introduced a broad based equity incentive plan which was approved by the Shareholders at the 2014 Annual General Meeting.

(i). Exempt Share Save Scheme (“SSS”)

In 2015 the Group introduced an offer for Exempt Shares in the Equity Incentive Plan. The Plan gave the Company's employees the opportunity to acquire shares in the Company. Each year, participating employees could make contributions from their pre-tax salary to acquire \$500 worth of shares. Such employee contributions were matched by the Company with an additional \$500 worth of shares being acquired for each participating employee. All employees who are Australian tax residents with at least 6 months service were entitled to participate in this Plan. Shares acquired under this Plan are subject to a holding period of 3 years. The Plan is in runoff and no further shares will be issued. There was no issue of shares under this scheme in the current year ended 30 June 2018 (30 June 2017: Nil shares).

(ii). Share Incentive Plan (“SIP”)

The plan also incorporates a tax-approved scheme to employees in the UK. The Plan gave the Company's employees the opportunity to acquire shares in the Company. Employees could make contributions from their pre-tax salary to acquire £375 (max) worth of shares. Such employee contributions were matched by the Company with a free share for every share purchased by the employee. All employees of the Group in the UK with at least 6 months service were entitled to participate in this Plan. Shares acquired under this plan are held in trust by MM&K Share Plan Trustee Ltd for a period of 5 years from the date of acquisition. The Plan is in runoff and no further shares will be issued. There was no issue of shares under this plan during the year ended 30 June 2018 (30 June 2017: Nil shares).

5.6.3. Share Based Payment Arrangements to Former Owners

Included in the terms of a number of purchase agreements entered into by the Group is an arrangement whereby the payment of cash consideration to and/or the retention of share-based consideration by the vendors of acquired entities is contingent upon the relevant vendors remaining with the Group for a defined period. If a vendor ceases to remain with the Group for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the Group.

These arrangements are treated as a share-based payment transaction with the former owners. The transaction is measured at the fair value of the equity instruments granted and then recognised as an expense over the vesting period as agreed per each contract. The relevant expense is disclosed in the statement of profit or loss and other comprehensive income.

5.6.4. Share Based Payment Arrangements under the Syndicated Facility Agreement (“SFA”)

As referred to in Note 5.2.2, in May 2016, the terms of the multicurrency SFA were revised. Under the revised terms, the Group is required to pay a deferred restructure fee to its lenders on refinancing or maturity of the debt in the form of cash or warrants, at the irrevocable option of the lender. As reported to the market on 6 June 2016, 58.4% of lenders elected to be paid in cash whilst 41.6% have elected to be paid in warrants.

The deferred restructure fee was accounted for as a compound share-based payment within the scope of AASB 2, including a debt and equity component. The total value of the restructure fee was measured directly, with reference to the fair value of the debt establishment services, being \$17,821,000. This was determined by proxy as the present value of the cash settlement option which amounted to \$20,175,000, therefore the initial liability was recognised at \$17,821,000 and the residual equity component was initially measured at nil.

Partial settlement of the deferred restructure fee liability occurred in June 2016 when 41.6% of the lenders elected to take the warrant payment option. This resulted in a reclassification from liability to share based payment reserve in equity of \$7,413,000 with no gain or loss recognised on reclassification. Despite not being due until at least 29 May 2018, the warrants vested immediately, as there are no conditions attached to the exercise of the warrants. This equity component is not remeasured after vesting and no gain or loss will be recognised when the share capital is issued on settlement. The remaining cash payment was treated as a cash-settled share-based payment, and was also not due until 29 May 2018.

As a result of the revision of the SFA under the Senior Lender Scheme on 22 December 2017, the deferred restructure fee was further deferred, and is now due at the end of the new 5 year term, and the cash portion of the deferred restructure fee was remeasured to fair value at that date. The liability recognised for the remaining cash component as at 30 June 2018 is \$9,817,000 (30 June 2017: \$11,783,000) and is included in the net long term borrowings amounts as detailed in Note 5.2.3.

Notes to the Financial Statements

For the Year Ended 30 June 2018

Note 6: Other Notes

6.1. Related Party Disclosures

6.1.1. Equity Interests in Related Parties

The table below lists the primary operating controlled entities of the Group. Individual controlled entities that are dormant have not been listed. All are owned 100% unless noted.

