

SLATER & GORDON LIMITED

ANNUAL REPORT 2011-2012

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**Slater &
Gordon**
Lawyers

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**Slater &
Gordon**
Lawyers

Established in 1935, Slater & Gordon has built a powerful reputation as a law firm which fights for the best outcomes for everyday people. Innovation has been a hallmark of our long history, from the many landmark legal cases we have run and won to the controversial introduction of No Win - No Fee™.

In 2007 Slater & Gordon became the first law firm in the world to list on a Stock Exchange. Today we employ 1350 people in 69 metropolitan and regional locations in Australia, more than any other law firm in the country. In the UK we now employ 425 people across 10 locations.



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Our year



In brief

Financial highlights

Revenue up by 19.4% to

\$217.7 million

Normalised NPAT up 15.6% to

\$33.4 million

Total full year dividend per share of

6 cents

Compound annual revenue growth since 2007 listing of

29%

Business highlights

Entered UK market

Expanded into the large UK market via acquisition of Russell Jones & Walker

Strong growth in core business

Stable organic growth of 8% in core Australian Personal Injuries practice.

Expanded range of services

Acquired Australia's largest specialist conveyancing firm and launched innovative fixed-fee family law product.

Strong client and staff satisfaction

Client satisfaction rises to 91% and staff satisfaction reaches 86% in 2012 surveys.

Result summary

	2012 \$million	2011 \$million	Change \$million	Change %
Total Income	217.7	182.3	35.4	19.4
Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)	45.7	48.5	(2.8)	(5.8)
Normalised Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)	57.7	49.9	7.8	15.6
Net Profit After Tax	25.0	27.9	(2.9)	(10.4)
Normalised Net Profit After Tax	33.4	28.9	4.5	15.6
Basic EPS (cents)	16.2	19.1	(2.9)	(15.2)
Basic Normalised EPS (cents)	21.7	19.8	1.9	9.6
Diluted & Normalised EPS (cents)	21.0	19.0	2.0	10.5
Total Dividend per share (cents)	6	5.5	0.5	9.1

Normalised for the \$10.5 million write down of the investment in work in progress and paid disbursements in the Vioxx class action and \$1.5 million in acquisition costs.

Chair's report

Dear shareholder

On behalf of Slater & Gordon Limited, I am pleased to present the Annual Report for the 2012 financial year.

We have enjoyed another successful year with strong increases in revenue and earnings assisted by the second half-year performance. Total group revenue was up 19.4% on the previous year to \$217.7 million. Revenue of \$206.0 million for the Australian business exceeded the guidance provided at the half year.

Net profit after tax (NPAT) was \$25.0 million, down 10.4% on the previous year after the write down of \$10.5 million in work in progress and disbursements on the Vioxx class action. Unfortunately for our many very deserving clients the case was lost on appeal and leave to appeal to the High Court was not granted.

Normalised (for the Vioxx write down) NPAT was \$33.4 million, up 15.6% on the previous year. Normalised earnings before interest, tax, depreciation and amortisation (EBITDA) margin was 26.4% for the group. Normalised EBITDA for the Australian business was 26.7%, ahead of the guidance given at the half year.

The cashflow from operations for the Australian business was at 50% of NPAT before the Vioxx write down. This was below the company's guidance range for the year of 65-70% of NPAT due to billing being weighted more strongly than expected to June 2012. The priority is to improve cash from operations by diversifying the business mix, using external disbursement funding in the Personal Injury practice and litigation funding in the Class Action practice.

The highlight of FY12 was the acquisition of prominent UK law firm Russell Jones & Walker which, like Slater & Gordon, has a substantial personal injuries practice, but in a market that is 4-5 times the size of the Australian market.

We are also pleased to report that our Australian Personal Injuries practice delivered strong organic growth of 8%.

Both these achievements are consistent with our strategy of leading the consolidation of the personal injuries legal market in Australia, and now in the UK.

We continued with our strategy of expanding into a broader range of consumer legal services through both acquisition and innovation. Our managing director Andrew Grech will report further on this aspect of our business as well as the good progress we have made with executing our strategy in FY12.

A low point during the year was the loss on appeal of the Vioxx class action and subsequent rejection of the lead plaintiff's application for special leave to appeal to the High Court. As we conducted this matter on a No Win - No Fee™ basis, the board determined to write down the full \$10.5 million value of the company's investment in the action, notwithstanding that some cases may still proceed.

However we were encouraged by the achievement of a successful settlement, just after the close of the financial year, of a court action on behalf of the lead plaintiff of a group affected by disabilities caused by the use of the drug thalidomide during pregnancy. This action was conducted as a joint venture with Gordon Legal on a No Win-No Fee™ basis for the lead plaintiff.

In March 2012 Anna Booth, the Chair of our board, left to take up a new role as Deputy President of Fair Work Australia. This prestigious appointment was recognition of Anna's expertise and career-long dedication to improving workplace relations. The board and staff of Slater & Gordon thank Anna for her outstanding leadership as Chair of the company since listing in 2007 and wish her success in her new role. I have assumed the role of Chair since Anna's departure and the board is currently recruiting a new non-executive independent director.

I would like to thank my fellow board members for their support and contribution over the past year, and for their support for me in the role as Chair. The board is excited about the year ahead as the strategy that we have been executing since listing really starts to take shape.

On behalf of the board I would also like to thank our employees across Australia and the UK for their hard work. Their dedication and commitment to our clients is critical to our success.



Yours sincerely,

A handwritten signature in black ink, appearing to be 'John Skippen', written over a white background.

John Skippen
Chair

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Managing director's report

Dear shareholder Slater & Gordon Limited has delivered another year of strong results in FY12.

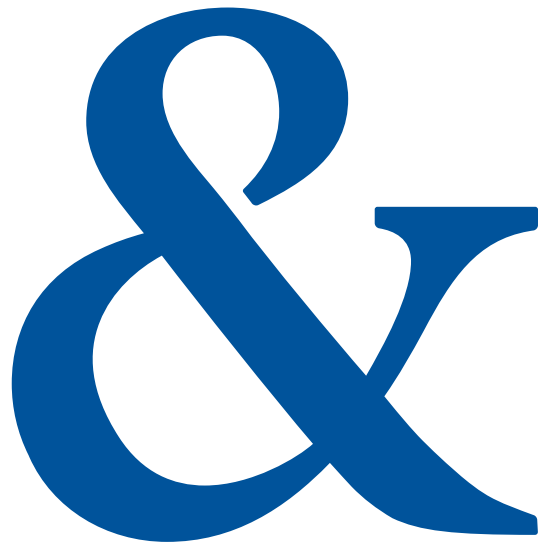
Since we listed as a public company in May 2007 we have increased our revenue by 273% from \$79.7 million in FY08 to \$217.7 in FY12 and delivered a compound annual growth rate of 29%. We have consistently outperformed the market with a three year average revenue growth to FY12 of 28.3%, compared to an ASX Small Ordinaries Industrials average growth rate in FY11 of 8.3%.

Our growth in Australia has been both organic and achieved through acquiring and integrating complementary businesses. We have supported this growth by investing in infrastructure and people to ensure we continue to deliver professional, effective and affordable legal services for everyday Australians through our network of 69 offices across Australia.

Through the execution of our growth strategy we have built our Australian Personal Injuries practice to a size that can maintain consistent organic growth at 5-7% annually.

In FY12 we entered the UK market which is 4-5 times larger than the Australian consumer legal services market and offers further exciting growth opportunities. We also continued to diversify our range of consumer legal services with investment in conveyancing and family law.

I am also pleased to report that throughout the recent period of growth and diversification we have continued to improve on our already high levels of client and staff satisfaction. Client satisfaction increased to 91% and staff satisfaction to 86% in surveys conducted in FY12.



Highlights

Consolidated presence in Queensland and NSW following the investment in acquisitions in FY11. Trilby Misso is continuing to grow organically and the former Keddie's practice is now integrated into Slater & Gordon, with a stronger second half performance providing a solid platform for future growth.

Expanded service offerings through the acquisition of Conveyancing Works, the largest specialist conveyancing firm in Australia, with the rollout of a new conveyancing model nationally now on track. We also launched an innovative family law fixed-fee product nationally.

Expanded into the UK via the acquisition of Russell Jones & Walker which delivers geographic expansion and diversification in a much larger market.

Continued strong results in client and employee satisfaction surveys with 2012 surveys showing client satisfaction has increased to 91% and employee satisfaction has increased to 86%.

We have supported this growth by investing in infrastructure and people to ensure we continue to deliver professional, effective and affordable legal services for everyday Australians through our network of 69 offices across Australia.



The year in review

I am pleased to report strong progress in FY12 against each element of our strategy.

Lead the consolidation of the personal injury litigation market

Plaintiff personal injury litigation comprises 80% of the Australian business of Slater & Gordon and we are now the clear market leader in Australia. The performance of the mature Victorian Personal Injuries practice in FY12 shows us what we can achieve when we have critical mass combined with our strong brand, excellent people and systems. We are now approaching similar scale in New South Wales and Queensland and we are starting to see the results of our investment in those markets. The combined Australian Personal Injuries practice delivered 8% organic growth in FY12.

Extend the geographic reach of the business

Following a recent change to the regulatory framework in the UK which allowed for ownership by a public company, Slater & Gordon acquired RJW, a law firm with a strong personal injuries practice and a diversified practice including employment law, criminal & regulatory law and family law. RJW has 10 offices in the UK with the largest being in London, Manchester, Sheffield and Birmingham. Since acquisition RJW has performed in line with expectations, contributing \$11.5m to the revenue result in the two months since completion.

In Australia, through our acquisition of Conveyancing Works, we gained offices in Queensland in Brisbane, Cairns, Caloundra, Hervey Bay, Mackay, Maroochydore, Palm Beach, Rockhampton, Southport and Townsville. We also opened offices at Bendigo and Cranbourne in Victoria and Campbelltown in New South Wales. In all we have 69 offices nationally, more than any other law firm in Australia.

Expand the range of services we offer our clients

In FY12 we made a significant investment in family law and conveyancing. We launched an innovative family law fixed-fee product in Victoria and subsequently rolled it out nationally – we are now the largest national family law practice. We also acquired the Queensland-based Conveyancing Works and are rolling out the conveyancing model nationally. In FY12 Conveyancing Works delivered in line with expectations despite a soft Queensland housing market.

Build the brand as a driver of new business

We continue to invest in our high profile national Slater & Gordon brand and the Trilby Misso brand, which is the best-known personal injuries brand in Queensland. In FY12 we received over 85,000 new enquiries in Australia as a result of our marketing and media coverage.

We are realising more value from these enquiries by focusing our effort on increasing our conversion rates from enquiry to client, and increasing the take-up by existing clients of the expanded range of Slater & Gordon services. We are also investing in improving client service through training our people and upgrading our systems. Our March 2012 client satisfaction survey results showed continuing improvement with a client satisfaction level of 91%.

Build our position in major litigation cases

We continued with our large-scale litigation project work, achieving the settlement and Court approval of the Centro class action in FY12. This was Australia's largest shareholder class action settlement. To achieve more predictable revenue growth in this area, we collaborate with litigation funders.

Outlook

Personal injury

The focus is now on sustainable organic growth in our Australian Personal Injuries practice at around 5+% annually. We are also making incremental improvements to our profit margin, and a new third party disbursement funding arrangement for our Australian Personal Injuries practice is expected to contribute to improving the cashflow from operations in over time.

Building the brand

In July 2012, a major new advertising campaign was launched in all our major markets in Australia with the aim of achieving even greater market penetration. Whilst increasing the overall number of enquiries remains important we also aim to obtain greater value from each enquiry by improving our client service and systems to increase client satisfaction, conversion rates and the take-up of the expanded range of Slater & Gordon services.

Expanded range of services

In our view the potential to exploit the Slater & Gordon brand in markets outside personal injuries is still largely untapped. We are encouraged by the progress we have made in conveyancing and family law and the focus in FY13 is on building high growth national practices in these areas.

The diversification into non-personal injury practice areas which have lower working capital requirements, and shifting the funding requirements of our class action practice to third party litigation funders will contribute to a stronger future cashflow result.

UK

Our acquisition of RJW provides us with a future growth platform in the UK. RJW is forecast to deliver 8% organic growth and we will develop plans to accelerate the growth rate over time. The UK business is more diversified than the Australian business with generally lower working capital requirements and the full year contribution is also expected to improve the cashflow from operations.

Our people

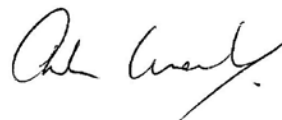
In FY12 our staff satisfaction survey result increased to 86%, a result of which we are justifiably proud. We will continue to invest in training and systems to assist our people to excel in their work for our clients. There are many examples of the success achieved by our many staff on behalf of clients over the year. It is a great tribute to the quality of our people that client satisfaction levels rose to 91% over the year.

FY13 Financial targets

- ▶ Total group revenue \$290 million
- ▶ UK business revenue of \$72 million
- ▶ EBITDA margin in range of 24-25%
- ▶ Cash from Operations >70% of NPAT

I would like to thank our clients in Australia and in the UK for allowing us to work on their matters and I would like to thank our staff for their hard work and commitment to delivering high quality legal services to our clients.

Yours sincerely,



Andrew Grech
Managing Director





Business overview

Slater & Gordon employs over 1,350 people in 69 metropolitan and regional locations across Australia. We have more locations than any other law firm in the country, allowing us to offer national expertise with local delivery. We have offices in every state and territory except the Northern Territory. We are also in the UK as a result of our acquisition of law firm Russell Jones & Walker.

Our core practice is in personal injury litigation services, which comprises 80% of the revenue of the Australian business. Most of this work is performed on a No Win - No Fee™ basis where legal fees are paid on the successful conclusion of the client's matter. We have specialist legal teams in the areas of motor vehicle accidents, workers compensation, asbestos litigation, medical law, public liability, comcare and military compensation, and total and permanent disability insurance claims. With the acquisition of Trilby Misso in Queensland and Keddies in New South Wales, we are now the market leader in Australia in personal injury litigation and have a stronghold in the eastern states of Australia. The focus in this practice is now on efficiency improvements and continued organic growth. Trilby Misso continues to operate as a separately branded business in Queensland.

We also continue to expand our range of consumer legal services. Slater & Gordon has a longstanding class action practice and industrial and employment law practice. However, in recent years we have leveraged our brand strength and national network to diversify and build our capability in other consumer legal services. Our personal legal services group offers family and relationship law, conveyancing, wills, wealth protection and succession planning, probate and administration services (including safe custody services).

We are focusing our short-term investment in family law and conveyancing. Slater & Gordon is now the largest national family law practice and during the year we launched the Family Law Fixed Fee product which aims to get quick and economic results for clients. This product has resulted in a significant lift in new client enquiries.

We also acquired Conveyancing Works, the largest specialised conveyancing firm in Australia in late 2011. Conveyancing Works developed a platform and practice management system which enables it to complete high volumes of transactions for clients efficiently, keeping the cost to the client low. The platform and management expertise obtained through this acquisition underpin the national rollout of Slater & Gordon's conveyancing practice. Conveyancing Works continues to operate as a separately branded business in Queensland. It is based in Brisbane and has nine offices.

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The business and specialised Litigation group brings together the non-personal injuries litigation focused practices and the central activity of the group is commercial and project litigation. Teams devoted to estate litigation and criminal law and regulation have been added to the group.

Project litigation

Slater & Gordon has a long and proud history of involvement in group or class actions on behalf of our clients. We continued with our large-scale litigation project work in FY12 with settlement and Court approval of the Centro class action.

In June 2012 the Federal Court approved the terms of settlement in the long-running Centro shareholder class action which was commenced in May 2008 following the near collapse of the Centro group in late 2007. Our clients were shareholders in the Centro group who alleged that the company and its auditor PricewaterhouseCoopers had misled the market by failing to reveal critical information about billions of dollars in short term debt. Our clients, about 5000 mostly mum and dad investors, agreed on a settlement figure of \$50 million. When combined with the settlement of a parallel proceeding run by other solicitors, the result represented the biggest shareholder class action settlement in Australia's history.

We have continued our emphasis on collaborating with litigation funders on project litigation to achieve more predictable revenue growth in this area. In Centro, Slater & Gordon's legal costs were funded by Comprehensive Legal Funding LLC.

Two further class actions settled shortly after the close of FY12. In July 2012 a court action brought by the lead plaintiff of a group affected by disabilities caused by the use of the drug thalidomide during pregnancy settled successfully.

This action was conducted as a joint venture with Gordon Legal on a No Win-No Fee™ basis for the lead plaintiff. In early August the shareholder class action against Nufarm Ltd settled. In that matter, Slater & Gordon acted for investors in Nufarm and our legal costs were funded by Comprehensive Legal Funding LLC.

Entry into UK market with acquisition of Russell Jones & Walker

During the year changes to UK legal regulation gave us the opportunity to capitalise on our experience as the world's first listed law firm and expand our business into the UK with the acquisition of prominent law firm Russell Jones & Walker. About 60% of RJW revenue is in personal injury litigation. It also has a strong employment law practice and a growing practice in family law. The acquisition includes RJW's Claims Direct brand, which operates as a marketing co-operative for a number of law firms, the legal enquiries derived from Claims Direct marketing being allocated to the members of the co-operative. Claims Direct is currently the third most recognised legal brand in personal injury litigation in the UK. The acquisition has provided Slater & Gordon with the opportunity to enter the UK market via a well aligned, established and investment ready partner.



Neil Kinsella, CEO, Russell Jones & Walker.



Business overview

Brand and marketing

Slater & Gordon is one of Australia's best-known consumer brands - we had over 85,000 enquiries from potential clients during the year. The Slater & Gordon group now includes five brands in total: Slater & Gordon (national), Trilby Misso Lawyers and Conveyancing Works (Queensland), Russell Jones & Walker and Claims Direct (UK). Market research enables us to explore attitudes towards our brand, our services and the likelihood of people engaging us for other legal services. During FY12 our research included focus groups across a number of our emerging on-personal injury practices. The research enabled us to better understand our target clients and their motivations and influences when selecting a lawyer. This research revealed that our customers vary greatly by practice group, and the importance of adapting our message, tone and media placement practice by practice. One of the campaigns developed following the research was the Victorian introduction of the family law, fixed fees campaign in September 2011. This integrated campaign included TV, radio, outdoor and print and was supported by a focused media campaign. The campaign was successful in driving a high level of enquiries into our family law practice as well as attracting media attention. The fixed fee service has subsequently been rolled out in Brisbane and Sydney.

In July 2012 we commenced a new advertising campaign for Slater & Gordon nationally developed in association with M&C Saatchi. The campaign covered television, radio, outdoor and online advertising and we believe it will assist us to achieve even greater market penetration with the Slater & Gordon brand. We also developed a co-branded new look for Conveyancing Works which was launched in Queensland in July 2012.



Client experience

The Client Experience team is responsible for ensuring that all people who come into contact with the firm have a positive experience so that clients and prospective clients are motivated to retain Slater & Gordon as their preferred legal provider. Client Experience looks after all facets of the process, beginning with the initial engagement through to settling of matters and also manages our contact centre, New Client Services. In addition, the team is responsible for gaining a better understanding of client satisfaction levels by researching the client experience process. The focus in FY12 was to understand the client lifecycle process and what aspects clients like and dislike which has resulted in some significant process changes.

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Our people

To ensure the ongoing success of our business we attract talented people and add value to their careers by providing them with outstanding opportunities to learn, grow and contribute. Our growth has enabled us to offer unparalleled career opportunities to our employees.

Leadership, learning and development

In FY12 we expanded our learning and development curriculum to include financial training for all fee earners, management services and support staff.

During the year we launched a pilot coaching program in Melbourne, complementing our strong suite of management development and leadership development programs. Further coaching programs will be implemented over the next year in Sydney, Brisbane and other locations. We continued to embed our leadership programs with senior support staff and lawyers within Slater & Gordon and our subsidiaries Trilby Misso Lawyers, Conveyancing Works and Russell Jones & Walker.

The wellbeing of our employees remains a priority and we launched Mental Health training at lawyer and leadership level during FY12. In addition, our network of employee contact officers received refresher mental health training in early 2012. Our contact officers are people at different levels in the organisation with whom employees can raise concerns on a confidential basis.

During the year we implemented a new learning and development framework which identifies on-the-job experiences, coaching and formal learning opportunities. These were embedded in the performance development review process for FY12 along with more defined competency maps ensuring that career development remains a strategic priority. The delivery methods for learning and development have continued to evolve with increased use of online, webinar and face-to-face sessions. This allows all employees to have access to quality development opportunities regardless of location.

Enterprise agreement

Our Enterprise Agreement was negotiated for a further three years in late 2011 and was ratified in early 2012. The Enterprise Agreement expanded job families to include new roles in some occupational groups to support the transition of support staff into junior fee earning staff and also provide additional job opportunities in some management services groups. The agreement identified a clear link between performance and pay in the third year of the agreement. Entitlements such as paid parental leave for primary care givers and shutdown leave have also been increased.



Workplace health and safety

During the year we revitalised our health and safety framework, clearly defining the policies, practices and procedures that are essential to working safely at Slater & Gordon. The increased level of monitoring and the introduction of traffic light reporting has minimised, controlled or eliminated identified hazards by 88% since October 2011. We also launched the new REACH wellbeing program, enabling our employees to access a range of services tailored towards their individual, financial and general health.

Employee survey 2012

This year the annual employee survey was completed by nearly 70% of our workforce, showing a high level of engagement with our organisational and local leadership. Increased positive scores have been achieved in all categories since 2010, which was pleasing considering that the growth of our workforce and locations was significant during this time.