	% Equity Interest			% Equity Interest	
Country of Incorporation	2018	2017		2018	2017
Australia					
Trilby Misso Lawyers Limited	100%	100%	Schultz Toomey O'Brien Pty Ltd	100%	100%
Slater & Gordon Lawyers NSW Pty Limited	100%	100%	All States Legal Co Pty Ltd	100%	100%
Conveyancing Works (Qld) Pty Limited	100%	100%	SG NSW Pty Ltd	100%	100%
United Kingdom					
SGL UK					
Walker Smith Way Limited	0%	100%	4 Legal Solutions Limited	0%	100%
WSW Limited	0%	100%	Slater & Gordon (UK) LLP	0%	100%
Slater & Gordon (UK) 1 Limited	0%	100%	Adroit Financial Planning Limited	0%	100%
4 Legal Limited	0%	100%			
SGS					
iSaaS Technology Limited	0%	100%	React Medical Management Limited	0%	100%
Compass Costs Consultants Ltd	0%	100%	Medicalaw Limited	0%	100%
Intelligent Claims Management Limited	0%	100%	Abstract Legal Holdings Limited	0%	100%
Mobile Doctors Group Limited	0%	100%	Accident Advice Helpline Direct Limited	0%	100%
Medici Legal Limited	0%	100%	Legal Facilities & Management Services Limited	0%	100%
Mobile Doctors Solutions Limited	0%	100%	Access to Compensation Limited	0%	100%
Mobile Doctors Limited	0%	100%	Liberty Protect Limited	0%	100%
React & Recover Medical Group Limited	0%	100%	Slater Gordon Solutions Legal Services Limited	0%	100%
Recover Healthcare Limited	0%	100%	SGS Business Process Services (UK) Limited	0%	100%
React Medical Reporting Limited	0%	100%			
Malta					
Overland Limited	0%	100%	Overland Malta (Trading) Limited	0%	100%
Overland Health Limited	0%	100%			

The Immediate Parent Entity of the Group is AIO V Finance (Ireland) DAC, incorporated in Ireland. The Ultimate Parent Entity is Anchorage Capital Group LLC incorporated in the United States of America.

6.1.2. Guarantees for UK lease obligation

To effect the separation of the Group's UK operations and subsidiaries from its Australian operations under the Senior Lender Scheme (as detailed in Note 5 and Note 10), the Company and Slater & Gordon (UK) 1 Limited ("S&G UK") entered into certain transitional arrangements that are governed by a business separation agreement ("Business Separation Agreement").

Notes to the Financial Statements

For the Year Ended 30 June 2018

6.1.2. Guarantees for UK lease obligation (continued)

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. Any potential material contingent liability relates to parent guarantees for UK leases for the major office premises used by the UK operations.

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 of implementation of the Recapitalisation, being 15 December 2017 (or such longer period as agreed between the Company and S&G UK).

If, during the transition period, the UK operations default on the UK leases subject to the parent guarantees, and those parent guarantees have not yet been released, the Company may be liable for any unpaid amounts under those leases 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. At 30 June 2018, the aggregate unpaid amounts under these lease agreements for the remainder of the lease terms are \$87,762,000.

It is not currently possible for the Company to estimate any liability or 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 subleasing the premises, and its capacity to negotiate with the third parties who have the right to call on those guarantees. The UK operations also have a number of operational and financial mechanisms in place which seek to prevent an event of default occurring. 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.

6.1.3. Deed of Cross Guarantee

All Australian entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Corporations Instrument 2016/785 dated 17 December 2016 issued by the Australian Securities and Investments Commission.

6.1.4. Key Management Personnel Compensation

	2018 \$	2017 \$
Compensation by category		
Short-term employment benefits ⁽¹⁾	2,325,760	2,924,235
Post-employment benefits	108,655	177,750
Other long term employment benefits	67,887	43,502
Share based payments	-	879,381
Other benefits	419,954	949,550
	2,922,256	4,974,418

(1) The amounts do not include fees attributable to Merrick Howes and Nil Stoesser as the Company does not pay them any fees or remuneration.

6.1.5. Transactions with AIO V Finance (Ireland) DAC (Immediate Parent Entity)

AIO V Finance (Ireland) DAC became the Immediate Parent Entity of the Group on implementation of the Senior Lender Scheme, obtaining 53.36% of the Group's ordinary shares. The following transactions are shown from 22 December 2017, the date from which AIO V Finance (Ireland) DAC was a related party.

	2018 \$
Loans from Immediate Parent Entity	
Debt balance on becoming related party	59,148,604
Additional drawdowns	14,041,856
Interest charged	3,274,566
Foreign exchange movement	57,928
Closing balance outstanding	76,522,954

Notes to the Financial Statements

For the Year Ended 30 June 2018

6.1.5. Transactions with AIO V Finance (Ireland) DAC (Immediate Parent Entity) (continued)

2018

\$

Transactions with Immediate Parent Entity

Issue of new ordinary shares by SGL under the Senior Lender Scheme	118,071,528
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In addition to the above, AIO V Finance (Ireland) DAC has holds \$7,767,686 of warrants issued under the equity component of the deferred restructure fee (see Note 5.6.4). This was recognised as a share based payment expense in the period ended 30 June 2016.

The loan facilities are advanced by the Immediate Parent Entity as one of the members of the Senior Lender Scheme, on the same terms as those agreed with the other lenders. The facilities are unsecured, and repayable in cash on maturity. Further details of the terms of the facilities are provided in Note 5.2.2.

6.1.6. Transactions with Other Related Parties

The shareholdings of related parties and remuneration of KMP are disclosed in the Directors' Report.

During the year, the Group has paid consulting fees to JACM Pty Ltd, of which James MacKenzie (Chair) is a Principal. The consulting fees of \$62,500 were paid to JACM Pty Ltd for consulting services prior to December 2017 and was approved by the Board.