The survey highlights include:

- ▶ increased positive scores in overall satisfaction (86% positive)
- ▶ increased positive scores in the level of job satisfaction (88% positive);
- ▶ increased positive scores in the opportunities to grow and develop (75% positive);
- ▶ increased positive scores in leadership (77% positive); and
- ▶ increased positive scores in relation to the level of engagement that our employees have to the work that the organisation does (89%).



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Our people

Valuing diversity and inclusiveness

At Slater & Gordon we recognise and respect the value of human differences. As an organisation we aim to create an environment where the diverse experiences, perspectives and backgrounds of our people are valued and utilised. We foster an inclusive and supportive culture where our interactions with each other and with our clients are characterised by mutual respect.

Diversity is shaped by a variety of characteristics including age, gender, cultural background and physical ability. It also encompasses different ways of thinking and ways of working so that we can best serve our diverse range of clients and client matters.

During the year we celebrated diversity in a number of ways, including:

- ▶ celebrating International Women's Day (8 March) in our Melbourne, Sydney and Brisbane offices, with influential women from the firm speaking about their personal experiences of raising families and their career progression;
- ▶ asking employees to complete a short survey to elicit information on the culturally and linguistically diverse backgrounds of our employees, with the results to be analysed during FY13; and
- ▶ creating a section on our website dedicated to diversity and inclusiveness detailing Slater & Gordon's commitment and achievements in this area.

In addition, the Human Resources team launched an online booklet on gender, diversity and inclusiveness which outlines the findings from the Gender Diversity and Inclusiveness project, and the initiatives that will be implemented in FY13 to improve our inclusion of women in the workplace and remove the barriers to their progression.

“As an organisation we aim to create an environment where the diverse experiences, perspectives and backgrounds of our people are valued and utilised.”

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Social responsibility

Slater & Gordon in the community

Since our inception, Slater & Gordon has supported causes and initiatives that benefit our client base and local communities. Today that support includes pro bono legal help, grants for medical research, financial help for disadvantaged members of the community, contributions to community projects and staff participation in community events and fundraising.

During the year we appointed a social responsibility manager to support our existing public interest programs by developing communication, governance and reporting strategies; and to develop further programs aligned with our values to benefit the community, the environment and our stakeholders.

Pro bono

During FY12 Slater & Gordon continued to provide pro bono legal services for special public interest cases and community groups.

Our lawyers acted on behalf of six asylum seekers held in immigration detention who were minors or at risk of serious mental harm. As a result of our advocacy all six were removed from immigration detention centres and transferred into community detention.

We have also been acting pro bono for a Western Australian wheat farmer who had approximately 70% of his land stripped of its organic certification after it was contaminated by genetically modified (GM) canola seed blown in from a neighbouring property. Proceedings were issued in the Western Australian Supreme Court April 2012 in a landmark case which seeks to recover the farmer's losses. Growing GM canola is legal in Western Australia and there is no statutory scheme in place to compensate farmers affected by GM contamination. This case marks the first time these issues have been litigated, and hopefully will determine how the conflict between statutory rights and common law rights are managed and resolved. This case has greater ramifications for how Australian law will deal with the conjunction of personal and statutory rights and the competing rights of landowners in this context. It has the potential to drive law reform around the farming of GM foods in Australia.

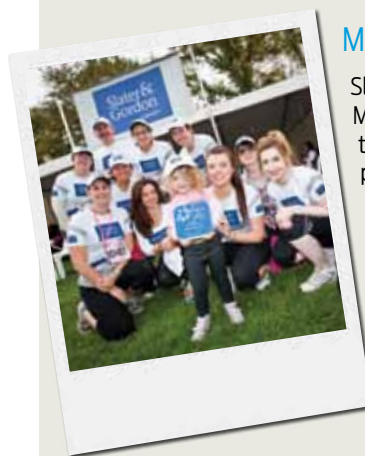
Community engagement

Slater & Gordon is committed to developing sustainable partnerships with community groups to provide them with longer term benefits. To this end we have formed a 12 month partnership with Ardoch Youth Foundation, a not-for-profit group supporting disadvantaged early childhood, primary and secondary school students to help them achieve better educational outcomes. The Literacy Buddies™ pen pal program aims to enhance the literacy skills of students and provide positive working role models by matching Little Buddies from a primary school in Corio, Geelong with Slater & Gordon Big Buddies. Twenty two of our staff signed up. The Buddies exchange handwritten letters throughout the year and will also participate in an excursion and etiquette lunch. The program enhances the lives of both groups with positive feedback received from the Big Buddies as well as the Little Buddies.



Mother's day classic

Slater & Gordon is a national gold sponsor of the Mothers Day Classic run/walk event. In May 2012 more than 300 staff, family members and supporters took part in the event across capital cities and regional locations. In 2012 the Mother's Day Classic enjoyed record participation – 125,000 people across Australia ran or walked in 10 cities and 53 regional locations. The event raised \$4 million for National Breast Cancer Foundation research programs - the most in the event's 15 year history.



Social work services

Three years on, the Slater & Gordon Social Work Service is highly regarded, embedded and used within the organisation. Social work services are provided by our three social workers to clients predominantly from the Personal Injury practice groups in Victoria, NSW and the ACT.

Clients are often in financial difficulties and this can lead to additional problems with housing, accessing services, at risk behaviours and emotional distress. More than 260 clients were referred to the service in FY12 and more than 500 clients have been referred in total since the service commenced in May 2009.

Slater & Gordon also runs a well-regarded legal education program for the social work profession. We continue to provide free education to social workers in Victoria, NSW, QLD, ACT and WA. A number of these sessions have been provided in partnership with the Australian Association of Social Workers (AASW) and hospital social work departments. Approximately 1,000 social workers have attended sessions in FY12.



Philanthropy

Slater & Gordon staff giving program and community fund

Staff giving program

Last year Slater and Gordon staff contributed a total of \$26,668 through the Staff Giving Fund. This was matched dollar for dollar by the firm, with more than \$53,000 available to be distributed to community groups and social justice initiatives. Approximately \$41,000 was distributed through the Slater & Gordon Fund and approximately \$13,000 through the Asbestos Research Fund. Details of the grants are provided below.

The Slater & Gordon fund

The Slater & Gordon Fund was established in 2001 to assist people who were marginalised or vulnerable as the result of the catastrophic financial effects of an injury. The focus of the fund has since broadened to include projects that embrace social justice values and which are in need of financial support.

During the year the Slater & Gordon Community Fund distributed grants totaling \$41,580 including:

- ▶ \$4,580 to Ardoch Youth Foundation for "Mr Worrythoughts", a play performed in primary schools as a way of addressing mental health issues in children. The grant covered the cost of three performances for 240 children from six primary schools in the Geelong region. Slater & Gordon staff members from our Geelong office attended one of the performances.
- ▶ \$5,000 to UnitingCare Youth Services. The grant was used to purchase gifts and hampers which were distributed to young people in need, and also funded the Christmas party which was a memorable experience for staff and volunteers.
- ▶ The Friends of Zainab scholarship program was formed by the Public Education Foundation to provide financial support to refugee students completing years 11 and 12. Last year the program received \$5,000 from our Community Fund which supported five former refugees in secondary education throughout the year.

- ▶ \$16,000 to Ardoch Youth Foundation for their Broadening Horizons program. Our grant incorporates the Literacy Buddies™ program, an excursion and an etiquette lunch, which directly assists Ardoch in their early intervention program to support school aged children in disadvantaged areas.
- ▶ \$5,000 to Human Rights Law Centre for Changemakers Advocacy Projects. Our grant allowed Changemakers, a not-for-profit group advocating for social change via increased philanthropic support, to document case studies and detail the laws related to philanthropy and advocacy.
- ▶ \$5,000 to Good Beginnings Australia Play and Learn group to fund early intervention programs for children in vulnerable communities.
- ▶ \$1,000 to St Vincent's Hospital to film and distribute free copies of "What about the Children: Keeping the children safe when your patient is a parent: a hypothetical" panel discussion.

Asbestos research fund

The Asbestos Research Fund was created in 2004 and provides funding for research and the continuing education of medical and allied health professionals in the prevention, treatment and palliation of asbestos related diseases. In FY12 the Slater & Gordon Asbestos Research Fund donated \$10,000 to the Asbestos Diseases Research Institute for research into biomarkers of mesothelioma as well as two Vojakovic Fellowships totalling \$3,500 for medical research.



Environment

In February 2012 Slater & Gordon commissioned carbon emission consultants to report benchmark data on the company's carbon footprint. Although the company already undertakes a number of environmental initiatives, in FY13 it is a management priority to coordinate this activity and set targets so improvements in our environmental performance can be measured over time.



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Our history

Established 77 years ago, Slater & Gordon has built a powerful reputation as a law firm which fights for the best outcomes for everyday Australians. In 1935 the firm opened its first office in Melbourne. Since then, Slater & Gordon has expanded across Australia and in the UK, delivering affordable legal advice and justice to more people.

1935

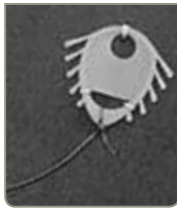
William Slater and Hugh Gordon founded Slater & Gordon as a law firm in Melbourne to service the needs of unions and their members, particularly in the area of workers compensation.



Conducted the first successful asbestos related cancer claim in Australia. Opened a major branch office in the Melbourne suburb of Footscray.

1986

Opened the first Sydney office primarily to conduct the Dalkon Shield IUD litigation.



1989

Conducted the first group settlement in Australia for 200 Wittenoom asbestos victims.



1994

Introduced the No Win - No Fee™ initiative in Australia, giving the company a competitive edge and firmly establishing Slater & Gordon as a consumer brand.

1999

Won the historic Crimmins case in the High Court, clearing the way for hundreds of waterside workers and their families to be compensated for asbestos disease.



1960-70s

Opened branch offices in Morwell in Victoria's Latrobe Valley and in the Melbourne suburb of Carlton.



1985

Opened an office in Perth to service the needs of victims of the blue asbestos mine in Wittenoom, WA.

Won the Wittenoom asbestos case.



Conducted one of the first successful HIV AIDS common law claims in the world.

1997

Conducted the Kraft peanut butter contamination case, one of the first Federal Court class action settlements.



Became an incorporated legal practice.

2001



2002

Achieved first mass breast implant settlement against Dow Corning worldwide.



Completed the acquisition of Geoffrey Edwards & Co (Sydney and Newcastle, NSW).



2007

Became the first law firm to be listed on the Australian Stock Exchange and we believe the first in the world to be listed.



Completed the acquisition of Carter Capner (Brisbane, Qld), John Micallef & Co (Keilor, Vic), Long Howland Lawyers (Gunnedah, NSW), Kenyons Lawyers (based in Melbourne's northern suburbs), McGlades Lawyers (Ballarat, Vic) and opened a new office in Hobart (Tas).



2004

Represented the ACTU and asbestos victim support groups in the James Hardie Inquiry, resulting in the establishment of a \$1.5 billion settlement fund in 2006. Launched the Slater & Gordon Asbestos Research Fund with an initial commitment of \$500,000.



2006

Completed the acquisition of Maurice May & Co (Sydney and Wollongong), Reid & Reid (Newcastle), Gary Robb & Associates (ACT) and Paul J Keady & Associates (Broken Hill).



2008

Completed the acquisition of D'Arcys Solicitors (Brisbane, Qld), McClellands (Sydney, Parramatta and Wollongong, NSW and ACT), Edwin Abdo and Associates (Bunbury, WA), Nagle & McGuire (Nowra, NSW), Crane Butcher McKinnon (Coffs Harbour, NSW), Blessington Judd (Sydney, NSW) and Secombs (Footscray, Vic). Also acquired some of the practices of Quinn and Scattini (Brisbane, Qld) and opened new offices in Gosford (NSW), Southport (QLD) and the Melbourne suburbs of Sunshine and Reservoir.

The family of asbestos victim Tim Lacone donated \$200,000 of the record \$2.75 million settlement to the Slater & Gordon Asbestos Research Fund. Slater & Gordon, through its community fund, donated a further \$300,000 making a total of over \$1 million available for research into asbestos related diseases since the Fund's inception.

2009

2010

Announced the acquisition of leading Queensland personal injury firm, Trilby Misso Lawyers, and completed acquisitions of Stewart & Noble Lawyers (Wangaratta, Vic) and Adams Leyland Lawyers (Albury, Dubbo and Gilgandra, NSW).

Opened new offices in Joondalup (WA), Frankston (Vic), Ipswich and Townsville (Qld) Obtained a Federal Court judgement in favour of the lead plaintiff in the Vioxx class action. Implemented an innovative resolution scheme for clients impacted by the failure of Queensland financial advisers, Storm Financial.

Celebrated the 75th anniversary of Slater & Gordon.



2011

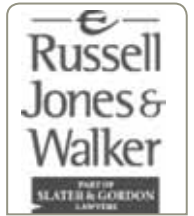
Announced the acquisition of NSW personal injury firm, Keddies.

Opened new offices in Cranbourne, Werribee and Warrnambool (Vic).

Trilby Misso opened a new office in Toowoomba and local contact centres in Loganholme and Browns Plains (Qld).

Launched Slater & Gordon Recover™ an innovative approach to professional negligence claims.

2012



Announced Slater & Gordon's entry into the UK legal market through the acquisition of Russell Jones & Walker.

Multi-million dollar settlement for Australian woman Lynette Rowe who was born without arms and legs because of thalidomide. Cases for other Australians and New Zealanders may soon follow suit.

Acquisition of Conveyancing Works, which has forecast full year revenue of approximately \$8 million and is a major step forward in Slater & Gordon's strategy of developing its non personal injury legal practices.

Slater & Gordon

Corporate governance statement

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Slater & Gordon



Corporate governance statement



The Board of the Company recognises that a genuine commitment to sound principles of corporate governance is fundamental to the sustainability of the Company and its performance.

Accessing Slater & Gordon's corporate governance policies

The Board has adopted a number of corporate governance policies that are referred to throughout this Statement. These corporate governance policies are available on the Company's website.

Board responsibility

The Board has the following responsibilities:

- ▶ reviewing and approving the strategic direction of the Company, management's implementation of strategy and the allocation of appropriate resources to achieve strategic objectives;
- ▶ selection, monitoring and evaluation of the Managing Director and overseeing and monitoring the performance and appointment of other senior management and officers;
- ▶ selecting future directors and assessing the Board and individual director performance;
- ▶ monitoring the Company's financial and business performance and financial reporting;
- ▶ approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestments;
- ▶ overseeing risk management policies, practice and performance;
- ▶ implementing high level policy framework and ratifying specific policies within that framework;
- ▶ overseeing compliance and governance policies and practices and ensuring the Company's business is conducted legally, ethically and responsibly; and
- ▶ reporting to shareholders.

The responsibilities of the Board are set out in further detail in the Director's Protocol.

Board composition

The Company's Constitution specifies a minimum of three directors (and must include at least one Legal Practitioner Director), or such other number as the directors may determine. The Board has supplemented this requirement in the Directors' Protocol which specifies that the Board shall comprise of at least five directors. As at 30 June 2012, the Board consists of five Directors: three independent non-executive directors and two executive directors who are also legal practitioners. The Board has an independent Chair and a majority of independent directors.

The Nomination and Remuneration Committee of the Board ensures that the Board consists of an appropriate number of directors and that the Directors have an appropriate mix of business skills and industry experience to meet the Board's responsibilities and objectives. The Nomination and Remuneration Committee reviews the Board's composition and succession planning on an annual basis and otherwise as Board vacancies arise.

- ▶ Select "Investors" from the menu.
- ▶ Select "Governance" from the drop-down menu.
- ▶ Select the relevant policy.





A vacancy arose in March 2012 with the resignation of Chair, Anna Booth who was appointed Deputy President of Fair Work Australia. The Board is currently undertaking recruitment for a new independent director.

Through its processes for the selection and appointment of new directors, the Board has sought to achieve a balance of complementary skill-sets covering the following competencies identified as core to the business: financial management, strategic planning, mergers & acquisitions, people management, legal practice, marketing and consumer/retail business management. Board members have also been drawn from executive and non-executive roles in a range of industries including: government, health, industrial relations, financial services, legal and retail. Board selection and succession planning processes are targeted at maintaining this balance of skills and experience.

The Nomination and Remuneration Committee is responsible for ensuring through its selection and succession planning for the Board that, having regard to the need to maintain the mix of skills and experience described above, the Directors are also drawn from diverse backgrounds. The Board has adopted a target that 50% of the Directors are women. As at 30 June 2012 20% of directors and 30% of independent directors are women. This has dropped from FY11 due to the resignation of Chair, Anna Booth, in March 2012. The Board is seeking to address gender diversity targets through the recruitment of further independent directors. The Nomination and Remuneration Committee reviews performance against this target annually.

A profile of each of the Directors and a table reporting Directors' attendance at Board meetings is provided in the Directors' Report.

Board independence

Directors are considered to be independent if they are not a member of management and are free from any business or other relationship that could materially interfere with, or reasonably be seen to materially interfere with, the independent exercise of their judgment.

The Board considers the independence of relationships on a case by case basis, but as a general guide to materiality, would consider a threshold of \$150,000 for individual directors and 2% of net profit after tax of the Company for corporate entities associated with directors to be relevant in determining materiality.

Directors are considered independent if they:

- ▶ Have not been employed in an executive capacity by S&G for the last 3 years;
- ▶ Do not have relationships as professional advisers or significant contracts with S&G (nor had any for the last 3 years) which resulted in a material payment or financial benefits being paid to them by the Company;
- ▶ Have not served on the Board for a period which could or could reasonably be perceived to materially interfere with his or her ability to act in the best interests of S&G;
- ▶ Are not a substantial shareholder of S&G or an associate or officer of a substantial shareholder of S&G; and
- ▶ Have no interest or relationship which might materially interfere with their ability to act in the best interests of S&G.

It is the Board's view its non-executive Directors Ian Court, Erica Lane and John Skippen, are independent and the Board currently consists of a majority of independent Directors.

The independence of Directors is assessed at each Board meeting. Directors are required to disclose the full extent and nature of their interests as and when they change and to comply with the constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the Corporations Act and the Directors' Protocol.

The Board has also adopted a number of additional measures to ensure that independent judgment is achieved and maintained in its decision-making processes, including:

- ▶ the Chair is an independent Director;
- ▶ the Chair of each Board Committee is an independent director;
- ▶ the Audit, Compliance and Risk Management Committee and the Nomination & Remuneration Committee are composed of independent directors only;
- ▶ Directors are entitled to seek independent professional advice at the Company's expense with prior notification to the Chair; and
- ▶ Directors having a conflict of interest must absent themselves from discussion on a matter unless the Board decides otherwise.

Corporate governance statement



Board tenure

Directors have served the following terms on the Board of Slater & Gordon Ltd:

Director	Independent	Date of appointment	Term
Andrew Grech	No-executive director	June 2001	11 years
Ken Fowlie	No-executive director	July 2003	9 years
*Anna Booth	Yes	March 2007	5 years
Ian Court	Yes	March 2007	5 years
Erica Lane	Yes	December 2008	3 years
John Skippen	Yes	May 2010	2 years

*Resigned March 2012

Chair of the board

Mr John Skippen is currently the Chair and is an independent Director. Mr Skippen has held this role since the resignation of Chair, Anna Booth in March 2012. The Chair is selected by the Board from the non-executive Directors.

Board committees

The Board uses the following Committees to support it in matters which require more intensive review. Each Committee has a written Charter, approved by the Board, defining its duties, reporting procedures and authority. Committees report back to the Board at each Board meeting. Copies of the Committee Charters are available on the Company's website.

1 Nomination and remuneration committee

The Nomination and Remuneration Committee has delegated responsibility from the Board for:

- ▶ evaluating the performance of the Board and the Directors against agreed performance standards;
- ▶ developing the selection and appointment process for directors and recommending the appointment or removal of directors;
- ▶ making recommendations on Board composition and succession planning;
- ▶ developing induction and continuing education programs for directors;
- ▶ recommending the structure and quantum of director remuneration and senior executive remuneration and ensuring that there is a separate structure for non-executive and executive remuneration;

- ▶ reviewing the performance of senior executives and ensuring that performance review and remuneration policies link performance to remuneration within the Company;
- ▶ making recommendations on succession planning for senior executives and resourcing the achievement of the Strategic Plan;
- ▶ reviewing and making recommendations on the Company's recruitment, development and retention policies;
- ▶ overseeing the implementation of the EOP and recommending employees for participation in the Plan;
- ▶ reviewing and making recommendations on other forms of employee incentives;
- ▶ making recommendations on superannuation arrangements; and
- ▶ reviewing and making recommendations on the Company's Diversity Policy and reporting to the Board under that policy on the proportion of women on the Board, in senior executive positions and across the whole Company.

The current members of the Nomination and Remuneration Committee are Erica Lane (independent Director- Chair) and John Skippen (independent Director), who replaced Anna Booth as a member of this Committee.

Given the relatively small size of the Board, the Board considers that a Committee of two independent directors is sufficient to discharge the responsibilities delegated to the Committee and to achieve the efficiencies of delegation. The Managing Director and General Manager Human Resources routinely attend each meeting of the Committee to report directly to the Committee, however no executive is involved in Committee or Board decisions on their own remuneration package. A profile of the members of the Nomination and Remuneration Committee and a table reporting attendance at the Committee's meetings is provided in the Directors' Report.

2 Audit, compliance and risk management committee

The Audit, Compliance and Risk Management Committee provides assistance to the Board in fulfilling its responsibilities in relation to the Company's:

- ▶ legal compliance;
- ▶ implementation of effective legal professional management systems required by an incorporated legal practice;



- ▶ financial reporting;
- ▶ internal control structure;
- ▶ external audit functions;
- ▶ trust accounting audit functions; and
- ▶ risk management.