Outstanding receivables, if any, between related parties are included in Note 4.2. Outstanding payables, if any, are included in Note 4.6.

6.2. Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2018 the parent entity of the Group was Slater and Gordon Limited. Investments in subsidiary are accounted for at cost, less any impairment recognised since acquisition.

	2018 \$'000	2017 \$'000
Results of parent entity		
Loss for the year	(173,682)	(174,247)
Other comprehensive income	597	619
Total comprehensive loss for the year	(173,085)	(173,628)
Financial position for the parent entity at year end		
Current assets	130,526	127,393
Total assets	256,349	283,756
Current liabilities	80,116	197,382
Total liabilities	271,577	335,789
Total equity of the Parent Company comprising of		
Contributed equity	1,348,528	1,119,180
Reserves	12,885	31,745
Accumulated losses	(1,376,641)	(1,202,958)
Total Equity	(15,228)	(52,033)

Notes to the Financial Statements

For the Year Ended 30 June 2018

6.3. Auditor's Remuneration

The auditor of the Group for the year ended 30 June 2018 is Ernst & Young (30 June 2017: Ernst & Young).

	2018 \$	2017 \$
Audit Services		
Ernst & Young		
Audit and review of financial reports	710,000	767,000
Other assurance services	90,000	-
Other regulatory services	59,500	100,450
Overseas Ernst & Young firms		
Audit and review of financial reports	947,019	1,689,076
Other regulatory audit services	-	42,017
	1,806,519	2,598,543
Other Services		
Ernst & Young		
Other – consulting services	-	19,923
	1,806,519	2,618,466

6.4. Accounting Standards issued but not yet effective at 30 June 2018

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective, which have not been early adopted are listed below. A formal and detailed assessment of the expected impacts of these standards and interpretations is currently underway with the initial findings for each new accounting standard noted in the relevant sections below. The Group early adopted AASB 15 *Revenue from Contracts with Customers* during year ended 30 June 2016.

Reference	Title	Application date of Standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	1 January 2018	1 July 2018

AASB 9 as issued replaces most of AASB 139 *Financial Instruments: Recognition and Measurement* and includes a logical model for classification, measurement and derecognition of financial assets and liabilities, a forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The main changes to the classification and measurement of financial assets and liabilities are:

- Financial assets that are debt instruments will be classified based on (i) the objective of the entity's business model for managing the financial assets, and (ii) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities, the change attributable to changes in credit risk is presented in other comprehensive income, and the remaining change is presented in profit or loss.

An assessment of the impact of AASB 9 on the position of the Group is ongoing, however no expected material changes in the classification of financial assets and liabilities have been identified to date. The impact of the introduction of the expected loss impairment model for determining credit provisions has not yet been determined. There is no change anticipated in relation to hedge accounting.

Notes to the Financial Statements

For the Year Ended 30 June 2018

6.4 Accounting Standards issued but not yet effective at 30 June 2018 (continued)

Reference	Title	Application date of Standard	Application date for Group
AASB Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019	1 July 2019

The interpretation clarifies the application of the recognition and measurement criteria in AASB 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatment by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group has not yet assessed the impact of AASB Interpretation 23.

Reference	Title	Application date of Standard	Application date for Group
AASB 16	<i>Leases</i>	1 January 2019	1 July 2019

The key features of AASB 16 are as follows:

Lessee Accounting

- Lessees are required to recognise assets and liabilities for all leases on balance sheet with a term of more than 12 months, unless the underlying asset is of low value.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset in profit or loss. This will replace operating lease expense under the current lease standard AASB 117 *Leases*.
- AASB 16 contains disclosure requirements for lessees.

Lessor Accounting

- AASB 16 substantially carries forward the lessor accounting requirements in the current lease standard AASB 117 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

As at the reporting date, the group has non-cancellable operating lease commitments of \$42,267,000, see note 5.3.1. An assessment of the impact of AASB 16 on the financial performance and position of the Group is ongoing with a view to informing the transition decisions to be made before adoption of the new standard. It is not yet possible to make a reliable estimate of the impact of the standard on the Consolidated Financial Statements. Although the impact is yet to be quantified, given that at 30 June 2018 the Group is lessee to a number of operating leases, in particular in relation to properties, it is expected that the adoption of the standard will result in a material impact to the assets and liabilities, but the change to net assets in the statement of financial position is unlikely to be material. In addition, it is expected that the adoption of the standard will change the recognition and measurement of lease expense in the statement of profit or loss.

Currently, the Group does not expect to early adopt AASB 16.

Notes to the Financial Statements

For the Year Ended 30 June 2018

Note 7: Unrecognised Items

7.1. Guarantees

The Group has entered into lease rental guarantees and performance guarantees with a face value of \$3,933,000 (30 June 2017: \$12,134,000). Refer to Note 6 for details of the guarantees the Company has provided for the UK leases.