In discharging its role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The Audit, Compliance and Risk Management Committee is comprised of three independent, non-executive Directors. The current members of the Committee are Ian Court (Chair), Erica Lane and John Skippen. A profile of the members of the Committee and a table reporting attendance at the Committee's meetings is provided in the Directors' Report.

Nomination and appointment of new directors

The Board's Nomination and Remuneration Committee has responsibility for reviewing the membership of the Board on an annual basis to ensure the appropriate skill mix of the Board as a whole. The Committee assesses the current mix of skills and experience on the Board, and identifies those areas where it believes the Board could benefit from new skills and experience. It also looks at the independence and diversity of the current Board. The Committee takes into account the independence, diversity, skills, experience and fit of the nominee. This may be done with the assistance of external consultants.

More information is provided in the Board Composition Policy published on the website.

Removal and rotation of directors

The Company's Constitution specifies that one third of the Board, excluding the Managing Director, must retire from office and stand for re-election at each Annual General Meeting. Further, each director, excluding the Managing Director, must stand for re-election at least every three years. Directors may be appointed by the Board during the year. Directors appointed by the Board are required to submit themselves for re-election at the next Annual General Meeting.

Review of board performance

The Board reviews its overall performance and the performance of the Board Committees annually. The objective of the evaluation is to contribute to the ongoing development of the Board, the Committees, individual directors and the overall corporate governance framework. Further detail about the processes adopted for Board evaluation is provided in the Directors' Protocol published on the website.

In FY11, the Board engaged an external consultant to facilitate the annual performance review. In FY12 an internal process was adopted. The Chair at the time, Anna Booth, interviewed each of the Directors to obtain feedback on board performance and provided a report to the Board in February 2012 at a specially convened Board meeting to consider Board performance. Overall directors were satisfied that the Board is functioning effectively.

Directors expressed a preference to retain the mix of skills on the Board through the recruitment of further independent directors given Anna Booth's resignation. Directors also wanted to extend on the program of interaction between independent directors and management. To this end, management participated in the Board strategic retreat held in March 2012, including management from the subsidiaries: Trilby Misso, Conveyancing Works and Russell Jones & Walker. Presentations from management are scheduled throughout Board meetings in 2012 and independent directors contribute to management working groups where their expertise can contribute particular insight, for example, on the development of the new marketing campaign launched in 2012.

Performance evaluation will continue to be conducted annually, using a combination of internally and externally facilitated review as deemed appropriate by the Chair to meet the Board's commitment to high standards of corporate governance.

In early 2012, each of the Board Committees conducted an annual performance evaluation based on a questionnaire developed by the Chair and the Company Secretary and implemented improvements arising out of this process. The Board intends to continue with this style of internal review of the performance of the Board Committees annually. Results were reported by the Committee Chairs to meetings early in 2012, providing an opportunity for reflection as the Committee plans its program for the calendar year.

Corporate governance statement

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Review of key management personnel performance

Senior executives participate in the annual performance review process which applies to all Slater & Gordon employees. This process involves the establishment of performance objectives and measurements on an annual basis and review of achievement of the same. The process also involves assessment of remuneration tied to the Company achieving its stated financial and other goals. The Nomination & Remuneration Committee reviews the performance evaluation process and remuneration of the key management personnel of the Company and reports to the Board.

The performance of the Managing Director is reviewed annually by the Board. The Managing Director is assessed on achievement of Company goals and budgets applicable to the year in review. The remuneration of the Managing Director is also reviewed annually and is tied to the Company achieving its financial goals. Further details regarding executive and non executive remuneration are provided in the Remuneration Report.

During the reporting period, an annual performance review of senior executives and the Managing Director was conducted in accordance with the performance review process described above.

Remuneration

Executive remuneration is made up of a balance between fixed and incentive pay. The Board, through the Nomination and Remuneration Committee applies the following principles in reviewing executive remuneration (including that of the executive directors and other key management personnel):

1. Fixed remuneration is based on what is considered by the Board to be reasonable and fair compensation taking into account the core performance requirements of the role and business and market conditions;
2. Performance based remuneration is linked to clear performance targets that are a balance of individual and company performance targets linked to achievement of the Strategic Plan and budget;
3. Equity based remuneration is considered for key management personnel under the Employee Ownership Plan. Allocations of shares vest and convert to ordinary shares over a 3 year vesting period and full capital rights are achieved over a 6 year period upon the repayment of loans provided by the Company to fund the initial issue. New allocations and vesting and conversion to ordinary shares of existing allocations is linked to performance targets. Targets are linked to individual and practice area contribution to the achievement of the Strategic Plan and budget.

Directors and key management personnel are also prohibited under an internal policy from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

4. Executives are not provided with any contractual termination payments other than reasonable notice periods for termination, recognising seniority and length of tenure.

Non-executive Director remuneration is based on fixed director fees and superannuation contributions. Non-executive Directors are paid additional fees for chairing committees and membership of a second committee. Non-executive Directors do not receive any equity based remuneration, any other performance based remuneration or retirement benefits other than superannuation.

More detail is provided in the Remuneration Report.

Succession planning

The Board plans succession of its own members in conjunction with the Nomination and Remuneration Committee. The Board retains overall responsibility for succession planning of the Managing Director. The Nomination and Remuneration Committee and Managing Director are responsible for the succession planning of other senior executives. Succession planning for the Managing Director and senior executives was reviewed during the reporting period as part of the organisational planning for the Strategic Plan reviewed at the Board Retreat in March 2012.

Relationship with management

Ultimate responsibility for the management and control of the Company is vested in the Directors, who may then delegate their powers to management.

Broadly, the Board reserves to itself the following decisions:

- ▶ appointment of the Managing Director and approval of the appointments of senior executives reporting to the Managing Director;
- ▶ appointment of Directors and Board composition;
- ▶ approval of strategy and budget for the Group;
- ▶ approval of material capital expenditure and acquisitions;
- ▶ approval of documents (including the publication of reports and statements to shareholders) that are required by the Company Constitution or by law;
- ▶ approval of governance, compliance, risk management, remuneration and diversity policies.



Beyond the matters identified above, the Board delegates to the Managing Director all authority to achieve the corporate objectives as set out in the Strategic Plan. In exercising this delegated authority, the Managing Director is bound, like all employees at Slater & Gordon, by the Code of Conduct which demands professionalism and integrity in conduct and decision-making.

The functions and authority delegated by the Board to management are set out in the Senior Executives Protocol published on the Company's website.

Independent advice

Directors and Board Committee members have the right to seek independent professional advice in connection with their duties and responsibilities, at the Company's expense. Prior notification to the Chair is required.

Directors also have access to any employees, Company advisers, records and information they may require to carry out their duties.

Conflicts of interest

Directors are required to disclose to the Board any matters in which they may have a personal interest or a potential conflict of interest with the Company.

All Directors have entered into written undertakings to supply the Company with all information necessary for the Company to disclose details of directors' interests in the Company's securities in accordance with the Listing Rules of the ASX. Directors are regularly reminded of their responsibilities.

Auditor

The Company's Auditor is appointed by the Board and based upon a recommendation from the Audit, Compliance and Risk Management Committee. The Committee monitors and reviews the activities of the Company's Auditors, including scope and quality of the audit and independence of the Auditor. The Company's Auditor, Pitcher Partners ("PP") has committed to assist the Audit, Compliance and Risk Management Committee to review the quality of its work and its independence. To this end:

- ▶ PP provides a half-yearly declaration of independence for review by the Audit, Compliance and Risk Management Committee.
- ▶ The PP independence letter outlines the services to be performed. This enables the Audit, Compliance and Risk Management Committee to provide written approval for non-audit services to the Board.

- ▶ the Audit, Compliance and Risk Management Committee obtains details from management annually on how management has satisfied itself that significant assignments have been undertaken by the best provider.
- ▶ the Audit, Compliance and Risk Management Committee regularly reports to the Board on these matters.

In accordance with the Corporations Act 2001 the audit signing partner will rotate after no more than five years.

The external Auditor attends and will be available at the Annual General Meeting to answer questions, relevant to the conduct of the audit and preparation of the Audit Report and received in writing by the Company five days prior to the meeting.



Corporate governance statement



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Share trading policies

In addition to restrictions prescribed in the Corporations Law, the Company has share trading policies which:

- ▶ prohibit Directors from trading at any time in the Company's securities without first notifying the Chair and Company Secretary;
- ▶ prohibit Directors and key management personnel from trading in the Company's securities within closed and prohibited periods and only permit trade within the following windows:
 - ▶ within the 6 week periods commencing 24 hours after the Company has released its half year and full year results.
 - ▶ within the period commencing 24 hours after the Company lodges its annual report with the ASX through to one month after the Company's AGM.

A copy of the Share Trading Policy is available on the Company's website.

Continuous disclosure

The Company has established a written policy designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. The Continuous Disclosure Policy is published on the Company's website.

Shareholder communication

The Company is committed to providing effective communication to its shareholders. The Company rotates the location of its Annual General Meeting between eastern capital cities to allow a range of shareholders to attend. The Company publishes presentations by the Managing Director to institutional investors and market analysts, contemporaneously with the scheduled presentation through the ASX Company Announcements Platform. These presentations to institutional investors and market analysts are routinely held immediately after the release of the Company's half and full year financial results. An investor relations day was held in October 2011. The Company's Shareholder Communication Policy is available on the Company's website.

Ethical standards and social responsibility

Both Directors and employees are expected to adhere to the Company's Code of Conduct. The Code of Conduct is published on the Company's website. This sets out detailed standards of ethical behaviour. The Board has also endorsed the Company's Policies covering equal employment opportunity, discrimination, harassment, confidentiality, privacy and occupational health and safety. These Policies are aimed at ensuring the maintenance of standards of honesty, integrity and fair dealing.

Whistle blowing

Under the Company's Whistleblower Policy employees are actively encouraged to bring any problems to the attention of management or Human Resources. This includes activities or behaviour that may not be in accordance with the Company's Code of Conduct, financial reporting Policies, Insider Trading Policy, other Company policies, or other regulatory requirements.

Diversity

The Board has adopted the following measurable objectives for achieving gender diversity and reports against these targets for FY11 as follows:

Further details of diversity objectives and initiatives are set out under the Diversity Policy available on the Company website.

Category	Target	Performance 30 June 2012
% women on the Board	50%	20%
% women on the National Executive (key management personnel decision-making group)	40%	38%
% women employees	Nil target set	77%



Board education

The Board is committed to ensuring new Directors are adequately educated on the Company's operations. New Directors are provided with an induction program.

Under the Director's continuing education policy, directors are expected to continuously update and develop their knowledge and skills in relation to the industry context, financial management and corporate governance and are encouraged to undertake up to 10 hours of continuing professional development at the Company's expense, with the prior approval of the Chair. An annual internal continuing professional development program is run by the Company to assist Directors to meet their educational requirements. In FY12 a session was run focussing on the legal and governance issues in a corporate group between parent company and wholly owned subsidiaries. A range of topics will be selected each year covering corporate governance, compliance and business & industry knowledge.

Risk management

The Company has established a process for the identification and management of material business risks. Under the Risk Management Framework responsibility is allocated to the Board, the Audit, Compliance and Risk Management Committee, the Managing Director and the broader management team to monitor the key business risks and implement agreed risk management controls and strategies.

The Risk Management Framework complies with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management) and the methodology and process are described in more detail in the Company's Risk Management Policy published on the Company's website.

The reporting and review under this framework is as follows:

- ▶ The Board requires the Managing Director to report annually to the Board on the implementation of risk management controls and strategies;
- ▶ The Audit, Compliance and Risk Management Committee reviews the Company's risk profile quarterly, checks that management is effectively implementing the agreed controls and strategies and recommends any changes or issues warranting further action to the Board;
- ▶ The Board considers the material business risks faced by the Company annually as part of the review of the Strategic Plan at the Board retreat.

By the processes outlined above, the Board satisfies itself annually that management has developed and implemented a sound system of risk management and internal control.

The Board reports that the Managing Director has reported to it as to the effectiveness of the Company's management of its material business risks during the period 1 July 2011 to 30 June 2012.

The Board reports that it has received assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with s295A of the Corporations Act (which states that the financial records have been appropriately maintained, the financial statements comply with the accounting standards and that the financial statements provide a true and fair view of the financial performance of the Company) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board is committed to ensuring new Directors are adequately educated on the Company's operations.

ASX Corporate Governance Council Recommendations

A table setting out the Company's compliance with the ASX Corporate Governance Council Best Practice Recommendations is set out below:

	ASX Principle	Compliance / Comment
Principle 1 Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Complies
1.2	Companies should disclose the process of evaluating the performance of senior executives.	Complies
1.3	Companies should provide the information indicated in Guide to reporting on Principle 1.	Complies
Principle 2 Structure to the board to add value		
2.1	A majority of the board should be independent directors.	Complies
2.2	The Chair should be an independent director.	Complies
2.3	The roles of Chair and executive officer should not be exercised by the same individual.	Complies
2.4	The Board should establish a nomination committee.	Complies
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual directors.	Complies
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies
Principle 3 Promote ethical and responsible decision-making		
	Companies should establish a code of conduct and disclose the code or a summary of the code as to:	
3.1	3.1.1 the practices necessary to maintain confidence in the Company's integrity.	Complies
	3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.	Complies
	3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Complies
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Complies
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Complies
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Complies
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Complies
Principle 4 Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee. Structure the audit committee should be structured so that it:	Complies
4.2	▶ consists only of non-executive directors	Complies
	▶ consists of a majority of independent directors	
	▶ is chaired by an independent chair who is not chair of the board	
	▶ has at least three members	



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4.3	The audit committee should have a formal charter.	Complies
4.4	Companies should provide the information indicated in Guide to reporting on Principle 4.	Complies
Principle 5 Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Complies
5.2	Companies should provide the information indicated in Guide to reporting on Principle 5.	Complies
Principle 6 Respect the rights of shareholders		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complies
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies
Principle 7 Recognise and manage risk		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complies
Principle 8 Remunerate fairly and responsibly		
8.1	The Board should establish a remuneration committee.	Complies
8.2	<p>The remuneration committee should be structured so that it:</p> <ul style="list-style-type: none"> ▶ consists of a majority of independent directors; ▶ is chaired by an independent chair; ▶ has at least 3 members. 	Partly complies. The Committee consists of 2 independent directors and is chaired by an independent Chair. The Board considers that a committee of 2 members is appropriate given the size of the board to achieve the efficiency of the delegation to the committee.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies
8.4	Companies should provide the information indicated in Guide to reporting on Principle 8.	Complies

Board of directors & company secretary



John Skippen

ACA
Chair, Non-executive Director

John has over 30 years experience as a chartered accountant and was the former Finance Director of Harvey Norman Holdings Ltd. John has also served as a Director of Briscoe Group Limited (NZ) (2004-2011) and Mint Wireless Limited (2007-2008).

On 16 March 2012 John was appointed Chair of the board following the resignation of Anna Booth.

John is currently a Non Executive Director of Flexigroup Limited (appointed November 2006), Super Retail Group Ltd (appointed September 2008) and Emerging Leaders Investment Ltd (appointed October 2010).

John is Chair of the Board and a member of the Audit, Compliance and Risk Management committee and the Nomination and Remuneration Committee. John brings to the Board extensive financial, public company and retail experience and skills in financial management, general management and strategy.



Andrew Grech

LLB MAICD
Managing Director

Andrew joined Slater & Gordon in 1994 and has worked as a litigator in most areas of the Company's litigation practice. Andrew also spent three years in the then fledgling Sydney office between 1997 and 2000. Since he became Managing Director in 2000, the Group has enjoyed substantial growth, expanding from seven offices in 2002 to a network of over 69 offices across Australia and 10 offices in the UK in 2012. Andrew has also successfully managed the acquisition and integration of 28 firms since 2006.

Andrew's more than 20 years' experience as a legal practitioner has equipped him with very strong skills in the assessment and management of litigation risks. During his tenure as Managing Director, Andrew has developed skills in all facets of legal practice management.

Andrew served as the founding chair of the Youth Junction Inc., a not for profit youth charity operating in Sunshine, Victoria and remains a member of its voluntary board. Andrew is also a member of the Advisory Committee of the McCabe Centre for Law & Cancer.



Ken Fowlie

LLB BCom MAICD
Executive Director

Ken has extensive litigation experience particularly in claims for sufferers of asbestos related illness (including acting for the ACTU and asbestos support groups in negotiations with James Hardie) and large, multi-party group and representative actions.

Ken has taken a lead role in establishing Slater & Gordon's presence in New South Wales. Until December 2009, Ken managed the significant growth of Slater & Gordon's NSW team, the majority of whom joined the Group through the acquisition of smaller firms.

Until 30 June 2011, as General Manager of the Commercial and Project Litigation practice, Ken had stewardship of the Group's portfolio of high profile project litigation cases. During 2011-2012 Ken has been on a leave of absence from his management role to complete further study. Ken has continued to serve on the Board during this time.

Ken brings to the Board a unique operational perspective in two of the Group's key strategic areas. As a legal practitioner with over 16 years' experience and qualifications and a strong interest in economics, Ken contributes skills in legal practice, legal practice management, risk management, financial analysis and financial reporting.



Ian Court

FAICD
Non-executive Director

Ian has extensive experience as a senior executive and non-executive director in a diverse range of companies and industry sectors. He is currently a non-executive director with AssetCo Management Pty Ltd (Chair of the Projects Committee), SSSR Holdings Pty Ltd and Western Liberty Group Holdings Pty Ltd. He is a non-executive director and Chair of ACTU Member Connect Pty Ltd, Chair of the Industry Funds Management Investor Advisory Board and a non-executive director of Praeco Pty Ltd.

Prior non-executive positions held include companies in the financial services, unlisted infrastructure, private equity and property sectors including, Victorian Funds Management Corporation, Epic Energy Holdings Pty Ltd, Pacific Hydro Pty Ltd, Federal Airports Corporation, Utilities of Australia Pty Ltd, Bennelong Funds Management Pty Ltd, Ecogen Holdings Pty Ltd, Australian Venture Capital Association Ltd, Australian Prime Property Funds Custodian Pty Ltd and deputy Chair of ISPT Pty Ltd. Ian was also inaugural president of the Australian Institute of Superannuation Trustees (AIST). Prior executive positions include CEO of Development Australia Funds Management Ltd (1998-2004) and Executive Chair of Cbus (1992-1998). Earlier in his career Ian was a senior industrial officer with the ACTU (1982-1992).

Ian is the Chair of the Audit, Compliance and Risk Management committee. Ian brings to the Board expertise and skills in finance, financial markets, business strategy, human resources, risk management and corporate governance.



Erica Lane

B App Sc, Grad Dip Comp, MBA (Melbourne),
MBA (Chicago), MAICD
Non-executive Director

Erica has extensive experience as a non-executive director and senior executive particularly in financial services (banking, insurance, funds management and investment banking), professional services and healthcare.

Erica has served as a non-executive director and chaired various committees for Victorian Funds Management Corporation and Eastern Health. Earlier in her career, Erica held senior executive positions with ANZ Bank, CS First Boston (USA) and Booz Allen & Hamilton. Prior to her business career, Erica practised as a medical microbiologist in the public health system.

Erica currently runs her own business advisory and interim management firm and has consulted extensively on strategic realignment, re-organisation and restructuring and performance improvement across a broad range of industries.

Erica is Chair of the Nomination and Remuneration committee and a member of the Audit, Compliance and Risk Management committee. Erica contributes skills in strategy, finance, general management and business performance improvement.



Wayne Brown

BCom (Hons), M Int Bus (Melb), CA, MAICD
Chief Financial Officer and
Company Secretary

Wayne joined Slater & Gordon in 2004 as Chief Financial Officer and Company Secretary. Prior to joining the Company, Wayne was the financial controller of the ASX listed Grand Hotel Group and prior to that, Wayne spent ten years with Arthur Andersen where he specialised in corporate recovery and restructuring. Wayne contributes skills in corporate governance, financial management, analysis and reporting.



Anna Booth

B Ec Hons, FAICD
Non-executive Chair

Anna resigned as a director on the Board on 16 March 2012 following her appointment as Deputy President of Fair Work Australia. Prior to her resignation, Anna was the Chair of the Board and a member of the Nomination and Remuneration Committee.



Kirsten Morrison

BA/LLB (Hons)
Corporate Counsel and
Company Secretary

Kirsten commenced as a commercial litigator with Slater & Gordon in 2006 and then as Corporate Counsel and Company Secretary in 2008. Prior to joining Slater & Gordon, Kirsten was a lawyer at Allens Arthur Robinson and completed an Associateship to the Hon. Justice Hargrave in the Victorian Supreme Court. Kirsten contributes skills in corporate governance and risk management.

Board of directors & company secretary

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For the year ended 30 June 2012

Financial Statements

For the year ended 30 June 2012

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

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 2012 and 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:

- John Skippen – appointed Acting Chair on 16 March 2012 and Chair on 23 August 2012
- Andrew Grech – Managing Director
- Ian Court
- Ken Fowlie
- Erica Lane
- Anna Booth – resigned as a director and Chair on 16 March 2012

Details of the skills, experience, expertise and special responsibilities of each director are set out in a subsequent section of this report.

Principal activities

The principal activity of the Group during the financial year was the operation of legal practices in Australia and the United Kingdom ("UK").

Results

The profit after income tax of the Group was \$24,992,000 (2011: \$27,908,000).

Review of operations

A review of the operations of the Group during the financial year, its financial position and business strategies and prospects for the future financial years are set out in the directors' report below.