7.2. Other Commitments and Contingencies

The Group has an agreement with third party disbursement funder, Equal Access Funding Proprietary Limited ('the funder'), who funds disbursements in respect of individual matters and is reimbursed out of any settlement proceeds on the matter. The Group has provided a financial guarantee to the funder for the repayment of clients' obligations.

The total amount funded by the funder to the Group's clients at 30 June 2018 is \$6,587,000 (30 June 2017: \$16,027,000). The maximum exposure of the Group at 30 June 2018 is \$6,587,000 (30 June 2017: \$16,027,000) if the disbursements on client matters are not recovered from any other party.

7.3. Contingent Asset – Claims against Watchstone plc (Watchstone – formerly Quindell plc)

Watchstone Receivable

As part of the consideration provided for the implementation of the Senior Lender Scheme, the Company was provided with a \$40.0m receivable giving it recourse to the first \$40m of the net proceeds that S&G UK receives from successful settlement of the claims against Watchstone (formerly Quindell plc). Such claims were brought by S&G UK against Watchstone arising from its acquisition of Watchstone's Professional Services Division in May 2015. On 29 November 2016, the Group obtained a positive merits based opinion of its claims from an independent barrister, in accordance with the provisions of the Share Purchase Agreement ("SPA") between the Group and Watchstone. Having met this threshold requirement, under the SPA provisions, the escrow amount of £50.0m will not be released until such time as the claim made against Watchstone is resolved (through proceedings or settlement). The Group notified Watchstone of these claims on 19 September 2016, and on 13 June 2017, S&G UK filed and served a claim in the English High Court against Watchstone Group Plc for approximately £600.0m. Subsequent to this there have been no further significant developments in the claim proceedings other than the exchange of further pleadings under the Court's rules and the commencement of the discovery process. The claim is based upon serious allegations against Watchstone and its then senior management, including fraudulent misrepresentation, concerning the purchase by Slater and Gordon of Watchstone's Professional Services Division in 2015. Watchstone filed its defence on 12 October 2017. A trial date has been set for October 2019.

Notes to the Financial Statements

For the Year Ended 30 June 2018

7.4. Contingent Liabilities – Class Action Proceedings

On 12 October 2016 legal proceedings were filed against the Company in the Federal Court of Australia (“Federal Court”) by Mr Matthew Hall on behalf of an open class of Slater and Gordon shareholders (the “Hall proceeding”). The class action proceeding asserted that the Company engaged in misleading or deceptive conduct and breached its continuous disclosure obligations during the period from 30 March 2015 to 24 February 2016 and sought compensation or refund of investments, plus interest and costs. This class action proceeding was settled by agreement in July 2017 through a Federal Court mediation, subject to creditor, shareholder and Court approval of a shareholder claimant and senior lender scheme of arrangement.

On 20 June 2017, the Company announced that legal proceedings were filed against it by Babscay Pty Ltd (the “Babscay proceeding”) on behalf of persons who acquired an interest in shares of the Company between 24 August 2012 and 19 November 2015. The statement of claim asserted that the Company’s financial statements for the financial years ended 30 June 2013, 2014 and 2015 contained false or misleading statements. This claim was later amended to also include the Company’s financial statements for the financial year ended 30 June 2012. The allegations focus on the way in which the Company recognised revenue and, in financial year 2015, accounted for acquisitions in accordance with Australian Accounting Standards.

On 14 December 2017 the Federal Court approved a scheme of arrangement between the Company and all shareholder claimants (“Shareholder Claimant Scheme”), including claimants in the Hall and Babscay proceedings. The Shareholder Claimant Scheme resolves and compromises all potential shareholder claims against the Company and its officers. The Shareholder Claimant Scheme became legally effective on 15 December 2017. Under the Scheme, shareholder claimants have released the Company and officers from any shareholder claims and the Scheme can be pleaded as a bar to any shareholder claim.

On 14 December 2017 the Federal Court also approved the settlement of the Hall proceeding and dismissed that proceeding. The Company’s contribution to this settlement of \$5.0m was recognised as a provision at 30 June 2017. The Hall proceeding settlement is implemented by the Shareholder Claimant Scheme. The Babscay proceeding has not yet been formally dismissed or discontinued, however the Shareholder Claimant Scheme releases the Company and officers and bars the prosecution of that claim.

On 1 November 2017, class action legal proceedings were filed against the Company’s former auditors, Pitcher Partners, by Babscay Pty Ltd (the “Babscay Pitcher proceeding”). On 16 November 2017, the Federal Court made orders allowing Pitcher Partners to seek leave of the Court to make a third party claim against the Company and/or its directors, seeking contribution or indemnity from those parties in relation to the Babscay Pitchers proceeding. On 15 December 2017, the Federal Court granted leave to Pitcher Partners to file such a cross claim and on 23 February 2018, Pitcher Partners served a cross claim on the Company and its former directors. Since being served with third party claim, the Company has been in discussions with Pitcher Partners around the ongoing conduct of the claim. Under the Shareholder Claimant Scheme, the Company and its former directors are indemnified by shareholder claimants from any claim made against them by a third party which arises as a result of a claim made by a shareholder claimant against that third party.

Notes to the Financial Statements

For the Year Ended 30 June 2018

Note 8: Subsequent Events

The Directors are not aware of any significant events since the end of the reporting period.

Note 9: Business Combinations

9.1. Accounting Policies

Business combinations are accounted for by applying the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition-date fair value, and the amount of any non-controlling interests in the acquiree. Deferred consideration payable is measured at present value. Any contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Contingent consideration classified as a liability that is a financial instrument and within the scope of AASB 139 is measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or the proportionate share of the acquiree identifiable net assets. Acquisition related costs are expensed as incurred.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss as a gain from bargain purchase.

In conjunction with the business combination transaction there may be a transfer of assets between controlled entities as part of restructuring the acquired business. The parent accounts for such transfers through reallocation of the cost of the investments in its statement of financial position.

9.2. Current Period Business Combinations

There were no business combinations during the year ended 30 June 2018.

9.3. Prior Period Business Combinations

There were no business combinations during the year ended 30 June 2017.

Note 10: Discontinued operations

10.1. Summary of financial performance of discontinued operations

The summary of financial performance of the divestment or closure of the UK and Australian businesses are in the below table.

	UK 30 Jun 2018 \$'000	Aus 30 Jun 2018 \$'000	Total 30 Jun 2018 \$'000
Revenue	157,691	16,308	173,999
Other income	2,940	3	2,943
Expenses	(208,369)	(29,632)	(238,001)
(Loss) of discontinued operation before income tax expense	(47,738)	(13,321)	(61,059)
Net gain / (loss) from disposal before income tax expense	195,754	(8,163)	187,591
Income tax expense:			
Income tax (expense) / benefit from discontinued operations	(1,092)	3,996	2,904
Income tax benefit on disposal of discontinued operations	15,993	217	16,210
Profit / (loss) from discontinued operations net of tax	162,917	(17,271)	145,646

	UK 30 Jun 2017 \$'000	Aus 30 Jun 2017 \$'000	Total 30 Jun 2017 \$'000
Revenue	390,186	29,800	419,986
Other income	9,314	51	9,365
Expenses	(855,925)	(28,306)	(884,231)
Profit / (loss) from discontinued operation before income tax expense	(456,425)	1,545	(454,880)
Income tax expense	(17,028)	(464)	(17,492)
Profit / (loss) from discontinued operations net of tax	(473,453)	1,081	(472,372)

Notes to the Financial Statements

For the Year Ended 30 June 2018

10.2. Financial performance from discontinued operation – UK

Discontinued operations – UK

On 6 December 2017, the Company shareholders approved a Recapitalisation of the Group with the implementation of a creditor's Scheme of Arrangement ("the Senior Lender Scheme"). The Senior Lender Scheme was effective from 15 December 2017 and implemented on 22 December 2017. Consequently, this scheme resulted in:

- Separation of all UK operations and UK subsidiaries from the Group effective from 15 December 2017 (including Slater and Gordon (UK) 1 Ltd), by way of transfer of these operations and entities to Slater and Gordon UK Holdings Limited, an entity wholly owned by the Company's majority Senior Lender.
- Issue of 66,050,874 shares in the Australian Parent Company to the Senior Lenders, representing 95% of the Company's total issued capital.
- Reduction of outstanding secured debt facilities owed by the Group by a combination of restating and refinancing the debt.

The UK subsidiaries and related operations represent a separate major geographical area of operations, and are therefore presented as a discontinued operation in the current period. The comparative consolidated statement of profit and loss and other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

Classification as discontinued operations – Critical accounting judgements

The transfer of the UK subsidiaries and related operations was conditional on the other transactions comprising the Senior Lender Scheme, being the issue of equity to the Senior Lenders in the Australian Parent Company and reduction of outstanding secured debt facilities. The transactions are economically linked and could not have occurred independently as they achieve an overall economic outcome. Consequently, the impact of the transactions comprising the Senior Lender Scheme has been presented in aggregate as part of the overall net gain on disposal of discontinued operations.

The financial performance and cash flow information presented are for the period ended 15 December 2017 (being the effective date from which the UK subsidiaries were deconsolidated) and the year ended 30 June 2017.

	to 15 Dec 2017 \$'000	30 Jun 2017 \$'000
Revenue	157,691	390,186
Other income	2,940	9,314
Expenses	(208,369)	(855,925)
(Loss) of discontinued operation before income tax expense	(47,738)	(456,425)
Income Tax (expense) / benefit	(1,092)	(17,028)
(Loss) from discontinued operations net of tax	(48,830)	(473,453)

Notes to the Financial Statements

For the Year Ended 30 June 2018

10.3. Carrying value of net assets divested – UK

The carrying amounts of assets and liabilities as at the date of transfer were:

15 Dec 2017
\$'000

Current assets	
Cash and cash equivalents	18,439
Receivables	303,128
Work in progress	183,159
Other current assets	16,152
Total current assets	520,878
Non-current assets	
Property, plant and equipment	15,980
Receivables	66,531
Work in progress	86,968
Intangible assets	12,185
Deferred tax assets	8,443
Total non-current assets	190,107
Total assets	710,985
Current liabilities	
Payables	347,253
Short term borrowings	9,013
Current tax liabilities	6,315
Other current liabilities	34
Provisions	11,585
Total current liabilities⁽¹⁾	374,200
Non-current liabilities	
Long term borrowings	-
Provisions	12,623
Total non-current liabilities	12,623
Total liabilities	386,823
Net assets / (liabilities)	324,162

⁽¹⁾ The carrying amount of liabilities is shown after the extinguishment of \$674,219,000 of debt. This amount is included within the gain from discontinued operations shown in Note 10.5.