Significant changes in the state of affairs

Significant changes in the Group's state of affairs during the year ended 30 June 2012 were as follows:

Acquisition of Russell Jones & Walker ("RJW")

On 30 April 2012 the Group acquired the UK law firm RJW for a consideration as follows:

	GBP £'000	AUD \$'000
Consideration		
Completion date cash payment	26,288	40,953
Fair value of deferred consideration payments	8,247	12,847
Equity issue to vendors	18,418	28,692
	52,953	82,492

The strategic rationale of this acquisition is to:

- deliver geographic expansion and diversification in a market 4 to 5 times that of Australia's with a similar legal jurisdiction;
- provide a new platform for growth beyond the current 2015 horizon with strong organic growth expected to continue;
- provide a first mover opportunity to Slater & Gordon under the recent UK legal regulatory change and to capitalise on the Company's experience as the world's first listed law firm; and
- enter the UK market via a well aligned, established and investment ready partner.

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

Acquisition of Conveyancing Works (Qld) Pty Limited ("CWQ")

On 25 November 2011, the Group acquired a 100% shareholding in CWQ. The strategic rationale of this acquisition is to:

- continue to diversify outside the personal injury legal market;
- underpin strategic growth for the domestic conveyancing practice in Queensland; and
- provide a platform for further expansion of the conveyancing practice into New South Wales, Victoria and Western Australia.

Further details regarding these acquisitions can be found in Note 30 to the financial statements for the year ended 30 June 2012.

Significant events – Write down of WIP and disbursements in Vioxx class action.

As disclosed to the market on 11 May 2012, the High Court decided that it would not grant leave to the lead plaintiff, Mr Graeme Peterson, to appeal the decision of the Full Court of the Federal Court, which upheld an appeal by the Australian subsidiary of the drug manufacturer Merck overturning the original decision in this matter on 12 October 2012.

As a result of this, the Board determined to write down the full value of the WIP and disbursements in the Vioxx class action. This write down is disclosed in Note 5 to the financial statements for the year ended 30 June 2012.

Subsequent events

There are no subsequent events.

Dividends paid, recommended and declared

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

	2012	2011
	\$'000	\$'000
<i>Dividends on ordinary shares</i>		
Interim franked dividend at the tax rate of 30% for 2012: 2.5 cents per share (2011 – 2.2 cents per share)	3,793	3,285
Final franked dividend at the tax rate of 30% for 2011: 3.3 cents per share (2010 – 3.0 cents per share)	4,993	4,412
	8,786	7,697

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of \$5,898,000 (3.5 cents per share) to be paid on 26 October 2012 out of retained earnings at 30 June 2012.

Share options

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

Indemnification and insurance of directors and officers

During or since the end of the financial year, the Group has given indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

A premium of \$33,000 (2011: \$32,000) for a twelve month period was incurred in respect of directors, officers and the Company Secretary of the Company against a liability brought upon such an officer.

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

Financial Statements

For the year ended 30 June 2012

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

Information on directors and company secretaries

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 secretaries as at the year end.

John Skippen
ACA
Chair, Non-executive Director

John has over 30 years experience as a chartered accountant and was the former Finance Director of Harvey Norman Holdings Ltd. John has also served as a Director of Briscoe Group Limited (NZ) (2004-2011) and Mint Wireless Limited (2007-2008).

On 16 March 2012 John was appointed Chair of the board following the resignation of Anna Booth.

John is currently a Non Executive Director of Flexigroup Limited (appointed November 2006), Super Retail Group Ltd (appointed September 2008) and Emerging Leaders Investment Ltd (appointed October 2010).

John is Chair of the Board and a member of the Audit, Compliance and Risk Management committee and the Nomination and Remuneration Committee. John brings to the Board extensive financial, public company and retail experience and skills in financial management, general management and strategy.

Andrew Grech
LLB MAICD
Managing Director

Andrew joined Slater & Gordon in 1994 and has worked as a litigator in most areas of the Company's litigation practice. Andrew also spent three years in the then fledgling Sydney office between 1997 and 2000. Since he became Managing Director in 2000, the Group has enjoyed substantial growth, expanding from seven offices in 2002 to a network of over 69 offices across Australia and 10 offices in the UK in 2012. Andrew has also successfully managed the acquisition and integration of 28 firms since 2006.

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Andrew served as the founding chair of the Youth Junction Inc., a not for profit youth charity operating in Sunshine, Victoria and remains a member of its voluntary board. Andrew is also a member of the Advisory Committee of the McCabe Centre for Law & Cancer.

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LLB BCom MAICD
Executive Director

Ken has extensive litigation experience particularly in claims for sufferers of asbestos related illness (including acting for the ACTU and asbestos support groups in negotiations with James Hardie) and large, multi-party group and representative actions.

Ken has taken a lead role in establishing Slater & Gordon's presence in New South Wales. Until December 2009, Ken managed the significant growth of Slater & Gordon's NSW team, the majority of whom joined the Group through the acquisition of smaller firms.

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Ken brings to the Board a unique operational perspective in two of the Group's key strategic areas. As a legal practitioner with over 16 years' experience and qualifications and a strong interest in economics, Ken contributes skills in legal practice, legal practice management, risk management, financial analysis and financial reporting.

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

Ian Court
FAICD
Non-executive Director

Ian has extensive experience as a senior executive and non-executive director in a diverse range of companies and industry sectors. He is currently a non-executive director with AssetCo Management Pty Ltd (Chair of the Projects Committee), SSSR Holdings Pty Ltd and Western Liberty Group Holdings Pty Ltd. He is a non-executive director and Chair of ACTU Member Connect Pty Ltd, Chair of the Industry Funds Management Investor Advisory Board and a non-executive director of Praeco Pty Ltd.

Prior non-executive positions held include companies in the financial services, unlisted infrastructure, private equity and property sectors including, Victorian Funds Management Corporation, Epic Energy Holdings Pty Ltd, Pacific Hydro Pty Ltd, Federal Airports Corporation, Utilities of Australia Pty Ltd, Bennelong Funds Management Pty Ltd, Ecogen Holdings Pty Ltd, Australian Venture Capital Association Ltd, Australian Prime Property Funds Custodian Pty Ltd and deputy Chair of ISPT Pty Ltd. Ian was also inaugural president of the Australian Institute of Superannuation Trustees (AIST). Prior executive positions include CEO of Development Australia Funds Management Ltd (1998-2004) and Executive Chair of Cbus (1992-1998). Earlier in his career Ian was a senior industrial officer with the ACTU (1982-1992).

Ian is the Chair of the Audit, Compliance and Risk Management committee. Ian brings to the Board expertise and skills in finance, financial markets, business strategy, human resources, risk management and corporate governance.

Erica Lane
B App Sc, Grad Dip Comp, MBA
(Melbourne), MBA (Chicago),
MAICD
Non-executive Director

Erica has extensive experience as a non-executive director and senior executive particularly in financial services (banking, insurance, funds management and investment banking), professional services and healthcare.

Erica has served as a non-executive director and chaired various committees for Victorian Funds Management Corporation and Eastern Health. Earlier in her career, Erica held senior executive positions with ANZ Bank, CS First Boston (USA) and Booz Allen & Hamilton. Prior to her business career, Erica practised as a medical microbiologist in the public health system.

Erica currently runs her own business advisory and interim management firm and has consulted extensively on strategic realignment, re-organisation and restructuring and performance improvement across a broad range of industries.

Erica is Chair of the Nomination and Remuneration committee and a member of the Audit, Compliance and Risk Management committee. Erica contributes skills in strategy, finance, general management and business performance improvement.

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Financial Statements

For the year ended 30 June 2012

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

Anna Booth B Ec Hons FAICD Non-executive Chair	Anna resigned as a director on the Board on 16 March 2012 following her appointment as Deputy President of Fair Work Australia. Prior to her resignation, Anna was the Chair of the Board and a member of the Nomination and Remuneration Committee.
Wayne Brown BCom (Hons), M Int Bus (Melb), CA MAICD Chief Financial Officer and Joint Company Secretary	Wayne joined Slater & Gordon in 2004 as Chief Financial Officer and Company Secretary. Prior to joining the Group, Wayne was the financial controller of the ASX listed Grand Hotel Group and prior to that, Wayne spent ten years with Arthur Andersen where he specialised in corporate recovery and restructuring. Wayne contributes skills in corporate governance, financial management, analysis and reporting.
Kirsten Morrison BA/LLB (Hons) General Counsel and Joint Company Secretary	Kirsten commenced as a commercial litigator with Slater & Gordon in 2006 and then as General Counsel and Company Secretary in 2008. Prior to joining Slater & Gordon, Kirsten was a lawyer at Allens Arthur Robinson and completed an Associateship to the Hon. Justice Hargrave in the Victorian Supreme Court. Kirsten contributes skills in corporate governance and risk management.

Directors' meetings

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

	Board of Directors		Audit, Compliance & Risk Management Committee		Nomination & Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
A Booth ⁽¹⁾	7	7	-	-	3	3
A Grech	9	9	-	-	-	-
I Court	9	9	5	5	-	-
K Fowlie	9	9	-	-	-	-
E Lane	9	9	5	5	4	4
J Skippen	9	9	5	5	1	1

⁽¹⁾ A Booth resigned as a director on 16 March 2012.

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
A Grech	8,116,613
I Court	44,000
K Fowlie	6,086,221
E Lane	150,000
J Skippen	-

Directors' interests in contracts

Directors' interests in contracts are disclosed in Note 28 to the financial statements.

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

Auditor's independence declaration

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided with this report.

Non-audit services

Written approval for non-audit services is provided by resolution of the Audit, Compliance and Risk Management Committee and approval is notified to the Board of Directors. Non-audit services provided by Pitcher Partners, the auditors of the Group, during the year are detailed below. 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.

During the year, the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2012	2011
	\$'000	\$'000
Due diligence investigations		
- Pitcher Partners	170	232
- Related practices of Pitcher Partners	365	-
Total remuneration for due diligence investigations	535	232
General controls and IT conversion review		
- Pitcher Partners	-	7
Total remuneration for general controls and IT conversion review	-	7
Total remuneration for non-audit services	535	239

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

REMUNERATION REPORT

The Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report, Key Management Personnel (“KMP”) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group, and includes the key executives of the Group.

For the purposes of this report, the term ‘executive’ encompasses the Chief Financial Officer, senior executives and senior employees of the Group.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and executive team.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality, high performing Board and executive team.

Remuneration philosophy

The performance of the Group depends on the quality and performance of its directors and executives. To prosper, the Group must attract, motivate, develop and retain highly skilled directors and executives. The remuneration philosophy of the Group is part of a broader strategy to attract and retain staff, by among other elements, ensuring that the work of the Group reflects the values and aspirations of the people within it. The Group will continue to monitor the level of alignment between the values of the Group and its people.

The Group embodies the following principles in its remuneration framework:

- Provide fair and competitive rewards to attract high calibre executives (by providing a fixed remuneration compensation and offering specific short and longer term incentives to executives);
- Link executive rewards to the creation of sustainable shareholder value;
- Have a portion of executive remuneration ‘at risk’;
- Establish appropriate, demanding performance hurdles for variable executive remuneration; and
- Provide long term incentives and rewards for performance through the Employee Ownership Plan (“EOP”).

Remuneration structure

In accordance with good corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders and other stakeholders.

Structure

The constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was an aggregate remuneration of \$500,000.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually. In determining the remuneration of non-executive directors, the Board considers the time commitment and nature of the contribution required by directors. Advice is obtained from external consultants independent of management and the remuneration paid to non-executive directors of comparable companies is taken into account when undertaking the annual review process.

During the year ended 30 June 2012, the remuneration of non-executive directors was set for the position of Chair of the Board at \$114,400 and for a director at \$57,200. An additional fee of \$15,000 was paid for any director who acting as a Chair of a Board sub-committee. An additional fee of \$7,500 per subcommittee was paid for any director who acts as a member of a Board sub-committee. The payment of the additional time commitment required by the director. Non executive directors receive no other form of remuneration, however reasonable expenses incurred in the course of their role are reimbursed.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400**Executive remuneration***Objective*

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- reward executives for Group, practice group and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Structure

It is the Board's policy that directors' fees are not paid to executive directors. The adequacy and form of remuneration of the Managing Director, and senior Group executives are reviewed by the Nomination and Remuneration Committee. The remuneration policy for these executives takes into account personal competence, experience and the achievement of key performance indicators ("KPI's"), including:

- financial KPI's including (but not limited to) achievement of budgets for profitability, working capital management; and
- non-financial KPI's including (but not limited to) practice and staff management and business development.

The Nomination and Remuneration Committee is responsible for ensuring that senior executive remuneration is reasonable in comparison with industry and other relevant measures including promoting the long term growth of shareholder value. The Managing Director, in conjunction with the Nomination and Remuneration Committee (where appropriate), annually reviews senior executives' KPI's for their ongoing adequacy and achievement.

The Managing Director, in liaison with other senior executives, is responsible for the level and components of remuneration paid to other senior Group executives and employees. Remuneration levels vary across the Group and have regard to geographical and local circumstances and the need to maintain attractive and competitive income levels.

Executive remuneration is made up from the following components:

- Base remuneration – this element reflects the scope of the role, level of skills and experience and is typically fixed;
- Performance based remuneration – this element comprises two components:
 - Short term incentives in the form of cash bonuses; and
 - Long term incentives in the form of the acquisition of equity in the Group through the Employee Ownership Plan.

Fixed remuneration*Objective*

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee, taking into account the performance of the Group, its divisions and practice groups, and individuals. This is then compared to relevant comparative remuneration in the market and internally and where appropriate, external advice on policies and practices. As noted above, the committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating an additional cost for the Group.

Variable remuneration – short term incentives ("STI")*Objective*

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Structure

Cash bonuses to executives and senior employees are paid under predetermined bonus arrangements and are subject to a range of performance criteria. The bonus arrangement varies between executives depending upon their position and

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

responsibilities. The criteria are predominantly weighted on the financial performance of practices and/or the Group. Discretionary components are assessed or approved by the Company's Nomination and Remuneration Committee.

Cash bonuses are paid as an incentive to align executives with the objectives of their respective practices. Performance measures are determined in advance and are specifically tailored to the executive's/senior employee's circumstances. Financial budgets are used to measure financial performance, whilst KPI's are used to target key areas identified by the directors and senior management for achieving Practice Group and/or the Group objectives.

Key Management Personnel ("KMP")

The performance of KMP is measured against criteria agreed with each executive and is based on a range of financial and non-financial performance measures. This performance is assessed annually by the Nomination and Remuneration Committee with regard to the desired and actual outcomes, taking into account the evolving nature of the business and the creation of shareholder wealth in the long term.

The Board may exercise its discretion in recommending changes to the Nomination and Remuneration Committee's assessment of the performance of the KMP.

The KMP who may be eligible to a cash performance bonus with a combined total of up to \$469,450 (2011: \$574,100) in respect of the year ended 30 June 2012 are Andrew Grech, Wayne Brown, Cath Evans, Janine Gregory, James Higgins and Hayden Stephens.

KPI's for executives are based on above budget performance linked to the relevant measures including net fee, gross margin, EBIT margin, cash flow (debtor and paid disbursement performance) for which the executive is accountable. In addition there are non-financial KPI's with set performance criteria linked to the development of staff that report to the relevant executive, development of technical skills and brand and business development. The achievement or non-achievement of these performance criteria will determine whether the bonus or components of the bonus have been met.

The estimated bonuses due to KMP for the year ended 30 June 12 is \$292,250 (2011: \$336,000). The entitlement to these bonuses has been based on the assessment of the KMP achievement or otherwise of the performance criteria (KPI's) for the financial year.

KPI's that management are subject to include financial KPI's, such as achievement of budgets for profitability, working capital management and non-financial KPI's such as practice and staff management and business development.

Variable remuneration – long term incentives ("LTI")

Objective

In the financial year ended 30 June 2007 (prior to listing on the ASX) the firm introduced the Employee Ownership Plan ("EOP") to provide an opportunity for senior employees to build a shareholding in the Company over time. The EOP serves as an incentive and reward for longer term performance and a retention strategy for key employees.

Structure

The Board has the authority to invite employees to participate in the EOP and subscribe for VCR shares. VCR shares are vesting, converting and redeemable shares in the capital of the Company. The EOP provides for the issue of VCR shares to participants in a number of tranches and for the Company to make a loan to participants equal to the total amount that is to be subscribed.

When making an offer to an employee to subscribe for VCR shares, the Board has the power to specify:

- the number of VCR shares which may be subscribed for by a particular employee;
- the issue price. The Board sets the issue price based on the previous 20 business day Volume Weighted Average Price ("VWAP") prior to the date of the issue;
- the number of tranches into which the VCR shares will be divided and the vesting date for each tranche;
- the period for which an absolute restriction on disposal will apply (this period may not exceed 3 years from vesting);
- any conditions to be placed on vesting (achievement of pre determined KPI's which are relevant to the employee and are aligned to the performance measures set in the STI's refer above);
- any events which would result in the forfeiture of the VCR shares; and
- the period for which the Company will be able to buy back or require the forfeiture of the converted shares.

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The EOP provides for a full recourse interest free loan from the Company to the employee to facilitate the employee's subscription for VCR shares. The loan is secured by the VCR shares or the converted VCR shares. The offer made by the Board must specify the date by which the loan must be repaid. This date may not be later than 5 years after vesting (refer to Note 26).

The vesting conditions for VCR shares are based on the KPI's set and approved by the Board for the relevant senior employee in respect of their area(s) of responsibility. The KPI's will include financial and non-financial KPI's and are aligned to the performance measures set in the STI's (refer above).

The EOP provides for senior managers to be offered from one to several allocations of VCR shares over their career with the Group. Individuals can therefore build a substantial stake in the Company over time.

If the participant ceases employment with the Group, their vested and unvested VCR shares can be forfeited or bought back by the Company and set off against any outstanding loan. The participant may be deemed liable for any shortfall between the value of the shares forfeited or brought back by the Company and the loan amount.

At the cessation of the period of the restriction (three years maximum) following vesting and conversion of a VCR share, each participant is required to enter into a binding commitment with the Company in respect of their converted VCR shares. Under the binding commitment the participants in the EOP will be under the following restrictions:

- They will be required to maintain a minimum level of shareholding for as long as they remain an employee of the Group. The minimum holding is calculated based on the lower of 5 times the employee's annual salary and 20% of the aggregate VCR shares issued to that employee which have vested and converted to shares.
- If they cease to be employed by the Group, they may forfeit or be required to dispose of some or all of their vested and unvested VCR shares upon such termination. The ramifications of a departure from employment are linked to the circumstances surrounding that departure.

The KMP who have shares under the EOP (refer Note 25) subject to performance criteria in respect of the year ended 30 June 2012 are the Chief Financial Officer, Wayne Brown, General Manager – Commercial & Project Litigation, James Higgins and the General Manager – PI South, Janine Gregory.

Employment contracts

Executive Directors

Mr Andrew Grech, the Managing Director, is employed under a rolling contract. The current employment contract commenced on 1 July 2006. Under the terms of the present contract:

- Mr Grech receives fixed remuneration of \$417,295 per annum (inclusive of superannuation);
- Mr Grech is also eligible to receive a bonus of up to \$104,450 for the year ended 30 June 2012, inclusive of superannuation (2011: \$121,600), at the discretion of the board, based on the achievement of certain key performance indicators. A cash bonus of \$121,600 was paid post 30 June 2012 in respect to the year ended 30 June 2011. For the year ended 30 June 2012 a cash bonus of \$75,000 has been provisionally determined. Key performance indicators include financial and non-financial KPI's and are aligned to the performance measures set in the STI's (refer above);

Mr Ken Fowlie, an executive director, is employed under a rolling contract. The current employment contract commenced on 1 July 2006. Under the terms of the present contract:

- Mr Fowlie receives fixed remuneration of \$350,000 per annum (inclusive of superannuation);
- Mr Fowlie is not entitled to receive a bonus for the year ended 30 June 2012 (2011: \$100,000). A cash bonus of \$100,000 was paid in respect to the year ended 30 June 2011.

In addition, both executive directors are bound by the following terms and conditions in their employment contracts:

- The director may resign from their position and thus terminate their employment contract by giving three months written notice;
- The Company may terminate their employment agreement by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of the director's remuneration);
- The Company may terminate their employment contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination;
- Their employment agreement contains a restraint of trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company, 24 months);

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- The performance of the director is reviewed annually by the Nomination and Remuneration Committee and/or the Board. The director is assessed on achievement of the Group's goals and budgets applicable to the year in review. The Committee also reviews the remuneration of the director on an annual basis. The findings are reported to, and approved by, the Board; and,

Prior to 21 May 2012, both executive directors were Vendor Shareholders and were subject to a shareholders agreement which had been entered into by all seven Vendor Shareholders. This agreement placed restrictions on the ability of the directors and all other Vendor Shareholders to dispose of their shareholding which included the following provision:

- If a Vendor Shareholder ceases to be employed by the Company, they may be required to transfer some or all of their shares to, or at the direction of, the other Vendor Shareholders for nominal consideration. The ramifications of a departure from employment are linked to the circumstances surrounding that departure, as determined pursuant to the terms of the agreement by simple majority decision of the other Vendor Shareholders.

The Company was not a party to the shareholders agreement and could not enforce the shareholders agreement. Only the Vendor Shareholders could enforce compliance with these restrictions. Those rights are vested in the Vendor Shareholders jointly and severally.

On 21 May 2012, all remaining restrictions on the disposal of shares under the shareholders agreement (other than those related to ceasing employment in certain circumstances referred to above) were lifted as per the terms of the agreement. Vendors are required under the agreement to maintain a minimum shareholding while an employee of the Company and the rights of the vendor shareholders referred to above continue to apply to that minimum shareholding in relation to cessation of employment.

Other executives (standard contracts)

- All executives have rolling contracts.
- The Group may terminate the executive's employment agreement by providing one to three months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration).
- Any executive who is an EOP Participant is subject to consequences which flow from the cessation of their employment as discussed above (see "Variable remuneration – Long term incentives ("LTI").
- Any executive who is a Vendor Shareholder is subject to the consequences which flow from the cessation of their employment as a term of the shareholders agreement which has been entered into by the seven Vendor Shareholders as discussed above.
- The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- The employment agreement contains a restraint of trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company, 24 months).

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The names and positions of each person who held the position of director at any time during the financial year is provided above. Further details regarding components of KMP remuneration are detailed below.

Directors' remuneration:

2012	Short term		Post employment	Other long term benefits ⁽⁶⁾	Equity	Other benefits	Total	Total performance related			Total performance related %	
	Salary/ Fees ⁽⁵⁾	Cash Bonus ⁽⁷⁾						Cash Bonus	Share based payments	Non-Monetary		Share based payments
A Booth ⁽¹⁾	\$ 82,188	-	\$ 7,397	-	\$ -	\$ -	\$ 89,585	-	-	-	\$ -	-
A Grech ⁽²⁾	372,797	75,000 ⁽³⁾	20,930	10,604	-	-	488,117	75,000 ⁽³⁾	-	-	-	15.3%
I Court	48,050	-	24,150	-	-	-	72,200	-	-	-	-	-
K Fowle ⁽²⁾	165,669	⁽⁴⁾	15,775	3,892	-	-	185,336	⁽⁴⁾	-	-	-	-
E Lane	62,849	-	16,852	-	-	-	79,701	-	-	-	-	-
J Skippen	59,358	-	5,342	-	-	-	64,700	-	-	-	-	-
	790,911	75,000	90,446	14,496	-	-	979,639	75,000	-	-	-	7.66%
2011												
A Booth ⁽¹⁾	118,716	-	10,684	-	-	-	129,400	-	-	-	-	-
A Grech ⁽²⁾	358,704	121,600	15,199	14,669	-	-	518,958	121,600	-	-	-	23.4%
I Court	51,265	-	20,935	-	-	-	72,200	-	-	-	-	-
K Fowle ⁽²⁾	331,109	100,000	15,199	5,510	-	-	460,265	100,000	-	-	-	21.7%
E Lane	47,211	-	24,989	-	-	-	72,200	-	-	-	-	-
J Skippen	58,680	-	6,020	-	-	-	64,700	-	-	-	-	-
	965,685	221,600	93,026	20,179	-	-	1,317,723	221,600	-	-	-	16.8%

⁽¹⁾ A Booth resigned as a director on 16 March 2012.

⁽²⁾ These are also executives and would be included for the purposes of the Executives' Remuneration.

⁽³⁾ A Grech was entitled to a bonus of \$68,000 in respect to the 2010 financial year which was paid during the 2012 financial year.

⁽⁴⁾ K Fowle was entitled to a bonus of \$100,000 in respect to the 2011 financial year which was paid during the 2012 financial year.

⁽⁵⁾ Salary/Fees includes salaries paid/payable, including movements in annual leave provision and long service leave taken.

⁽⁶⁾ Other long term benefits represents the net present value of long service leave earned for the year of service.

⁽⁷⁾ Cash bonuses represent the accrual for bonuses in respect of the relevant financial year. These amounts are expected to be paid in the subsequent financial year.

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Executives' remuneration:

2012	Position	Short term			Post employment	Other long term benefits ⁽⁴⁾	Share based payments	Other benefit ⁽¹⁾	Total	Total performance related			Total performance related %	
		Salary/Fees ⁽³⁾	Cash Bonus ⁽⁵⁾	Non-monetary						Cash Bonus	Non-Monetary	Share based payments		Cash Bonus
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%	
W Brown	Chief Financial Officer	232,113	20,000	19,501	15,775	7,290	18,675	52,226 ⁽¹⁾	365,580	20,000	-	18,675	5.5%	5.1%
C Evans	General Manager – Client Experience	371,654	37,250	8,653	28,944	8,378	-	-	454,879	37,250	-	-	8.2%	-
J Gregory	General Manager – Personal Injuries Victoria	291,615	100,000	8,653	15,775	14,094	32,832	89,696 ⁽¹⁾	552,665	100,000	-	32,832	18.1%	5.9%
J Higgins	General Manager – Commercial & Project Litigation	282,310	60,000	-	15,775	9,910	10,612	107,893 ⁽¹⁾	486,500	60,000	-	10,612	12.3%	2.2%
H Stephens	General Manager – Personal Injuries North	334,639	-	-	15,775	6,711	-	80,000 ⁽²⁾	437,125	-	-	-	-	-
		1,512,331	217,250	36,807	92,044	46,383	62,119	329,815	2,296,749	217,250	-	62,119	9.5%	2.7%
2011														
W Brown	Chief Financial Officer	251,174	27,000	23,532	15,199	17,654	47,033	38,523 ⁽¹⁾	420,115	27,000	-	47,033	6.4%	11.2%
R Cunich	General Manager – Business and Private Clients	192,024	-	-	31,181	1,256	28,163	18,917 ⁽¹⁾	271,541	-	-	28,163	-	9.9%
C Evans	General Manager – Personal Injuries South	343,075	49,377	7,680	15,199	4,053	-	-	419,384	49,377	-	-	11.8%	-
C Prast	General Manager – Western Australia	219,129	-	31,111	15,199	19,194	27,571	42,185 ⁽¹⁾	354,389	-	-	27,571	-	8.1%
H Stephens	General Manager – Personal Injuries North	364,740	-	-	15,199	12,498	-	107,500 ⁽²⁾	499,937	-	-	-	-	-
		1,370,142	76,377	62,323	91,977	54,655	102,767	207,125	1,965,366	76,377	-	102,767	3.9%	5.2%

⁽¹⁾ Includes notional benefit on interest-free VCR Share loan calculated at a commercial interest rate.

⁽²⁾ Includes living away from home allowance.

⁽³⁾ Salary/Fees includes salaries paid/payable, including movements in annual leave provision and long service leave taken.

⁽⁴⁾ Other long term benefits represents the net present value of long service leave earned for the year of service.

⁽⁵⁾ Cash bonuses represent the accrual for bonuses in respect of the relevant financial year. These amounts are expected to be paid in the subsequent financial year.

With effect from 1 July 2011, and due to a consolidation of reporting accountabilities,

- Rod Cunich and Christ Prast ceased to meet the definition of "Key Management Personnel", and
- Janine Gregory and James Higgins met the definition of "Key Management Personnel"

There are no other non-director executives.

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Rounding of amounts

The amounts contained in the directors' report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



John Skippen
Chair
Melbourne
7 September 2012



Andrew Grech
Managing Director

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For the year ended 30 June 2012



PITCHER PARTNERS

An independent Victorian Partnership
ABN 27 975 255 196

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AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Slater & Gordon Limited

In relation to the independent audit for the year ended 30 June 2012, to the best of my knowledge and belief here have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.
- (ii) No contraventions of any applicable code of professional conduct.

M W PRINGLE
Partner
7 September 2012

PITCHER PARTNERS
Melbourne

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$'000	2011 \$'000
Revenue			
Fee revenue	4	213,812	178,046
Other revenue	4	3,892	4,263
Total revenue		217,704	182,309
Less: Expenses			
Salaries and employee benefit expenses		(110,112)	(88,007)
Rental expenses		(11,768)	(8,693)
Advertising and marketing expenses		(12,345)	(9,430)
Administration and office expenses		(19,293)	(14,355)
Consultant fees		(1,818)	(935)
Finance costs	5	(6,847)	(6,066)
Bad and doubtful debts	5	(8,172)	(3,967)
Depreciation and amortisation expenses	5	(3,684)	(2,743)
Costs associated with acquisitions		(1,414)	(1,444)
Other expenses		(5,757)	(5,126)
Profit before income tax expense		36,494	41,543
Income tax expense	6	(11,502)	(13,635)
Profit for the year		24,992	27,908
Other comprehensive income			
Foreign currency translation differences - foreign operations	19(b)	(332)	-
Changes in fair value of cash flow hedges, net of tax	19(a)	(419)	86
Other comprehensive income for the year, net of tax		(751)	86
Total comprehensive income for the year		24,241	27,994
Profit for the year attributed to:			
Owners of the Company	20(a)	24,983	27,908
Non-controlling interests	21(a)	9	-
		24,992	27,908
Total comprehensive income for the year attributed to:			
Owners of the Company		24,232	27,994
Non-controlling interests		9	-
		24,241	27,994
Basic earnings per share (cents)	24	16.2 cents	19.1 cents
Diluted earnings per share (cents)	24	15.7 cents	18.3 cents

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

Financial Statements

For the year ended 30 June 2012

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	2012 \$'000	2011 \$'000
Current assets			
Cash and cash equivalents	8	4,373	4,032
Receivables	9	127,948	95,404
Work in progress	10	246,206	179,606
Current tax asset	6	395	391
Other current assets	11	7,435	4,836
Total current assets		386,357	284,269
Non-current assets			
Plant and equipment	12	14,596	9,419
Work in progress	10	1,937	7,045
Intangible assets	13	107,104	55,259
Other non-current assets	14	15,426	18,401
Total non-current assets		139,063	90,124
Total assets		525,420	374,393
Current liabilities			
Payables	15	81,326	62,129
Short term borrowings	16	12,484	7,165
Current tax liabilities	6	659	-
Provisions	17	12,031	11,464
Total current liabilities		106,500	80,758
Non-current liabilities			
Payables	15	9,762	5,765
Long term borrowings	16	96,092	40,554
Deferred tax liabilities	6	66,444	49,917
Derivative financial instruments		948	349
Provisions	17	2,368	1,633
Total non-current liabilities		175,614	98,218
Total liabilities		282,114	178,976
Net assets		243,306	195,417
Equity			
Contributed equity	18	142,181	109,809
Reserves	19	(996)	(245)
Retained profits	20	102,050	85,853
Total equity attributable to equity holders in the Company		243,235	195,417
Non-controlling interest	21	71	-
Total equity		243,306	195,417

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

2012:	Note	Contributed Equity	Retained Earnings	Hedging Reserve	Translation Reserve	Total	Non-controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2011		109,809	85,853	(245)	-	195,417	-	195,417
Net Profit after tax for the year		-	24,983	-	-	24,983	9	24,992
Total other comprehensive income for the year	19	-	-	(419)	(332)	(751)	-	(751)
Total comprehensive income for the year		-	24,983	(419)	(332)	24,232	9	24,241
Transactions with owners in their capacity as owners								
Ordinary and VCR shares issued (net)	18	33,459	-	-	-	33,459	-	33,459
Share buy-back	18	(1,042)	-	-	-	(1,042)	-	(1,042)
Dividends paid	7	-	(8,786)	-	-	(8,786)	-	(8,786)
Costs of equity raising	18	(45)	-	-	-	(45)	-	(45)
Acquisition of a controlled entity with non-controlling interests	21	-	-	-	-	-	62	62
Total transactions with owners in their capacity as owners		32,372	(8,786)	-	-	23,586	62	23,648
Balance as at 30 June 2012		142,181	102,050	(664)	(332)	243,235	71	243,306

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

Financial Statements

For the year ended 30 June 2012

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

2011:	Note	Contributed Equity	Retained Earnings	Hedging Reserve	Translation Reserve	Total	Non-controlling interest	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 30 June 2010		81,182	65,642	(331)	-	146,493	-	146,493
Net Profit after tax for the year	19	-	27,908	-	-	27,908	-	27,908
Total other comprehensive income for the year		-	-	86	-	86	-	86
Total comprehensive income for the year		-	27,908	86	-	27,994	-	27,994
Transactions with owners in their capacity as equity holders								
Ordinary and VCR shares issued (net)	18	30,026	-	-	-	30,026	-	30,026
Share buy-back	18	(1,111)	-	-	-	(1,111)	-	(1,111)
Dividends paid	7	-	(7,697)	-	-	(7,697)	-	(7,697)
Costs of equity raising	18	(288)	-	-	-	(288)	-	(288)
Total transactions with owners in their capacity as equity holders		28,627	(7,697)	-	-	20,930	-	20,930
Balance as at 30 June 2011		109,809	85,853	(245)	-	195,417	-	195,417

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$'000	2011 \$'000
Cash flow from operating activities			
Receipts from customers		202,929	166,702
Payments to suppliers and employees		(182,110)	(140,633)
Interest received	4(a)	357	500
Borrowing costs		(5,374)	(3,991)
Income tax (paid)/refunded	6	157	(2,539)
Net cash provided by operating activities	22 (b)	15,959	20,039
Cash flow from investing activities			
Payment for software development		(778)	(1,026)
Payment for plant and equipment		(3,495)	(1,815)
Costs associated with acquisition of businesses		(1,414)	(1,677)
Payment for acquisition of businesses, net of cash in subsidiaries		(45,619)	(59,839)
Payment for acquisition of businesses - deferred consideration		(19,077)	(2,032)
Net cash used in investing activities		(70,383)	(66,389)
Cash flow from financing activities			
Proceeds from share issue	18	-	15,877
Proceeds from non-controlling interests	21	62	-
Costs of raising equity	18	(45)	(837)
Proceeds from related parties and employees		6,008	1,589
Proceeds from borrowings		89,089	34,491
Repayment of borrowings		(32,068)	(23,132)
Dividends paid	7	(8,786)	(7,697)
Net cash provided by financing activities		54,260	20,291
Net increase/(decrease) in cash held		(164)	(26,059)
Effect of exchange rate fluctuations on cash held		80	-
Cash at beginning of financial year		4,032	30,091
Cash at end of financial year	22 (a)	3,948	4,032

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Slater & Gordon Limited (“the Company”) which is a company limited by shares, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its controlled entities referred on in Note 29, together referred to as (“the Group”) and individually as (“Group Entities”). The financial report was authorised for issue by the directors as at the date of the Directors’ Report.

The following is a summary of material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Compliance with IFRS

Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (“IFRS”).

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent has the power to control the financial and operating policies so as to obtain benefits from its activities.

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 fully consolidated from the date on which control is established. They are de-consolidated from the date that control ceases.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve with equity attributable to owner of the Company.

(c) Segment reporting

Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Managing Director, who is the Group’s chief operating decision maker.

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. All operating segments operating results are regularly reviewed by the Group’s Managing Director to make decisions about resources to be allocated to the segment and to assess its performance, and for which financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentational currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within finance costs except when they are deferred in equity as qualifying net investment hedges. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Group companies

The results and financial position of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income item are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the dates of the transactions), and;
- all resulting exchange differences are recognised in other comprehensive income

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.

Hedge of net investment in foreign operation

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Company's functional currency, regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Financial Statements

For the year ended 30 June 2012

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(e) Revenue recognition

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services for project litigation

Where there is an enforceable contractual agreement and the outcome can be reliably measured:

- control of a right to be compensated for the services has been attained and the stage of completion can be reliably measured. Stage of completion is measured by reference to the time incurred to date as a percentage of the expected time for an outcome to be rendered in the case.

Where there is not an enforceable contractual agreement or the outcome cannot be reliably measured:

- revenue is recognised to the extent of costs incurred and only if the client is under obligation to pay the costs as part of the enforceable contractual agreement.

Interest revenue

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax.

(f) Income tax

Current income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements, and to unused tax losses.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit/loss.

Deferred tax liabilities and assets are calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled. Current and deferred tax balances attributable to amounts recognised directly in equity, are also recognised directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Tax consolidation

The Company and its Australian domiciled subsidiaries have formed a tax consolidated group under the tax consolidation legislation. Trilby Misso Lawyers Limited ("TML") and Slater & Gordon Lawyers NSW Pty Limited ("S&G NSW") formed part of the consolidated tax group throughout the financial year. Conveyancing Works (Qld) Pty Limited ("CWQ") has formed part of the consolidated tax group since it was acquired by the Group on 25 November 2011. As a consequence, the Company and its controlled entities which comprise the tax-consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Slater & Gordon Limited.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(g) **Cash and cash equivalents**

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. Bank overdrafts are shown within short-term borrowings in current liabilities on the Consolidated Statement of Financial Position. 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.

(h) **Disbursements**

Disbursements represent costs incurred during the course of a matter that are recovered from clients. A provision for non-recoverable disbursements is recognised to the extent that recovery of the outstanding receivable balance is considered less than likely. The provision is established based on the Group's history of amounts not recovered over the previous four years.

(i) **Work in progress**

Work in progress is carried at either cost or it may include profit recognised to date based on the value of work completed. The following are the methodologies adopted for each practice area in determining the value of work in progress:

Time recording valuation

For estate/probate, industrial law, commercial law and funded project litigation matters, time records and historical levels of fees billed are used in determining the value of work completed.

Value pricing and fixed fee valuation

Work in progress for practice areas, other than project litigation matters, that do not calculate the fees due by a client solely by reference to time records is recognised using the percentage of completion method when the stage of completion can be reasonably determined, and the fee per file and probability of success can be reliably estimated, making allowance for the "No Win, No Fee" conditional fee arrangements, under which the Personal Injury practice operates.

Project litigation

Work in progress on project litigation is recognised on self funded project litigation matters for which a favourable outcome is considered probable. For such projects, work in progress is initially valued at costs incurred less a discount for the likely recovery of those costs. Cost includes both variable and fixed costs directly related to cases and those that can be attributed to case activity and that can be allocated to specific projects on a reasonable basis. Where a project litigation matter has reached partial or full settlement and an enforceable agreement to recover the professional fees exists, work in progress is valued at the settled fee amount and discounted for percentage file completion, and the probability of the full fee being collected. Project litigation matters that are not expected to be realised within twelve months are classified as non current.

(j) **Plant and equipment**

Plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amounts of all fixed assets are depreciated over their estimated useful lives, commencing from the time the asset is held ready for use.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

The depreciation rates used for each class of assets are:

<i>Class of fixed asset</i>	<i>Depreciation rates</i>	<i>Depreciation method</i>
Plant and equipment	1.00 – 40.00%	Straight Line & Diminishing Value
Low value asset pool	18.75 – 37.50%	Diminishing Value

An asset's residual value and useful life is reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Consolidated Statement of Comprehensive Income.

(k) Leases

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Consolidated Statement of 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.

(l) Intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition.

Goodwill is not amortised, but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Software development costs

Software development costs are carried at cost less accumulated amortisation and accumulated impairment losses. These assets have been assessed as having a finite useful life and once operating in the Group are amortised over the useful life of 7-8 years.

Trademarks

The fair value of trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned.

The trademarks are not amortised, but tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Trademarks are carried at fair value at the date they are acquired less accumulated impairment losses.

Customer relationships

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. They are assessed as having a finite useful life and are amortised over their useful life of three years.

(m) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested at least annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

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

For the purposes of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(n) Acquisition of assets

All assets acquired, including plant and equipment and intangibles, other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(o) **Borrowing costs**

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the period in which they are incurred.

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, and ancillary costs incurred in connection with the arrangement of borrowings.

(p) **Provisions**

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 that can be reliably measured.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of Comprehensive Income net of any reimbursement.

(q) **Employee benefits**

Service benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable 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 government bonds with matching terms to maturity.

Share-based payment transactions

The Group operates an Employee Ownership Plan ("EOP"). The EOP allows employees to purchase Vesting Convertible Redeemable ("VCR") shares in the Company by way of an interest-free loan. The loan has been recorded as a financial instrument as described in section (s) below:

- The VCR shares vest over a specified period of time. At the time of vesting, VCR shares convert into ordinary shares with disposal restrictions. The terms and conditions of these shares are further described at Note 26.
- The value of the benefit received by an employee from issue of the VCR shares is assessed as the difference between the value of the VCR shares at the date of issue and the present value of the amount payable by the employee for purchase of the VCR shares. In accordance with AASB 2 Share Based Payment, the benefit is expensed on a proportional basis over the period from issue date to the date on which the employee becomes unconditionally entitled to the full benefit of ownership of the shares.

(r) **Solicitor liability claims**

Provision is made for the potential future cost of claims brought against the Group by former clients. The provision is determined by including the estimated maximum amount payable by the Group under its Professional Indemnity Insurance Policy on all claims notified by its insurer.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(s) Financial instruments

Loans and receivables

VCR share loans receivable 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 and are subsequently stated at amortised cost using the effective interest rate method. Refer to Note 26 for further details.

Financial liabilities

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 less principal payments and amortisation.

Non-interest bearing financial liabilities for deferred cash consideration on the acquisition of acquired firms are measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in profit and 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 hedge); or
- hedges of highly probable forecast transactions (cash flow hedges)

The Group currently has cash flow hedges only, relating to interest rate and foreign exchange risk management. At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions are documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flow hedged items, are also documented.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Consolidated Statement of Comprehensive Income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

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 a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Comprehensive Income.

Amounts accumulated in the hedge reserve in equity are transferred to the Consolidated Statement of Comprehensive Income in the periods when the hedged item will affect profit and loss.

The Group currently has cash flow hedges only, relating to interest rate risk and foreign exchange risk management. It is the Group's policy to hedge a portion of its exposure in order to minimise the impact of an adverse change in interest rates and foreign exchange rates that the Group is subject to.

(t) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the GST incurred is not recoverable from the Australian Taxation Office ("ATO"), 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.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Consolidated Statement of Financial Position.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION (Continued)

(u) Earnings per share

Basic earnings per share ("EPS") is calculated as net profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated as net profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(v) Rounding amounts

The Company is of a kind referred to in ASIC Class Order 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(w) Comparative

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(x) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 34.