10.4. Cash flows arising from disposal – UK

15 Dec 2017
\$'000

Consideration received, satisfied in cash	-
Cash and cash equivalents disposed of	(18,439)
Net cash outflows	(18,439)

Notes to the Financial Statements

For the Year Ended 30 June 2018

10.5. Gain from discontinued operations – UK

The gain arising on implementation of the Senior Lender Scheme including disposal of the UK operations is determined as follows.

	2018 \$'000
Carrying value of net assets disposed	(324,162)
Derecognition of non-controlling interests	(178)
Consideration received	40,000
Fair value of equity instruments issued by SGL ⁽ⁱ⁾	(221,270)
Extinguishment of debt ⁽ⁱⁱ⁾	693,864
Recycling of cash flow hedge reserve balance	(848)
Acceleration of UK share based payments expense to former owners ⁽ⁱⁱⁱ⁾	(1,662)
Transaction costs relating to scheme of arrangement ^(iv)	(7,094)
Reclassification of foreign currency translation reserve upon disposal	17,104
Income tax benefit	15,993
Net gain on implementation of the Senior Lender Scheme and disposal of the UK operations	211,747

(i) Fair value of equity instruments issued

66,050,874 shares in the Australian Parent Company were issued to the Senior Lenders as part of the overall consideration for the Senior Lender Scheme, and were therefore part of the consideration given to reduce the Group's outstanding debt in Australia and the UK immediately prior to deconsolidation.

The transaction is within the scope of the requirements of AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*. Hence, the shares were recognised initially and measured at their fair value as at 22 December 2017, being the date the debt is restated. Fair value was determined with reference to the quoted share price of \$3.35 per share on this date.

(ii) Extinguishment of debt

The refinancing of the Super Senior Facility and Restated Syndicated Facility Agreement represents an extinguishment of the original facilities. The new facilities were recognised at their fair values as at 22 December 2017, with the difference recorded within profit or loss, and presented as part of the net gain on the implementation of the Senior Lender Scheme and disposal of the UK operations.

(iii) Acceleration of share based payments

The transfer resulted in the acceleration of Share Based Payments to former owners due to employees of the UK subsidiaries. The associated cost has been recognised in profit or loss, and presented as a component of the net gain on the implementation of the Senior Lender Scheme and disposal of the UK operations.

(iv) Transaction costs relating to scheme of arrangement

Following the deconsolidation of the UK operations on 15 December 2017, additional transaction costs of \$389,660 have been incurred subsequent to this date for the scheme of arrangement. As a result, the total transaction costs relating to scheme of arrangement at 30 June 2018 is \$7,094,324.

Notes to the Financial Statements

For the Year Ended 30 June 2018

10.6. Financial performance from discontinued operation – Australia

Discontinued operations – Australia

On 7 February 2018, the Company announced that it had undertaken an internal review and have broadened the review of Personal Injury practices. Following the review, the Company determined it would:

- Downsize the General Law business, by winding down or divesting the practice areas of Succession, Criminal, and Family Law, to focus on Personal Injury, Class Actions and the Industrial/Union practice;
- Retain a smaller commercial litigation practice;
- Expand Union Services to maintain a criminal services offering and free wills to union clients;
- Continue to focus on improving the firm's service delivery.

The businesses that are subject to divestment or closure under this plan represent a separate major line of business, and are therefore presented as discontinued operations.

The financial performance and cash flow information presented are for the periods ending on the various disposal dates (April – June 2018) and the year ended 30 June 2018.

	30 Jun 2018 \$'000	30 Jun 2017 \$'000
Revenue	16,308	29,800
Other income	3	51
Expenses	(29,632)	(28,306)
Profit / (loss) of discontinued operation before income tax expense	(13,321)	1,545
Income tax (expense) / benefit	3,996	(464)
Profit / (loss) from discontinued operations net of tax	(9,325)	1,081

10.7. Carrying value of net assets divested – Australia

The carrying amounts of assets and liabilities as at the date of transfer were:

	30 Jun 2018 \$'000
Assets	
Receivables	390
Work in progress	7,818
Property, plant and equipment	204
Total assets	8,412
Liabilities	
Provisions	255
Deferred tax liabilities	2,269
Total liabilities	2,524
Net assets	5,888

Notes to the Financial Statements

For the Year Ended 30 June 2018

10.8. Assets held for sale – Australia

Two of the businesses being sold remained on hand at 30 June 2018. The assets and liabilities expected to be transferred as part of the sales have been classified as held for sale at 30 June 2018.