(y) New accounting standards and interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective and are detailed below. New accounting standards which are likely to have an impact on the financial statements of the Group are detailed below:

- AASB 9 Financial Instruments
- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 13 Fair Value Measurement

The directors have not yet assessed the impact of these standards or interpretations.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and assumptions concerning the future, which by definition, will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

(a) Estimated impairment of goodwill

Goodwill is allocated to cash generating units ("CGU's") according to applicable business operations. The recoverable amount of a CGU is based on value-in-use calculations. These calculations are based on projected cash flows approved by management covering a period not exceeding five years. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. Refer to Note 13 for further detail.

(b) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation 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.

(c) Work in progress

The following estimates and judgements are applied in valuing work in progress:

Time recording valuation

An estimate is made of the recoverability of time recorded on a file.

Value pricing and fixed fee valuation

An estimate is made of fees to be earned on a file with reference to internal and external (where available) historical and forecast fee levels. An estimate of the percentage of completion and probability of success is made with reference to internal and external (where available) information and experience, and having regard to where a file is in its life cycle.

Project Litigation

An estimate is made as to the likely recovery of costs incurred as at the reporting date in respect of each project.

(d) Financial instruments at fair value

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 7, 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. Whilst management believes the assumptions used are appropriate, a change of assumptions would impact the fair value calculations.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: SEGMENT REPORTING

The Group has three operating segments, as described below, which are the Group's strategic business units. The strategic business units are managed separately. For each of the strategic business units, the Managing Director reviews internal management reports on a monthly basis. The following summary describes each of the Group's reportable segments:

- **Slater & Gordon ("S&G")** - includes the parent company Slater & Gordon Limited and its subsidiaries Slater & Gordon Lawyers NSW Pty Limited and Conveyancing Works (Qld) Pty Limited (subsequent to acquisition on 25 November 2011). This segment conducts a range of legal services, within the geographical area of Australia. This segment also includes investments in the Group's other segments, and borrowings and capital raising activities to finance investment and operations of the combined Group. There is limited recharge of ongoing management support to other segments in the Group.
- **Trilby Misso Lawyers ("TML")** - includes the subsidiary company Trilby Misso Lawyers Limited which conducts legal services in the field of personal injury law within the geographical area of Queensland.
- **Slater & Gordon UK ("UK")** - includes the Group's operations, conducting a range of legal services, in the United Kingdom subsequent to acquisition of Russell Jones & Walker and its related entities on 30 April 2012.

Segment assets are allocated to countries based on where the assets are located.

2012	Australia		United Kingdom	Total
	S&G	TML	UK (2 months)	
	\$'000	\$'000	\$'000	\$'000
Total segment revenue	171,269	35,752	11,480	218,501
Inter-segment revenue	(797)	-	-	(797)
Revenue from external customers	170,472	35,752	11,480	217,704
Earnings before interest tax depreciation and amortisation	32,529	11,770	1,376	45,675
Interest revenue	1,098	249	3	1,350
Interest expense	(6,244)	(360)	(243)	(6,847)
Depreciation and amortisation	(2,445)	(895)	(344)	(3,684)
Net profit before income tax	24,938	10,764	792	36,494
Total segment assets	449,124	79,477	115,555	644,156
Investment in subsidiaries (inter-segment)	(84,559)	-	-	(84,559)
Inter-segment assets	(22,697)	(11,480)	-	(34,177)
Total assets per the balance sheet	341,868	67,997	115,555	525,420
Segment liabilities				
Total segment liabilities	190,125	16,696	109,470	316,291
Inter-segment liabilities	(11,480)	-	(22,697)	(34,177)
Total liabilities per the balance sheet	178,645	16,696	86,773	282,114

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For the year ended 30 June 2012

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: SEGMENT REPORTING (Continued)

2011	Australia		Total
	S&G	TML (11 months)	
	\$'000	\$'000	\$'000
Total segment revenue	151,746	32,213	183,959
Inter-segment revenue	(1,650)	-	(1,650)
Revenue from external customers	150,096	32,213	182,309
Earnings before interest tax depreciation and amortisation	37,578	10,950	48,528
Interest revenue	1,593	231	1,824
Interest expense	(6,053)	(13)	(6,066)
Depreciation and amortisation	(2,036)	(707)	(2,743)
Net profit before income tax	31,082	10,461	41,543
Total segment assets	352,962	71,677	424,639
Investment in subsidiaries (inter-segment)	(48,757)	-	(48,757)
Inter-segment assets	(1,489)	-	(1,489)
Total assets per the balance sheet	302,716	71,677	374,393
Segment liabilities			
Total segment liabilities	165,687	14,778	180,465
Inter-segment liabilities	-	(1,489)	(1,489)
Total liabilities per the balance sheet	165,687	13,289	178,976

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: REVENUE	Note	2012 \$'000	2011 \$'000
Fee revenue			
Rendering of services		213,812	178,046
Other revenue			
Service and licence fee	28	840	800
Interest	4(a)	1,350	1,824
Other		1,702	1,639
		3,892	4,263
<i>(a) Interest from</i>			
Other persons		357	500
VCR share loans to employees		993	1,324
		1,350	1,824

NOTE 5: PROFIT FROM CONTINUING ACTIVITIES

Finance costs expense			
Interest on bank overdraft and loans		5,398	3,657
Interest on deferred consideration payable to vendors on acquisitions		1,005	1,972
Interest on obligations under hire purchases		444	437
		6,847	6,066
Depreciation and amortisation of non-current assets			
Plant and equipment		2,336	1,748
Software development		848	587
Client lists		500	408
		3,684	2,743
Bad and doubtful debts		3,738	3,967
Share based payments expense	18(b)	987	1,131
Write off of work in progress and disbursements on Rolah McCabe proceedings		-	611
Write off work in progress and disbursements on the Vioxx Proceedings (includes bad and doubtful debts expense of \$4,434,000)		10,539	-

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For the year ended 30 June 2012

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6: INCOME TAX	Note	2012 \$'000	2011 \$'000
Income tax expense			
Current tax		500	-
Deferred tax		11,019	13,386
Adjustment for current tax of prior periods		(17)	249
		<u>11,502</u>	<u>13,635</u>
Income tax recognised in other comprehensive income			
Deferred tax credit arising on cash flow hedges		180	(37)
		<u>180</u>	<u>(37)</u>
Income tax recognised directly in equity			
Deferred tax credit recognised directly in equity		19	548
		<u>19</u>	<u>548</u>
Deferred income tax expense included in income tax			
(Increase)/decrease in deferred tax assets		2,201	(13,686)
Deferred income tax relating to items charged or credited to other comprehensive income		180	(37)
Deferred income tax relating to items charged or credited directly to equity		19	548
Increase/(decrease) in deferred tax liabilities		14,326	24,187
Net deferred taxes arising from business combinations		(5,707)	2,374
		<u>11,019</u>	<u>13,386</u>
The prima facie tax payable on profit differs from the			
Total profit before income tax expense		36,494	41,543
At the statutory income tax rate of 30% (2011 - 30%)		10,948	12,463
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
- other non-allowable items		439	1,421
		<u>11,387</u>	<u>13,884</u>
Adjustments in respect to prior periods		(17)	(249)
Difference in overseas tax rate		(160)	-
Deferred tax assets not recognised		292	-
Income tax expense		<u>11,502</u>	<u>13,635</u>
Current tax asset/(liability):			
Balance at the beginning of the year		391	(2,154)
Current income tax (expense)/credit		(500)	-
Tax paid/(refunded)		(157)	2,539

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6: INCOME TAX (Continued)	2012	2011
	\$'000	\$'000
Current tax asset arising from business combinations	-	255
Adjustments in respect to prior periods	(5)	(249)
Exchange differences	7	-
Balance at the end of the year	<u>(264)</u>	<u>391</u>
Deferred tax assets		
Provision for doubtful debts and non-recoverable disbursements	2,867	1,677
Employee benefits	4,524	3,719
Provision for legal costs	290	210
Accruals	2,099	1,730
Undeducted business related costs	364	9
Acquisition related costs	-	529
Fair value of cash flow hedges	285	105
Unbilled acquired WIP and disbursements	1,886	5,243
Other	36	109
Revenue losses carried forward	5,937	7,158
	<u>18,288</u>	<u>20,489</u>
Deferred tax liabilities		
Prepayments	929	713
Work in Progress	69,427	55,995
Unrendered disbursements	14,989	13,470
Unrendered WIP and disbursements not yet deducted	(838)	(208)
Plant and equipment	70	448
Other	155	(12)
	<u>84,732</u>	<u>70,406</u>
Balance after set off of deferred tax assets and (liabilities)	<u>(66,444)</u>	<u>(49,917)</u>

NOTE 7: DIVIDENDS

Dividends paid during the year

Dividends on ordinary shares

Interim franked dividend at the tax rate of 30% for 2012: 2.5 cents per share (2011 – 2.2 cents per share)	3,793	3,285
Final franked dividend at the tax rate of 30% for 2011: 3.3 cents per share (2010 – 3.0 cents per share)	4,993	4,412
Total dividends paid during the year	<u>8,786</u>	<u>7,697</u>

Dividends proposed and not recognised as a liability

Dividends on ordinary shares final franked dividend at the tax rate of 30% for the year ended 30 June 2012: 3.5 cents per share (2011 – 3.3 cents per share)	5,898	4,923
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 7: DIVIDENDS (Continued)

	Note	2012 \$'000	2011 \$'000
Franking credit balance			
Balance of franking account at year-end adjusted for franking credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends:		1,383	3,383
Impact on franking account of dividend recommended by the directors since the year end but not recognised as a liability at year end:		2,528	2,110

NOTE 8: CASH AND CASH EQUIVALENTS

	Note		
Cash at bank	22(a)	4,373	4,032

NOTE 9: RECEIVABLES

Current

Trade debtors		77,121	50,533
Impairment of trade debtors		(4,794)	(2,942)
		<u>72,327</u>	<u>47,591</u>
Disbursements		63,407	51,182
Impairment of disbursements		(9,614)	(4,931)
		<u>53,793</u>	<u>46,251</u>

Receivable from associate - Andrew Grech trading as Slater & Gordon Lawyers in South Australia

	28	1,611	1,311
Other receivables		217	251
		<u>127,948</u>	<u>95,404</u>

NOTE 10: WORK IN PROGRESS

Current

Non-personal injury		8,471	1,914
Personal injury		234,884	174,867
Project litigation		2,851	2,825
		<u>246,206</u>	<u>179,606</u>

Non-current

Project litigation		1,937	7,045
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NOTE 11: OTHER ASSETS

Current

Prepayments		6,895	4,316
Other current assets		540	520
		<u>7,435</u>	<u>4,836</u>

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 12: PLANT AND EQUIPMENT	Note	2012 \$'000	2011 \$'000
Plant and equipment at cost		30,585	15,816
Less accumulated depreciation		(16,541)	(6,835)
	12 (a)	<u>14,044</u>	<u>8,981</u>
Low value asset pool at cost		1,396	1,066
Less accumulated depreciation		(844)	(628)
	12 (b)	<u>552</u>	<u>438</u>
Total plant and equipment		<u>14,596</u>	<u>9,419</u>

Movements in carrying amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year

(a) Plant and equipment

Balance at the beginning of the year	8,981	6,653
Additions	3,115	1,523
Additions through acquisition of entities	4,146	2,405
Exchange differences	(159)	-
Depreciation expense	(2,039)	(1,600)
Carrying amount at end of year	<u>14,044</u>	<u>8,981</u>

(b) Low value asset pool

Balance at the beginning of the year	438	290
Additions	380	296
Additions through acquisition of entities	31	-
Depreciation expense	(297)	(148)
Carrying amount at end of year	<u>552</u>	<u>438</u>

NOTE 13: INTANGIBLE ASSETS

Goodwill – at cost	96,580	44,280
Accumulated impairment loss	-	-
Net carrying amount	13(a) <u>96,580</u>	<u>44,280</u>
Software development – at cost	6,371	5,496
Accumulated amortisation	(1,995)	(1,165)
Net carrying amount	13(b) <u>4,376</u>	<u>4,331</u>
Trademarks – at cost	5,659	5,659
Accumulated impairment loss	-	-
Net carrying amount	13(c) <u>5,659</u>	<u>5,659</u>
Customer relationships – at cost	1,397	1,397
Accumulated amortisation	(908)	(408)
Net carrying amount	13(d) <u>489</u>	<u>989</u>
Total intangible assets	<u>107,104</u>	<u>55,259</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 13: INTANGIBLE ASSETS (Continued)	Note	2012	2011
		\$'000	\$'000
Movements in carrying amount			
Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year			
(a) Goodwill			
Opening net book amount		44,280	22,073
Additions in respect to current period acquisitions	30	52,814	22,207
Exchange differences		(514)	-
Impairment expense – goodwill		-	-
Closing net book value		<u>96,580</u>	<u>44,280</u>
(b) Software development			
Opening net book amount		4,331	3,893
Additions		778	1,025
Addition in respect to current period acquisitions		115	-
Amortisation expense		(848)	(587)
Closing net book value		<u>4,376</u>	<u>4,331</u>
(c) Trademarks			
Opening net book amount		5,659	-
Additions		-	5,659
Closing net book value		<u>5,659</u>	<u>5,659</u>
(d) Customer relationships			
Opening net book amount		989	-
Additions		-	1,397
Amortisation expense		(500)	(408)
Closing net book value		<u>489</u>	<u>989</u>

Goodwill acquired through business combinations has been allocated to individual cash generating units (“CGUs”) for the purposes of impairment testing being the operations in the states of New South Wales, Queensland (excluding TML), Victoria and Western Australia and the operations in the Australian Capital Territory. In addition, the operating segment of TML and the UK are considered to be individual CGUs.

The recoverable amount of goodwill allocated to each of the CGUs has been determined based on a value in use calculation as required by AASB 136 Impairment of Assets. This uses financial budgets and cash flow projections approved by senior management covering a five year period.

The value in use is compared to the net carrying amount of goodwill recognised in the accounts. If the calculated recoverable amount exceeds the net carrying amount, no impairment loss is recorded.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 13: INTANGIBLE ASSETS (Continued)

	NSW	QLD	VIC	CGU		TML	UK ⁽¹⁾
				WA	ACT		
2012							
Goodwill recognised (\$'000)	24,414	11,255	4,824	684	226	12,102	43,075

The assumptions used by management in determining the value in use for all CGU's include:

Growth in fees	5.0%
Risk free discount rate	3.3%
Assumed debt ratio	18.1%
Equity risk premium	6.0%
Weighted average cost of capital	10.5%

2011

Goodwill recognised (\$'000)	22,821	3,623	4,824	684	226	12,102	-
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The assumptions used by management in determining the value in use for all CGU's include:

Growth in fees until 30 June 2016	6.5%
Growth in fees subsequent to 30 June 2016	5.0%
Risk free discount rate	5.3%
Assumed debt ratio	12.0%
Equity risk premium	6.1%
Weighted average cost of capital	11.1%

⁽¹⁾At 30 June 2012 the Group has recognised \$43,075,000 as provisional goodwill with respect to the acquisition of RJW and its subsidiaries in the UK. The transaction was completed on 30 April 2012. Nothing has come to the attention of management of the Group post the completion of the acquisition that indicates that the RJW business will not meet its earnings expectations. As such, and given that the goodwill has been determined provisionally, it is management's opinion that as at 30 June 2012 no impairment of the acquired goodwill of the RJW business has occurred.

NOTE 14: OTHER NON-CURRENT ASSETS	Note	2012	2011
		\$'000	\$'000
VCR loans to employees	26	15,426	18,401
		<u>15,426</u>	<u>18,401</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15: PAYABLES	Note	2012	2011
		\$'000	\$'000
Current			
<i>Unsecured liabilities</i>			
Trade creditors		3,467	2,497
Legal creditors and accruals		65,805	43,143
Vendor liabilities – acquisitions		12,054	16,489
		<u>81,326</u>	<u>62,129</u>
Non-current			
<i>Unsecured liabilities</i>			
Vendor liabilities – acquisitions		9,762	5,765
		<u>9,762</u>	<u>5,765</u>

NOTE 16: BORROWINGS

Current			
<i>Secured</i>			
Bank overdraft	22(a)	425	-
Cash advances	31	9,073	6,000
Hire purchase liability		2,986	1,165
		<u>12,484</u>	<u>7,165</u>
Non-current			
<i>Secured</i>			
Cash advances	31	89,361	36,672
Hire purchase liability		6,731	3,882
		<u>96,092</u>	<u>40,554</u>

(a) Terms and conditions relating to the above financial instruments:

The bank overdraft and cash advance facility are part of a syndicated facility provided by Westpac Banking Corporation (“Westpac”) and National Australia Bank (“NAB”). They are secured by a fixed and floating charge over the assets and uncalled capital of the Company.

Interest on the bank overdraft is charged at BBSY plus an agreed margin.

(b) A portion of the bills of exchange are the subject of an interest rate swap to hedge the risk of an adverse interest rate movement Note 31 (iv).

NOTE 17: PROVISIONS

Current			
Employee benefits		11,546	10,764
Solicitor liability claims		485	700
		<u>12,031</u>	<u>11,464</u>
Non-current			
Employee benefits		2,368	1,633
(a) Aggregate employee benefits liability		13,914	12,397
(b) Number of employees at year end		1,648	1,125

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18: CONTRIBUTED EQUITY	Note	2012	2012	2011	2011
		Shares	\$'000	Shares	\$'000
Ordinary shares fully paid	18(a)	168,536,445	137,099	149,178,605	103,994
VCR shares	18(b)	4,819,998	5,082	5,569,044	5,815
Balance at end of the year		<u>173,356,443</u>	<u>142,181</u>	<u>154,747,649</u>	<u>109,809</u>
(a) Movement in ordinary share capital					
Balance at the beginning of the year		149,178,605	103,994	112,040,776	51,612
<i>Shares issued as consideration for acquisitions:</i>					
- 13 August 2010		-	-	3,403,927	5,276
- 3 September 2010		-	-	912,714	1,450
- 11 January 2011		-	-	2,083,340	3,700
- 7 March 2011		-	-	117,944	183
- 30 June 2011		-	-	19,152	30
- 28 November 2011		424,442	764	-	-
- 1 May 2012		16,681,138	28,691	-	-
- 4 May 2012		187,500	338	-	-
		<u>17,293,080</u>	<u>29,793</u>	<u>6,537,077</u>	<u>10,639</u>
<i>Conversion of vested VCR shares to ordinary share capital:</i>					
- 3 September 2010		-	-	2,560,834	3,683
- 12 January 2011		-	-	53,572	36
- 31 August 2011		2,129,046	3,389	-	-
		<u>2,129,046</u>	<u>3,389</u>	<u>2,614,406</u>	<u>3,719</u>
<i>Share capital issued by share placement:</i>					
- 1 July 2010		-	-	16,806,116	23,529
- 13 August 2010		-	-	10,336,741	14,471
		-	-	<u>27,142,857</u>	<u>38,000</u>
<i>Share capital issued under share purchase plan:</i>					
- 13 August 2010		-	-	1,004,204	1,406
<i>Employee share scheme buy-back:</i>					
- 31 May 2011		-	-	(160,715)	(102)
- 29 June 2012		(64,286)	(41)	-	-
		<u>(64,286)</u>	<u>(41)</u>	<u>(160,715)</u>	<u>(102)</u>
Less capital raising costs, net of tax		-	(36)	-	(1,280)
Balance at end of the year		168,536,445	137,099	149,178,605	103,994

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18: CONTRIBUTED EQUITY (Continued)

	2012 Shares	2012 \$'000	2011 Shares	2011 \$'000
(b) Movement in VCR share capital				
Balance at the beginning of the year	5,569,044	5,815	8,232,022	7,050
<i>Conversion of vested VCR shares to ordinary shares:</i>				
- 3 September 2010	-	-	(2,560,834)	(3,683)
- 12 January 2011	-	-	(53,572)	(36)
- 31 August 2011	(2,129,046)	(3,389)	-	-
	(2,129,046)	(3,389)	(2,614,406)	(3,719)
<i>Share capital issued under Employee Ownership Plan:</i>				
- 22 February 2011	-	-	1,830,000	2,379
- 30 December 2011	2,390,000	2,679	-	-
	2,390,000	2,679	1,830,000	2,379
<i>Employee share scheme buy-back:</i>				
- 31 May 2011	-	-	(1,878,572)	(1,009)
- 29 June 2012	(1,010,000)	(1,001)	-	-
	(1,010,000)	(1,001)	(1,878,572)	(1,009)
Share based payments expense	-	987	-	1,131
Less capital raising costs, net of tax	-	(9)	-	(17)
Balance at end of the year	4,819,998	5,082	5,569,044	5,815
(c) Movement in Unallotted Share Capital				
Balance at the beginning of the year	-	-	-	22,520
Transfer to ordinary share capital upon issue of shares on 1 July 2010	-	-	-	(23,529)
Capital raising costs transferred to ordinary share capital	-	-	-	1,009
Balance at end of the year	-	-	-	-

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.

VCR shares

Please refer to Note 26 for detailed discussion on the rights attached to VCR shares.