The carrying amounts of assets and liabilities as at 30 June 2018 were:

	30 June 2018 \$'000
Current assets	
Work in progress	133
Property, plant and equipment	-
Total assets	133
Current liabilities	
Deferred tax liabilities	40
Total liabilities	40
Net assets	93

These assets are measured at the lower of their carrying value and their fair value less costs to sell. An impairment loss of \$358,000 was recognised as a result of writing down the assets in the disposal group down to their fair value less costs to sell.

10.9. Cash flows arising from disposal – Australia

	30 Jun 2018 \$'000
Consideration paid, satisfied in cash	(228)
Cash and cash equivalents disposed of	-
Net cash outflows	(228)

10.10. Loss from discontinued operations – Australia

The loss arising on disposal of the business is determined as follows.

	2018 \$'000
Carrying value of net assets disposed	(8,157)
Consideration received	1,908
Transaction costs	(1,914)
Income tax (expense) / benefit	217
Net (loss) on disposal of the Australian businesses	(7,946)

Slater and Gordon Limited

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 24 to 70 and the directors' report are in accordance with the *Corporations Act 2001* and:

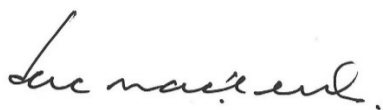
- (a). Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b). As stated in Note 1, the financial statements also comply with International Financial Reporting Standards;
- (c). Give a true and fair view of the financial position of the consolidated entity as at 30 June 2018 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that:

- Slater and Gordon Limited will be able to pay its debts as and when they become due and payable.
- the Company and the group entities identified in Note 6.1 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations Instrument 2016/785.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

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



James MacKenzie

Chair

Melbourne

29 August 2018

Independent Auditor's Report to the Members of Slater and Gordon Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Slater and Gordon Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. We have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Senior Lender Scheme Implementation and United Kingdom (UK) Discontinued Operations

Why significant	How our audit addressed the key audit matter
<p>In December 2017, the shareholders of the Company approved a recapitalisation of the Group with the implementation of a creditors Scheme of Arrangement (“the Senior Lender Scheme”).</p> <p>The disposal of former UK subsidiaries and related operations was conditional on a number of transactions comprising the Senior Lender Scheme, the issue of equity in the Australian parent company to the Senior Lenders and the reduction of outstanding debt facilities.</p> <p>The transactions were determined to be economically linked and could not have occurred independently as they achieve an overall economic outcome.</p> <p>The Group’s disclosures regarding the Senior Lender Scheme Implementation and UK Discontinued Operations are included in Note 5.2.2 and Notes 10.1, 10.2 and 10.3 of the financial report.</p> <p>Given the estimates and judgements involved in the timing of separation and the calculation of the net gain on disposal, this transaction was considered to be a Key Audit Matter.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ Assessed the accounting treatment for this transaction including the timing of recording the associated net gain on disposal, the presentation of the net gain on disposal as an aggregate amount and the loss of control of the UK subsidiaries. ▶ Considered the requirement to record the issue of equity to the Senior Lenders in the Australian parent company at fair value, being the Company’s share price of \$3.35 on the date of the scheme implementation in accordance with Australian Accounting Standards. An independent expert’s report in relation to the Senior Lenders Scheme made an assessment that the implied equity value of the Group at the time of issuance was in the range of \$0.30 - \$1.10 per share. ▶ Assessed the quantitative and qualitative factors used by management to support the extinguishment of all existing UK borrowings and the reduction of Australian debt facilities. ▶ Assessed the determination of those operations considered discontinued under Australian Accounting Standards at 30 June 2018. ▶ Assessed the key assumptions used as part of management’s valuations of the Convertible and Promissory Notes. We involved our valuation specialists to assist in the work where we considered such expertise was required. ▶ Considered the adequacy of the financial report disclosures contained in Note 5.2.2 and Notes 10.1, 10.2 and 10.3 and the presentation in aggregate as part of the overall net gain on disposal of discontinued operations.

Going concern

Why significant	How our audit addressed the key audit matter
<p>As disclosed in Note 1.1 to the financial report the Directors concluded that in their opinion, despite the Group continuing to generate operating losses there are reasonable grounds to believe that the Group has the ability to pay its debts as and when they fall due. The financial report has been prepared on a going concern basis.</p> <p>The going concern assumption is fundamental to the basis of preparation of the financial report. Given the judgment involved in the preparation of cash flow forecasts to support the going concern conclusion, this was considered a Key Audit Matter.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ Evaluated the assumptions made in the budget and the cash flow forecasts approved by the Board. ▶ Assessed the consistency of the assumptions included in the cash flow model with statements related to future plans and commitments contained in the directors report. ▶ Considered the historical accuracy of the Group's cash flow forecasting by reference to actual results in prior periods compared to Board approved budgets. ▶ Considered the impact of a range of sensitivities to the cash flow model to assess the breakeven position, including reference to financial covenants related to the Group's borrowing facilities. ▶ Assessed the adequacy of the going concern disclosures contained in Note 1.1.