NOTE 19: RESERVES

	Note	2012 \$'000	2011 \$'000
Cash flow hedging	19(a)	(664)	(245)
Foreign currency translation	19(b)	(332)	-
		(996)	(245)

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 19: RESERVES (Continued)	Note	2012 \$'000	2011 \$'000
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Movements in carrying amount

Movement in the carrying amounts for each class of reserve between the beginning and the end of the current financial year

(a) Cash flow hedging

Balance at the beginning of the year		(245)	(331)
Gain/(loss) recognised on interest rate hedge, net of tax		(419)	86
Balance at the end of the year		<u>(664)</u>	<u>(245)</u>

(b) Foreign currency translation

Balance at the beginning of the year		-	-
Currency translation differences arising during the year		(332)	-
Balance at the end of the year		<u>(332)</u>	<u>-</u>

Nature and purpose of other reserves

Cash flow hedging

The cash flow hedging reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred, net of tax.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

NOTE 20: RETAINED PROFITS

Retained earnings	20(a)	<u>102,050</u>	<u>85,853</u>
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(a) Retained earnings

Balance at the beginning of year		85,853	65,642
Net profit attributable to ordinary equity holders		24,983	27,908
Total available for appropriation		110,836	93,550
Dividends paid	7	(8,786)	(7,697)
Balance at end of year		<u>102,050</u>	<u>85,853</u>

NOTE 21: NON-CONTROLLING INTERESTS

Interest in:

Share capital		-	-
Reserves		62	-
Retained earnings		9	-
Balance at end of year	21(a)	<u>71</u>	<u>-</u>

(a) Non-controlling interests

Balance at the beginning of the year		-	-
Capital contributions from non-controlling interests		62	-
Non-controlling interest share in net profit after tax		9	-
Balance at the end of the year		<u>71</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22: CASH FLOW INFORMATION

	Note	2012	2011
(a) Reconciliation of cash		\$'000	\$'000

For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

Cash at the end of the financial year as shown in the Statement of Consolidated Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash on hand	8	4,373	4,032
Bank overdraft	16	(425)	-
		<u>3,948</u>	<u>4,032</u>

(b) Reconciliation of cash flow from operations with profit after income tax

Profit after income tax		24,992	27,908
<i>Non-cash flows in profit from ordinary activities</i>			
Notional interest on VCR share loans	4	(993)	(1,324)
Depreciation and amortisation	5	3,684	2,743
Share based payments expenses	5	987	1,131
Costs associated with acquisition		1,414	1,444
Notional interest on deferred consideration	5	1,005	1,261
<i>Changes in assets and liabilities</i>			
Increase in receivables		(1,815)	(5,701)
(Increase)/decrease in other assets		(234)	224
Increase in work in progress		(26,078)	(21,569)
Decrease in payables		(384)	(405)
Increase/(decrease) in income tax payable		482	(2,290)
Increase in deferred taxes		11,263	15,054
Increase in provisions		1,636	1,563
Cash flows from operations		<u>15,959</u>	<u>20,039</u>

NOTE 23: COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Non-cancellable operating leases (including rental of office space) contracted but not capitalised in the consolidated financial statements:

Within one year	14,184	11,053
One year or later and not later than five years	37,871	32,830
Greater than five years	17,163	19,567
	<u>69,218</u>	<u>63,450</u>

Bank guarantees in respect of rental properties and acquisitions	<u>7,955</u>	<u>3,654</u>
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Other commitments and contingencies

The Group has entered into an agreement with ASK Funding Limited ("ASK") to provide financial guarantees to ASK with respect to disbursement funding borrowings to the Group's clients. The nature of this agreement is that ASK will fund disbursements in respect of individual matters and will be reimbursed out of any settlement proceeds on the matter. The Group has provided a financial guarantee for the repayment of the clients' obligations to ASK. The total amount funded by ASK to the Group's clients at 30 June 2012 is \$6,700,697 (2011: \$9,289,925). The maximum exposure of the Group at 30 June 2012 is \$6,700,697 (2011: \$9,289,925) if the individual client matters are not recovered from any other party.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 23: COMMITMENTS AND CONTINGENCIES (Continued)

During FY12 ASK funding ceased to offer a disbursement funding facility and is in an orderly run-off of its disbursement funding book. Slater and Gordon reached agreement with Equal Access Funding (“EAF”) post year end to provide an alternate arrangement on substantially the same terms and conditions as the ASK product.

NOTE 24: EARNINGS PER SHARE	2012	2011
	\$'000	\$'000

The following reflects the income and share data used in the calculations of basic and diluted earnings per share

Net profit after tax attributable to ordinary equity holders	24,983	27,908
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	<u>24,983</u>	<u>27,908</u>

Weighted average number of ordinary shares used in calculating basic earnings per share ('000's)	154,014	145,744
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Effect of dilutive securities:

VCR shares	<u>4,991</u>	<u>6,575</u>
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share ('000's)	<u>159,005</u>	<u>152,319</u>

VCR shares

VCR shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Refer to Note 26 for a detailed explanation of VCR shares.

NOTE 25: KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

Directors

John Skippen	Director – Non-Executive – Appointed Acting Chair from 16 March 2012 and Chair from 23 August 2012
Andrew Grech	Managing Director
Ian Court	Director – Non-Executive
Ken Fowlie	Executive Director
Erica Lane	Director – Non-Executive
Anna Booth	Resigned as Non-Executive Director and Chair on 16 March 2012

Executives

Wayne Brown	Chief Financial Officer
Cath Evans	General Manager – Client Experience
Janine Gregory	General Manager – Personal Injuries Victoria
James Higgins	General Manager – Commercial & Project Litigation
Hayden Stephens	General Manager – Personal Injuries North

With effect from 1 July 2011, and due to a consolidation of reporting accountabilities,

- Rod Cunich and Christ Prast ceased to meet the definition of “Key Management Personnel”, and
- Janine Gregory and James Higgins met the definition of “Key Management Personnel”

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25: KEY MANAGEMENT PERSONNEL (Continued)

(b) Shareholdings of Key Management Personnel

Shares held in Slater & Gordon Limited (number)

Net movement in share capital 2012

Key Management Personnel ^(a)	Ordinary shares balance at beginning of year	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares balance at end of year
John Skippen	-	-	-	-
Andrew Grech	8,022,356	94,257	-	8,116,613
Ian Court	35,000	9,000	-	44,000
Ken Fowlie	6,086,221	-	-	6,086,221
Erica Lane	150,000	-	-	150,000
Wayne Brown	386,477	109,523	-	496,000
Cath Evans	6,050,476	-	-	6,050,476
Janine Gregory	692,858	50,000	(100,000)	642,858
James Higgins	2,000,000	607,118	(1,930,646)	676,472
Hayden Stephens	5,205,115	-	-	5,205,115
Total	28,628,503	869,898	(2,030,646)	27,467,755

Key Management Personnel ^(a)	VCR shares balance at beginning of year	VCR shares issued	VCR shares vested as Ordinary shares 30 December 2011	VCR shares balance at end of year
Wayne Brown	159,523	-	(109,523)	50,000
Janine Gregory	100,000	225,000	(50,000)	275,000
Total	259,523	225,000	(159,523)	325,000

Net movement in share capital 2011

Key Management Personnel ^(a)	Ordinary shares balance at beginning of year	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares balance at end of year
John Skippen	-	-	-	-
Andrew Grech	9,211,642	10,714	(1,200,000)	8,022,356
Ian Court	15,000	20,000	-	35,000
Ken Fowlie	6,386,221	-	(300,000)	6,086,221
Erica Lane	-	150,000	-	150,000
Wayne Brown	383,953	109,524	(107,000)	386,477
Cath Evans	6,550,476	-	(500,000)	6,050,476
Hayden Stephens	5,705,115	-	(500,000)	5,205,115
Anna Booth	50,000	10,714	-	60,714
Chris Prast	642,858	50,000	(428,572)	264,286
Rod Cunich	-	75,000	-	75,000
Total	28,945,265	425,952	(3,035,572)	26,335,645

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25: KEY MANAGEMENT PERSONNEL (Continued)

Key Management Personnel ^(a)	VCR shares balance at beginning of year	VCR shares issued	VCR shares vested as Ordinary shares 3 September 2010	VCR shares balance at end of year
Wayne Brown	269,047	-	(109,524)	159,523
Chris Prast	150,000	-	(50,000)	100,000
Rod Cunich	225,000	-	(75,000)	150,000
Total	644,047	-	(234,524)	409,523

^(a) Includes Key Management Personnel and their related entities/parties

(c) Balances to Key Management Personnel ("KMP")

Details of aggregates of balances with KMP are as follows:

Negative amounts represent a payable of the Group to KMP. Positive amounts represent a receivable due to the Company by KMP.

	Balance at beginning of year \$	Balance at end of year \$	Number in Group
2012	2,939,009	1,125,678	3
2011	1,232,486	1,034,145	3

Details of KMP with balances above \$100,000 in the reporting period are as follows:

30 June 2012	Balance at beginning of year	Balance at end of year	Highest balance during the year
Wayne Brown	614,428	478,428	614,428
Janine Gregory	1,055,250	647,250	1,055,250
James Higgins	1,269,331	-	1,269,331
30 June 2011	Balance at beginning of year	Balance at end of year	Highest balance during the year
Wayne Brown	682,428	614,428	682,428
Chris Prast	510,904	309,867	510,904
Rod Cunich	239,670	260,931	260,931

Terms and Conditions of balances to Key Management Personnel:

The balances at the end of the period due to the Company by Wayne Brown, Janine Gregory and James Higgins are pursuant to the EOP. The terms and conditions of which are disclosed in Note 26. Notional interest of \$52,226 for Wayne Brown (2011: \$38,523), \$89,696 for Janine Gregory and \$107,893 for James Higgins was not charged on these loan balances.

Additional disclosures relating to Key Management Personnel:

Please refer to the remuneration report for further disclosures required under AASB 124 Related Party Disclosures.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26: EMPLOYEE OWNERSHIP PLAN (“EOP”)

The EOP provides employees of the Group with an opportunity to participate in the ownership of the Company.

Invitation and Eligibility

The Board has the authority to invite employees to participate in the EOP and subscribe for VCR shares. VCR shares are vesting, converting, and redeemable shares in the capital of the Company.

Plan

The EOP provides for the issue of VCR shares to participants in a number of tranches and for the Company to make a loan to participants equal to the total amount that is to be subscribed.

When making an offer to an employee to subscribe for VCR shares, the Board has the power to specify:

- The number of VCR shares which may be subscribed for by a particular employee;
- The issue price. The Board sets the issue price at the fair value of a share as at the date of the issue;
- The number of tranches into which the VCR shares will be divided and the vesting date for each tranche;
- The period for which an absolute restriction on disposal will apply (this period may not exceed 3 years from vesting);
- Any conditions to be placed on vesting;
- Any events which would result in the forfeiture of the VCR shares; and
- The period for which the Company will be able to buy back or require the forfeiture of the converted shares.

The EOP provides for a full recourse loan from the Company to the employee to facilitate the employee's subscription for VCR shares. The loan is secured by the VCR shares or the converted VCR shares. The offer made by the Board must specify the date by which the loan must be repaid. This date may not be later than 5 years after vesting.

Vesting, redemptions and conversion

VCR shares do not carry rights to participate in issues by the Company or to receive any dividends paid by the Company and cannot be transferred or otherwise disposed of without the prior written consent of the Board. VCR shares will not confer a right to notices of general meetings, a right to attend or speak at general meetings nor a right to vote at general meetings except as may be required by law.

Vesting conditions are set by the Board and relate to the performance of the participant and the performance of the Company. Cessation of employment with the Group results in the forfeiture of that participant's VCR shares. The Board has the power to specify other forfeiture events.

Where vesting conditions are not met or a forfeiture event occurs, the Company has the power to redeem the relevant tranche (or tranches) of VCR shares for an amount equal to the relevant proportion of the subscribed amount (this amount may be offset against any loan made to the participant).

If all vesting conditions are satisfied, and no forfeiture event has occurred, each tranche of VCR shares vests, and then automatically converts to ordinary shares on a one for one basis, on the relevant vesting date.

After conversion

After conversion the shares rank in all respects *pari passu* with all other shares on issue. However those shares will be subject to disposal restrictions.

If the participant ceases employment with the Group, their converted VCR shares can be forfeited or bought back by the Company and set off against any outstanding loan. The participant may be deemed liable for any shortfall between the value of the shares forfeited or brought back by the Company and the loan amount.

At the cessation of the Buyback Period, each participant is required to enter into a Binding Commitment with the Company in respect of their converted VCR shares. Under the Binding Commitment the participants in the EOP will be under the following restrictions:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26: EMPLOYEE OWNERSHIP PLAN ("EOP") (Continued)

They will be required to maintain a minimum level of shareholding for as long as they remain an employee of the Group. The minimum holding is calculated based on the lower of 5 times the:

- employee's annual salary and 20% of the aggregate VCR shares issued to that employee which have vested and been converted to ordinary shares.
- If they cease to be employed by the Group, they may forfeit or be required to dispose of some or all of their shares upon such termination. The ramifications of a departure from employment are linked to the circumstances surrounding that departure.

Transfer

VCR shares may not be transferred. During the Buyback Period, converted VCR shares may not be transferred, however, an exception applies for a takeover or scheme of arrangement relating to the Company that meets certain conditions set out in the EOP.

Profile of vesting, conversion and redemption of VCR shares to ordinary shares

The profile of the vesting of VCR shares into ordinary shares, conversion into ordinary shares (subject to disposal restrictions) or scheduled for redemption as VCR shares based on the shares issued under the EOP as at 30 June 2012.

	Vested '000	1 year or less '000	1 to 5 years '000	More than 5 years '000	Total '000
VCR shares which have (or may) vest as ordinary shares	11,448	3,097	3,573	-	18,118
VCR shares which may convert to ordinary shares but are subject to disposal restrictions	5,266	1,812	11,212	-	18,290
VCR shares to be redeemed	-	100	-	-	100

Recognition in the Accounts

The VCR Share loan receivable is valued at its fair value and is ascertained with reference to the effective interest method under AASB 139 Financial Instruments: Recognition and Measurement. The profit and loss impact is taken as the difference between the expected repayment period and the expected present value of the loan amount at the reporting date and is recognised as interest income.

The key assumptions used in the present value calculation are:

Date VCR shares issued	19 February 2008	17 November 2008	21 December 2009	22 February 2011	31 December 2011
Shares issued	2,625,000	3,721,427	2,880,000	1,830,000	2,390,000
Issue price	\$1.75	\$1.31	\$1.63	\$2.05	\$1.79
Effective interest rate	8.5%	8.5%	8.5%	8.5%	8.5%
Final repayment date	1 July 2011 to 1 July 2013	1 July 2012 to 1 July 2014	1 July 2013 to 1 July 2015	1 July 2014 to 1 July 2016	1 July 2015 to 1 July 2017

The interest income recognised on VCR Share loans to employees has been disclosed in Note 4.

The benefit provided to the employee is required to be recognised in the accounts under AASB2 Share-based Payments. The benefit is assessed as the difference between the fair value of the VCR shares, at the issue date and the present value discounted over the vesting period. The benefit is expensed with reference to the effective interest rate method over the vesting period.

The share based payments expense has been disclosed in Note 5.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 27: AUDITOR'S REMUNERATION	2012 \$'000	2011 \$'000
Amounts received or due and receivable by Pitcher Partners:		
An audit of the financial report of the Group and review of statutory accounts	205	226
The half year review of the financial report of the Group	81	72
Due diligence investigations	170	232
General controls and IT conversion review	-	7
	<u>456</u>	<u>537</u>
Amounts received or due and receivable by network firms of Pitcher Partners:		
An audit of the financial report of the Group and review of statutory accounts	54	-
Due diligence investigations	365	-
	<u>419</u>	<u>-</u>
Total auditors remuneration	<u>875</u>	<u>537</u>

NOTE 28: RELATED PARTY DISCLOSURES

The following provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Transactions with Key Management Personnel ("KMP") of the entity or its parent and their personally-related entities

- As outlined in the replacement Prospectus ("the Prospectus") dated 13 April 2007 and Financial Report for the year ended 30 June 2008 the South Australian practice was operated by Andrew Grech as a sole practitioner trading as Slater & Gordon Lawyers under a Service and Licence Agreement between Andrew Grech and the Company. In 2012 the Service and Licence Fee totalled \$840,000 (2011 - \$800,000);
- Anna Booth is a director of Members Equity Bank for which the Group provided legal services in the ordinary course of business;

The shareholdings of related parties are disclosed in Note 25 and remuneration of KMP are disclosed in the Directors' Report.

Outstanding receivables, if any, between related parties are disclosed in Note 9. Outstanding payables, if any, are disclosed in Note 15.

NOTE 29: GROUP ENTITIES

		2012 Ownership Interest (%)	2011 Ownership Interest (%)
<i>Controlled entities</i>			
Trilby Misso Lawyers Limited	Australia	100	100
Slater & Gordon Lawyers NSW Pty Limited	Australia	100	100
Conveyancing Works (Qld) Pty Limited	Australia	100	-
Slater & Gordon (UK) 1 Limited	United Kingdom	100	-
New Claims Direct Limited	United Kingdom	100	-
4 Legal Limited	United Kingdom	100	-
4 Legal Solutions Limited	United Kingdom	100	-
Slater & Gordon (UK) LLP	United Kingdom	100	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS

2012

Acquisition of the legal practice – Russell Jones & Walker (“RJW”)

On 30 April 2012, the Group entered into a partnership, Slater & Gordon (UK) LLP (of which the Group owns 100% of capital rights). This partnership acquired certain assets and liabilities of RJW, a leading provider of legal services in the UK. The Group also acquired RJW’s subsidiary companies New Claims Direct Limited, 4 Legal Limited & 4 Legal Solutions Limited.

The strategic rationale for this business combination is to:

- deliver geographic expansion and diversification in a market 4 to 5 times that of Australia’s with a similar legal jurisdiction;
- provide a new platform for growth beyond the current 2015 horizon with strong organic growth expected to continue;
- provide a first mover opportunity to Slater & Gordon under the recent UK legal regulatory change and to capitalise on the Company’s experience as the world’s first listed law firm; and
- enter the UK market via a well aligned, established and investment ready partner.

At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of RJW. In particular, the fair values of the assets and liabilities disclosed have only been determined provisionally as valuations have not been finalised.

The provisional value of the assets and liabilities assumed at the date of acquisition are as follows:

	\$’000
Consideration	
Cash	40,953
Equity issued (16,681,138 shares at \$1.72 per share on 1 May 2012)	28,692
Fair value of deferred consideration (cash)	12,847
Net present value of total consideration	82,492
Net assets acquired	Fair Value
Assets	
- Cash and cash equivalents	39
- Trade and other receivables	32,587
- Work in progress	33,791
- Plant and equipment	4,025
- Intangible assets	114
Total assets acquired	<u>70,556</u>
Liabilities	
- Payables	22,390
- Provisions	765
- Borrowings	2,698
- Deferred tax liability	5,800
Total liabilities acquired	<u>31,653</u>
Net assets acquired	<u>38,903</u>
Goodwill on acquisition	43,589

A portion of goodwill arising in relation to this acquisition is tax deductible.

The key items that gave rise to the goodwill above are:

- the existing business which will be used as a platform for geographic expansion and diversification in a market 4 to 5 times that of Australia’s with a similar legal jurisdiction;
- the platform for growth beyond the current 2015 horizon with strong organic growth expected to continue;

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For the year ended 30 June 2012

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (Continued)

Since the acquisition date, RJW has contributed a profit after tax of \$480,000 which is included within the consolidated profit. Had the combination been effected at 1 July 2011, net profit after tax for the consolidated entity would have been \$31,513,000 and revenue would have been \$278,064,000. The directors of the Group consider these numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Contingent Consideration

The Group has agreed to pay cash consideration of up to GBP 2,780,000 subject to an agreed aggregate revenue target being met during the year ending 30 June 2013. This payment represents a net present fair value of GBP 2,351,808 (\$3,560,637) at the date of acquisition. Deferred consideration payments will also be adjusted if net transaction assets are above or below an agreed amount.

Acquisition-related costs for this purchase amounting to \$997,000 have been excluded from the total consideration and have been recognised as an expense in the period ended 30 June 2012, within the 'costs associated with acquisitions' line item in the Statement of Comprehensive Income.

Acquisition of subsidiary – Conveyancing Works (Queensland) Pty Ltd ("CWQ")

On 25 November 2011, the Company acquired a 100% shareholding in CWQ, the leading provider of conveyancing services in Queensland.

The strategic rationale for this business combination is to:

- continue to diversify outside the personal injury legal market;
- underpin strategic growth for the domestic conveyancing practice in Queensland; and
- provide a platform for further expansion of the conveyancing practice into New South Wales, Victoria and Western Australia.

The provisional value of the assets and liabilities assumed at the date of acquisition are as follows:

	\$'000
Consideration	
Cash	2,679
Equity issued (424,442 shares at \$1.80 per share on 28 November 2011)	764
Fair value of deferred contingent consideration (cash)	4,487
Net present value of total consideration	7,930
Net assets acquired	Fair Value
Assets	
- Trade and other receivables	226
- Work in progress	840
- Plant and equipment	151
- Deferred taxation	65
- Other	333
Total assets acquired	<u>1,615</u>
Liabilities	
- Short term borrowings	258
- Payables	832
- Provisions	227
Total liabilities acquired	<u>1,317</u>
Net assets acquired	<u>298</u>
Goodwill on acquisition	<u>7,632</u>

No goodwill arising in relation to this acquisition is tax deductible.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (Continued)

The key items that gave rise to the goodwill above are:

- the platform for further expansion of the conveyancing practice into New South Wales, Victoria and Western Australia. ; and
- the existing business to underpin strategic growth for the domestic Conveyancing practice in Queensland.

Since the acquisition date, CWQ has contributed a loss after tax of \$468,000 which is included within the consolidated profit. This profit contribution includes set up costs incurred in relation to the rollout of the business nationally. Had the combination been effected at 1 July 2011, net profit after tax for the consolidated entity would have been \$24,895,000 and revenue would have been \$222,078,000. The directors of the Group consider these numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition-related costs for this purchase amounting to \$149,000 have been excluded from the total consideration and have been recognised as an expense in the period ended 30 June 2012, within the 'costs associated with acquisitions' line item in the Statement of Comprehensive Income.

Contingent Consideration

The Group has agreed to pay cash consideration of up to \$1,500,000 subject to an agreed target EBIT excluding movement in WIP being met over calendar years 2012 and 2013. The Group has also agreed to pay additional cash consideration for file growth in the Group's conveyancing business outside CWQ's current operations to 31 December 2014. The total of the contingent consideration is not to exceed \$5,000,000. These payments represent a fair value of \$3,957,000 at the date of acquisition.

Acquisition of business – Bussoletti Lawyers

On 17 February 2012, the Group acquired the business of Bussoletti Lawyers, a personal injuries law firm based in Wollongong, New South Wales, for a total consideration of \$1,887,000. Included in this amount was goodwill of \$1,345,000.

Acquisition of business – David Nagle

On 15 December 2011, the Group acquired the business of David Nagle Lawyers, a personal injuries law firm based in Wollongong, New South Wales, for a total consideration of \$575,000. Included in this amount was goodwill of \$248,000.

2011

Acquisition of subsidiary – Trilby Misso Lawyers Limited ("TML")

On 13 August 2010, the Company acquired a 100% shareholding in TML, a leading Queensland personal injury law firm, for a total consideration of \$57,613,000.

The strategic rationale for this business combination is to:

- diversify earnings through expansion of geographic coverage;
- build scale in one of the fastest growing regions in Australia;
- provide a strategic growth platform in the Queensland market;
- acquire a legal practice led by experienced and committed management team and staff; and
- establish a greater South East Queensland presence with a head office in Brisbane and client service centres in Morayfield, Robina, North Lakes, Ipswich and Logan.

Acquisition-related costs for this purchase amounting to \$194,000 have been excluded from the total consideration and have been recognised as an expense in the year ended 30 June 2011, within the 'costs associated with acquisitions' line item in the Consolidated Statement of Comprehensive Income.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (continued)

The assets and liabilities assumed at the date of acquisition are as follows:

	\$'000
Consideration	
- Cash	40,337
- Deferred cash consideration	12,000
Total cash consideration	52,337
Equity issued as consideration	5,276
Total consideration at face value	57,613
Notional interest on deferred consideration	(1,061)
Net present value of total consideration	56,552
Net assets acquired	
Assets	
- Cash and cash equivalent	1,047
- Trade and other receivables	9,620
- Work in progress	27,296
- Plant and equipment	2,068
- Intangible assets	7,047
- Deferred taxation	1,335
- Other	861
Total assets acquired	49,274
Liabilities	
- Short term borrowings	976
- Payables	2,865
- Provisions	983
Total liabilities acquired	4,824
Net assets acquired	44,450
Goodwill on acquisition	12,102

The key items that flowed from the acquisition that gave rise to the goodwill above are:

- Synergies expected to be achieved as a result of combining the acquired business with the Company;
- Access to geographic locations not previously served by the Company; and
- Access to referral networks not previously available to the Company.

Since the acquisition date, TML has contributed a profit after tax of \$6,651,000 which is included within the consolidated profit. Had the combination been effected at 1 July 2010, net profit after tax for the consolidated entity would have been \$28,459,000 and revenue would have been \$186,036,000. The Directors of the Company consider these numbers to represent an approximate measure of the performance of the combined Group on an annualised basis and to provide a reference point for comparison in future periods.

A part of the consideration to the vendors of TML were paid by way of the issue of \$5,276,000 in Company ordinary shares at the volume weighted average price at which shares traded during the period from 26 May 2010 to 23 June 2010 (equating to 3,403,927 ordinary shares).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (continued)

Finalisation of provisional accounting for acquisition of Slater & Gordon Lawyers NSW Pty Limited (formerly Keddies The Insurance Law Specialists Pty Limited)

On 26 October 2010, the Group announced that it had agreed to acquire a 100% shareholding in Keddies The Insurance Law Specialists Pty Limited, a leading New South Wales personal injury law firm, for a total consideration of \$27,843,000. This transaction was settled on 11 January 2011.

Subsequent to acquisition, the company has been renamed Slater & Gordon Lawyers NSW Pty Limited.

The strategic rationale for this business combination is:

- diversification of earnings through expansion of geographic coverage;
- building scale in NSW and Western Sydney in particular, one of the fastest growing regions in Australia and;
- to provide a strategic growth platform in the NSW market.

The initial accounting for the acquisition had been provisionally determined at the date of signing the 30 June 2011 financial statements. The necessary fair valuation of consideration and net assets acquired have now been finalised and are reflected in the amounts detailed below. This revaluation has resulted in a \$3,093,000 decrease in the goodwill recognised on this transaction. Comparative Statement of Financial Position balances as at 30 June 2011 have been restated to reflect the finalisation of provisionally determined fair values of assets and liabilities acquired in relation to this acquisition.

The assets and liabilities assumed at the date of acquisition are as follows:

	\$'000
Consideration	
Cash	16,800
Deferred cash consideration	7,750
Total cash consideration	<u>24,550</u>
Equity issued as consideration	3,700
Total consideration at face value	<u>28,250</u>
Notional interest on deferred consideration	(774)
Stamp duty on acquisition	186
Net present value of total consideration	<u>27,662</u>
Net assets acquired	Fair Value
Assets	
- Trade and other receivables	13,809
- Less: provisions	(2,351)
- Work in progress	18,613
- Plant and equipment	332
- Deferred taxation	2,948
- Other	387
Total assets acquired	<u>33,738</u>
Liabilities	
- Bank overdraft	3,210
- Short term borrowings	684
- Payables	11,455
- Provisions	648
Total liabilities acquired	<u>15,997</u>
Net assets acquired	<u>17,741</u>
Goodwill on acquisition	<u>9,921</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: BUSINESS COMBINATIONS (Continued)

No goodwill arising in relation to this acquisition is tax deductible.

The key items that flowed from the acquisition that gave rise to the goodwill above are to:

- diversify earnings through expansion of geographic coverage;
- build scale in NSW and Western Sydney in particular, one of the fastest growing regions in Australia; and
- provide a strategic growth platform in the NSW market.

Acquisition of business – Rob Powe Lawyers

On 17 August 2010, the Group acquired the business of Rob Powe Lawyers, a firm based in Maitland, New South Wales, specialising in Family Law for a total cash payment of \$250,000. Included in this amount was goodwill of \$184,000.

NOTE 31: FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks comprising:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Fair values
- (iv) Interest rate risk
- (v) Foreign exchange risk

(i) Credit risk exposures

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main exposure to credit risk in the Group is represented by the receivables (debtors and disbursements) owing to the Group.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions against those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Concentrations of credit risk

The Group's real credit risk is associated with the management of work in progress, particularly when client matters are undertaken on a "no win no fee" basis. To mitigate this risk, the Group has strong screening processes for new client enquiries and then further review by experienced lawyers who are assigned to new client matters. The Group minimises the concentration of this credit risk by undertaking transactions with a large number of clients.

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. As at 30 June 2012, approximately 72% of trade receivables relate to the personal injuries business.

For the non-personal injuries 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

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 each practitioner's Key Performance Indicators ("KPI's") measurements in respect of both 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.

(ii) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Management of liquidity risk

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 22: Cash Flow Information, for further information on the historical cash flows and the current borrowing facilities below.

The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs.

	2012 \$'000	2011 \$'000
Total banking facility		
Banking overdrafts	5,000	5,000
Cash advance facility	138,931	84,000
Other sundry facilities	10,210	-
Total credit facility	<u>154,141</u>	<u>89,000</u>
Amount utilised	<u>(105,680)</u>	<u>(47,719)</u>
Unused bank facility	<u>48,461</u>	<u>41,281</u>

Banking Overdrafts

Bank overdraft facilities are arranged with Westpac with the general terms and conditions being set and agreed to annually. The current facility is \$5,000,000 (2011: \$5,000,000). Interest rates are variable and subject to adjustment.

Cash Advance & Equipment Finance Facility

On 27 April 2012, the Group entered into a syndicated bank facility in the amount of AUD \$108,000,000 and GBP £39,000,000, allocated as follows:

- an AUD \$24,000,000 term loan facility and two revolving interest only facilities totalling AUD \$58,000,000. These loans mature in three years and interest is charged on the loans at BBSY plus an agreed margin;
- a GBP £39,000,000 term loan facility. This loan matures in three years and interest is charged on the loan at LIBOR plus an agreed margin; and
- bilateral facilities totalling AUD \$26,000,000.

The proceeds of this facility will be used to fund core debt, acquisition activities, working capital requirements, short term funding requirements, the leasing of equipment and any performance guarantees, as required.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

The Group's existing bank facility was repaid upon settlement of this new facility.

As at 30 June 2011, the Group had a \$84,000,000 variable interest rate facility provided by Westpac, expiring no later than 3 years. Included in the facility is an equipment finance lease facility of \$7,000,000 expiring no later than 9 years.

(iii) Fair values

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the Statement of Financial Position and Notes to the Financial Statements. The main exposure to fair value risk is contained in the balance of Work in Progress ("WIP").

Management of fair value risk in WIP

The Group actively manages the fair value risk by:

- Using strict file acceptance criteria on new client enquiries, as required under the Legal Profession Act in each jurisdiction, to only undertake claims that have a viable and sustainable cause of action to be pursued;
- Performing ongoing file reviews of all active files;
- Actively reviewing file loads and outcomes by individual Legal Practitioner; and
- Diversifying the areas of practice (in both areas of law and geographic location) to reduce the potential of legislative change to impact the business.

Management of fair value risk in interest rate swaps

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 7, 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

(iv) Interest rate risk

The Group's exposure to interest rate risks and the effective interest rates of non-derivative financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Weighted average interest rate		Non interest bearing		Variable interest rate		Fixed interest rate		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>(i) Financial assets</i>										
Cash	0.32%	3.19%	-	-	4,373	4,032	-	-	4,373	4,032
Trade debtors			72,327	47,591	-	-	-	-	72,327	47,591
Disbursements			53,793	46,251	-	-	-	-	53,793	46,251
Receivables from related parties			1,611	1,311	-	-	-	-	1,611	1,311
Other receivables			217	251	-	-	-	-	217	251
VCR share loans receivable			15,426	18,401	-	-	-	-	15,426	18,401
Total financial assets			143,374	113,805	4,373	4,032	-	-	147,747	117,837
<i>(ii) Financial liabilities</i>										
Bank overdraft			-	-	425	-	-	-	425	-
Trade creditors			3,467	2,497	-	-	-	-	3,467	2,497
Legal creditors and accruals			65,805	43,143	-	-	-	-	65,805	43,143
Interest bearing vendor liabilities – acquisitions	4.00%	4.61%	-	-	-	-	2,859	20,096	2,859	20,096
Non-interest bearing vendor liabilities - acquisitions			18,957	2,158	-	-	-	-	18,957	2,158
Provisions			14,399	13,097	-	-	-	-	14,399	13,097
Hire purchase liability	7.27%	9.25%	-	-	-	-	9,717	5,047	9,717	5,047
Bills of exchange – fixed rate	4.13%	5.99%	-	-	-	-	27,683	15,000	27,683	15,000
Bills of exchange – variable rate	4.41%	6.79%	-	-	70,751	27,672	-	-	70,751	27,672
Total financial liabilities			102,628	60,895	71,176	27,672	40,259	40,143	214,063	128,710

Interest rate swaps

Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The Group uses swap contracts to maintain a designated proportion of fixed to floating debt.

The notional principal amounts of the swap contracts approximate 25% to 50% of the Group's outstanding borrowings on the cash advance facility (excluding the working capital facility). The net interest payments or receipt settlements of the swap contracts occur every 30 days. The net settlement amounts are brought into account as an adjustment to interest expense.

Financial Statements

For the year ended 30 June 2012

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31: FINANCIAL RISK MANAGEMENT (Continued)

At balance date, 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	
	2012	2011	2012 \$'000	2011 \$'000
2 to 5 years	4.13%	5.99%	27,683	15,000
			<u>27,683</u>	<u>15,000</u>

The net effective variable interest rate borrowings (ie. unhedged debt) expose the Group to interest rate risk which will impact future cash flows and interest charges and are indicated by the following interest rate financial liabilities:

	Note	2012 \$'000	2011 \$'000
Floating rate instruments			
Bank overdrafts	16	425	-
Unhedged cash advances/bills of exchange		<u>70,751</u>	<u>27,672</u>
		<u>71,176</u>	<u>27,672</u>

Interest rate swaps are 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 Comprehensive Income. Given the matching of the hedge settlements with the payment of interest expense on the hedged borrows, the balance in the reserve attributable to interest rate swaps is generally minimal.

(v) Foreign exchange risk

During the year the Group entered into agreement to acquire the business of RJW for a total consideration of GBP 52,953,000. The identified currency risk on this transaction was hedged using forward exchange contracts. These contracts were designated as cash flow hedges.

The Group is exposed to ongoing foreign exchange risk arising from its investment in its UK operating segment. This risk is hedged by a secured bank loan denominated in GBP, which mitigates the currency risk arising from the U.K operating segment's net assets. The loan is designated as a net investment hedge.

The Group has no other significant exposures to currency risk.

NOTE 32: SUBSEQUENT EVENTS

There are no subsequent events.

NOTE 33: DEED OF CROSS GUARANTEE

Slater & Gordon Limited, Trilby Misso Lawyers Limited and Slater & Gordon Lawyers NSW Pty Ltd 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 Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

A consolidated Statement of Comprehensive Income and Statement of Financial Position, comprising the Company and controlled entities subject to the deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is set out as follows:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE: 33 DEED OF CROSS GUARANTEE (Continued)	2012 \$'000	2011 \$'000
Statement of Comprehensive Income		
Revenue	202,967	182,309
Expenses	(166,596)	(140,766)
Profit before income tax expense	36,371	41,543
Income tax expense	(11,391)	(13,635)
Profit for the period	24,980	27,908
Changes in fair value of cash flow hedges, net of tax	(419)	-
Total comprehensive income for the period	24,561	27,908
Statement of Financial Position		
Current assets		
Cash and cash equivalents	2,366	4,032
Receivables	121,055	95,404
Work in progress	210,423	179,606
Current tax asset	229	391
Other current assets	5,216	4,836
Total current assets	339,289	284,269
Non-current assets		
Plant and equipment	10,773	9,419
Work in progress	1,926	7,045
Intangible assets	56,320	55,259
Investment in subsidiary	13,554	-
Other non-current assets	15,426	18,401
Total non-current assets	97,999	90,124
Total assets	437,288	374,393
Current liabilities		
Payables	47,009	62,129
Short term borrowings	9,320	7,165
Current tax liabilities	-	-
Provisions	12,520	11,464
Total current liabilities	68,849	80,758
Non-current liabilities		
Payables	9,762	5,765
Long term borrowings	51,140	40,554
Deferred tax liabilities	60,734	49,917
Derivative financial instruments	948	349
Provisions	2,290	1,633
Total non-current liabilities	124,874	98,218
Total liabilities	193,723	178,976
Net assets	243,565	195,417
Equity		
Contributed equity	142,181	109,809
Reserves	(664)	(245)
Retained profits	102,048	85,853
Total equity	243,565	195,417

Financial Statements

For the year ended 30 June 2012

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 34: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2012 the parent entity of the Group was Slater & Gordon Limited.

	2012	2011
	\$'000	\$'000
Results of parent entity		
Profit for the period	17,511	18,308
Other comprehensive income	(419)	245
Total comprehensive income for the period	<u>17,092*</u>	<u>18,553*</u>
Financial position for the parent entity at year end		
Current assets	252,643	209,688
Total assets	390,469	341,586
Current liabilities	56,043	68,024
Total liabilities	163,979	155,770
Total equity of the parent company comprising of		
Contributed equity	142,181	109,808
Reserves	(664)	(245)
Retained profits	84,973	76,253
Total Equity	<u>226,490</u>	<u>185,816</u>

* There has been limited recharge by the parent entity of marketing and advertising, interest expense and associated management services to the subsidiary entities. Profit of the parent entity for the year ended 30 June 2012 includes the impact of the write off of work in progress and disbursements on the Vioxx proceedings totalling \$10,539,000.

Other commitments and contingencies

The Company has entered into an agreement with ASK Funding Limited ("ASK") to provide financial guarantees to ASK with respect to disbursement funding borrowings to the Company's clients. The nature of this agreement is that ASK will fund disbursements in respect of individual matters and will be reimbursed out of any settlement proceeds on the matter. The Company has provided a financial guarantee for the repayment of the clients' obligations to ASK. The total amount funded by ASK to the Company's clients at 30 June 2012 is \$1,504,670 (2011: \$1,037,060). The maximum exposure of the Company at 30 June 2012 is \$1,504,670 (2011: \$1,037,060) if the individual client matters are not recovered from any other party.

During FY12 ASK funding ceased to offer a disbursement funding facility and is in an orderly run-off of its disbursement funding book. Slater and Gordon reached agreement with Equal Access Funding ("EAF") post year end to provide an alternate arrangement on substantially the same terms and conditions as the ASK product.

Operating lease commitments

Non-cancellable operating leases (including rental of office space) contracted but not capitalised in the consolidated financial statements:

Within one year	7,474	7,433
One year or later and not later than five years	25,050	23,544
Greater than five years	15,151	16,655
	<u>47,675</u>	<u>47,632</u>

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

SLATER & GORDON LIMITED

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 55 to 100 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 2012 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 & 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 33 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 Class Order 98/1418.

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 2012.

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



John Skippen
Acting Chair



Andrew Grech
Managing Director

Melbourne
7 September 2012



An independent Victorian Partnership
ABN 27 975 255 196

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SLATER AND GORDON LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Slater and Gordon Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SLATER AND GORDON LIMITED AND CONTROLLED ENTITIES

Opinion

In our opinion:

- (a) the financial report of Slater and Gordon Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 52 of the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion, the Remuneration Report of Slater and Gordon Limited and controlled entities for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.



M W PRINGLE

Partner

7 September 2012



PITCHER PARTNERS

Melbourne

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Financial Statements

For the year ended 30 June 2012

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

In accordance with the Australian Stock Exchange Limited Listing Rules, the Directors provide the following information as at 5 September 2012.

(a) Distribution of shareholders and option holders.

Holding	Number of Ordinary Shareholders
1 - 1,000	407
1,001 - 5,000	564
5,001 - 10,000	221
10,001 - 100,000	246
100,001 - Over	90
	1,528

There are 105 shareholders holding less than a marketable parcel (i.e. less than \$500 per parcel of shares).

(b) Twenty largest shareholders

Shareholder	Number of Shares Held	% Held
1 HSBC Custody Nominees (Australia) Limited	33,651,393	19.96
2 J P Morgan Nominees Australia Limited	25,625,203	15.20
3 National Nominees Limited	25,519,895	15.14
4 BNP Paribas Noms Pty Ltd	8,385,943	4.97
5 Andrew Grech	8,022,356	4.76
6 RBC Dexia Investor Services Australia Nominees Pty Limited (PI Pooled A/C)	7,678,165	4.55
7 Ken Fowle	6,086,221	3.61
8 Cath Evans	6,050,476	3.59
9 Hayden Stephens	5,205,115	3.09
10 Peter Gordon	2,666,165	1.58
11 Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	1,418,203	0.84
12 Pershing Australia Nominees Pty Ltd	1,077,500	0.64
13 Edward Cooper	1,049,129	0.62
14 Amanda McAlister	1,049,129	0.62
15 Alexander Whitehead	1,049,129	0.62
16 Marcus Clayton	962,896	0.57
17 Mike Feehan	900,000	0.53
18 Craig Lee (Lee Super Fund A/C)	866,608	0.51
19 Ian Fletcher	848,706	0.50
20 Paul Daniels	753,592	0.45
	138,865,824	82.36

(c) Substantial shareholders

A substantial shareholder is one who has a relevant interest in 5 per cent or more of the total issued shares in the Company. Following are the substantial shareholders in the Company based on notifications provided to the Company under the Corporations Act 2001:

Shareholder	Ordinary Shares	
	Number	% *
Mawer Investment Management Limited	18,119,416	11.94
National Australia Bank Limited and its Associated Companies	17,261,523	10.24
Perpetual Limited and subsidiaries	8,787,713	5.04

* Percentage of shares held based on total issued capital of the Company at the time a substantial shareholder notice was provided to the Company.

(d) VCR shares

Total number of VCR shares on issue is 18,289,937 held by 90 employee shareholders.

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Corporate directory

Directors

John Skippen, Chair
Andrew Grech, Managing Director
Ian Court
Ken Fowlie
Erica Lane

Company Secretaries

Wayne Brown
Kirsten Morrison

Registered office & Corporate Office

Level 12
485 La Trobe Street
Melbourne Victoria 3000
T: 03 9602 6888
F: 03 9600 0290

Company Website

www.slatergordon.com.au

Company Numbers

ACN 097 297 400
ABN 93 097 297 400

Auditors

Pitcher Partners
Level 19
15 William Street
Melbourne Victoria 3000

Bankers

Westpac Banking Corporation
Level 7
360 Collins Street
Melbourne Victoria 3000

National Australia Bank
Level 30
500 Bourke Street
Melbourne Victoria 3000

Solicitors

Arnold Bloch Leibler
Level 21
333 Collins Street
Melbourne Victoria 3000

Stock Exchange Listing

Slater & Gordon Limited shares are listed on the Australian Stock Exchange Limited. The Home Exchange is Melbourne.

ASX Code: SGH

Share/Security Registers

The Registrar
Computershare Investor Services Pty Ltd
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