Work in Progress and Associated Revenue Recognition

Why significant	How our audit addressed the key audit matter
<p>Work in progress (WIP) is significant to the Group, comprising 64.5% of total assets. Movements in WIP are included in revenue recognised for the year.</p> <p>The Group's disclosures regarding WIP and the associated revenue recognised are included in Notes 3.1 and Note 4.3 to the financial report.</p> <p>The Directors' determination of the carrying value of WIP and its associated revenue streams involves significant judgement, data analysis and complexity.</p> <p>The Group considers each revenue stream in isolation and makes judgements in relation to:</p> <ul style="list-style-type: none"> ▶ The identification of a contract ▶ The identification of the performance obligations as part or within a contract 	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ Considered whether the Groups' accounting policy for WIP complied with Australian Accounting Standards, in particular AASB 15 <i>Revenue</i>. ▶ Obtained details of WIP recognised for each revenue stream at balance date and applied sampling techniques to select individual legal matters ("cases") for testing. ▶ Assessed that cases subject to divestment or wind down due to the Group's decision to exit certain Australian law practices, were excluded from the data models. ▶ Obtained evidence to support the case status that had been allocated to each case file by the responsible professional. Evidence obtained was assessed against the coding guidelines of the Group.

Why significant	How our audit addressed the key audit matter
<ul style="list-style-type: none"> ▶ Determination of the transaction price, particularly for revenue streams accounted under a “no win no fee” basis ▶ Allocation of the transaction price ▶ Recognition of revenue when a performance obligation is satisfied <p>To validate the judgements made in relation to WIP, the Group develops a series of data models based on historical information over a two year period. Data included in these models provides a methodological approach to determine the valuation status.</p> <p>Accordingly, this was considered a Key Audit Matter.</p>	<ul style="list-style-type: none"> ▶ Assessed the data that supports the judgements that were included in the data models. ▶ Assessed the movements in the cases profile including changes in status and ageing. ▶ Involved our data quality specialists to assess the accuracy and integrity of both the data (historical information over a two year period) and the workings of the models. This was completed using data analytic procedures to re-perform, re-calculate and check key calculations. ▶ Assessed the completeness of the portfolio included in the data model. ▶ Considered the adequacy of the financial report disclosures contained in Notes 3.1 and Note 4.3, in particular those regarding assumptions to which the outcome of the data models is most sensitive.

Recoverability of Trade Receivables and Disbursements and Associated Provisioning

Why significant	How our audit addressed the key audit matter
<p>Trade receivables and disbursements are significant to the Group, comprising 24.8% of total assets, net of provisions for impairment.</p> <p>The recoverability of trade receivables and disbursements is a highly subjective area due to the nature of the legal case profile and the level of judgement applied by the Group in determining provisions.</p> <p>The timing of the recognition of trade receivables is also subject to judgement as it is related to the progress and expectation of successful case outcomes.</p> <p>Accordingly, this was considered a Key Audit Matter.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ Assessed the assumptions used to calculate the trade receivables and disbursements provisions for impairment. ▶ We assessed the timing of the recognition of invoices in line with the expectation of successful case outcomes. We obtained evidence to support the case status for ongoing matters and assessed against the coding guidelines of the Group. ▶ We performed analyses of ageing of receivables and disbursements, collection history, future collections strategies and assessment of significant overdue individual trade receivables and disbursements. ▶ Considered the adequacy of disclosures of Note 4.2 to the financial report.

Litigation Matters and Subsequent Events

Why significant	How our audit addressed the key audit matter
<p>The Group is and was subject to a number of Shareholder Class Actions and other legal proceedings. These matters are detailed in Note 7.4 and Note 7.5.</p> <p>In December 2017, the Federal Court approved a scheme of arrangement between the Group and shareholder claimants which became legally effective. Under the scheme of shareholder arrangements the claimants released the company and its officers from any shareholder claims.</p> <p>Certain matters detailed in Note 7.4 and Note 7.3 remain ongoing.</p> <p>Due to the subjective nature of accounting for the scheme of arrangement, the ongoing matters and the related disclosures, this was considered a Key Audit Matter.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> ▶ Obtained all settlement and claim documentation in relation to the settled Class Action and other legal proceedings. ▶ For those matters ongoing, met with the Group's Internal General Counsel in relation to the status of the legal proceedings and to assess how these matters were accounted for or disclosed. ▶ Considered the conditions noted in Note 7.4 and Note 7.5 for factual accuracy. ▶ Considered the adequacy of the financial report disclosures contained in Note 7.4 and Note 7.5.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. The Company's 2018 Annual Report is expected to be made available to us after the date of this auditor's report. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

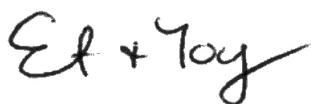
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 22 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Slater and Gordon Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Christopher George
Partner
Melbourne
29 August 2018