

ASX Announcement

29 June 2017

Market Update: Recapitalisation Agreement

Slater and Gordon Limited (ASX:SGH, the "**Company**") advises that it has entered into a binding recapitalisation agreement with its lenders who collectively represent over 75% of its secured debt by value and over 50% of the number of secured lenders ("**Supporting Lenders**"). Discussions between the Supporting Lenders and the Company have been led by Anchorage Capital Group LLC ("**Anchorage**"). Funds managed by Anchorage hold a majority share of the secured debt.

The recapitalisation is intended to provide the Company with a sustainable level of senior secured debt and a stable platform for its future operations in both Australia and the UK.

Key terms of the recapitalisation include:

Substantial Debt Reduction:

Outstanding secured debt will be permanently reduced by a combination of changes to, and restatement of, a portion of the debt and release of the remaining debt. On implementation, secured lenders (each a "**New Lender**" and together the "**New Lending Group**") will be issued with approximately 95% of the Company's equity. Existing shareholders of the Company will hold approximately 5% of the Company immediately post the recapitalisation, reducing to approximately 4% on exercise of the warrants described below. The new secured debt facilities will be as follows:

- Senior Secured Debt Facilities (A\$35m): Some of the existing senior secured debt will be amended and restated into a senior debt facility of A\$30m with a 3 year term. The terms of the amended and restated facility agreement will also provide for a new A\$5m senior debt facility. The facilities are intended to provide the Company with a sustainable level of senior debt and sufficient financial flexibility for the Company's strategic or operational initiatives.
- UK Convertible Notes: Some of the existing senior secured debt will be amended and restated into interest-free convertible notes in Slater & Gordon (UK) 1 Limited ("**S&G UK**") to be issued to and held by the New Lenders. The convertible notes will entitle the holders to payment of any amounts, up to £250m, received by S&G UK in respect of the net proceeds of Watchstone-related claims and certain net proceeds of any asset divestments and insurance proceeds received by the Company's subsidiaries (other than Australian entities). The convertible notes are non-recourse to the Company. If there are any amounts outstanding under the convertible notes on the maturity date, the New Lending Group will be issued a nominal number of additional shares in the Company.

Working Capital Facility: As previously disclosed on 5 May 2017, the New Lending Group have provided the Company with additional support in the form of a A\$40m working capital facility.

Issue of Warrants: The new A\$5m senior secured debt facility will be provided by the New Lenders who elect to participate in the facility. The facility will be underwritten by Anchorage and certain other Supporting Lenders. The Company will also issue unlisted warrants to the New Lenders who participate in the new facility. Each warrant will have a zero cent strike price and may be exercised at any time up to three years after the issue. Each warrant will, upon exercise, result in the issue of one new fully paid ordinary share in the Company to the warrant holder. The aggregate number of shares to be issued to participating lenders upon exercise of the warrants will be equal to the number that represents 20% of all shares in the Company immediately following implementation of the recapitalisation (on a fully diluted basis) and result in existing shareholders' equity in the Company being reduced by approximately a further 1% from 5% to 4% (on a fully diluted basis).

Covenant Support: The financial covenants agreed with the New Lending Group are intended to provide ongoing financial stability with only a minimum cash balance requirement.

Implementation of the Recapitalisation

The Company and the Supporting Lenders have entered into a Restructuring Support Deed ("**RSD**") to give effect to the recapitalisation, subject to certain conditions precedent being satisfied or waived (as applicable). A summary of the key terms of the RSD is included in Appendix A.

The Company will seek to implement the recapitalisation via a creditors' scheme of arrangement ("**Senior Lender Scheme**"). Subject to the satisfaction of conditions precedent, the recapitalisation is expected to be completed in early-mid October 2017. An indicative implementation timetable is included in Appendix A.

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

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

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

Conditions Precedent

The execution of the Senior Lender Scheme is conditional on the Company and the Supporting Lenders who together hold more than 75% by value of the total aggregate amount of all outstanding senior debt ("**Majority Supporting Lenders**") agreeing to an arrangement in respect of: (i) settlement of the Federal Court of Australia Proceeding No. VID VIC 1213/2016 commenced on 12 October 2016 by Matthew Hall against the Company ("**Hall Proceeding**"); and (ii) all derivative claims for indemnity or contribution made against the Company that follow a claim by subordinate claimholders against a third party and being satisfied that such an arrangement will have limited or no financial consequence for the Company. The Majority Supporting Lenders may determine, in their absolute discretion, whether an arrangement is acceptable to them, and what constitutes 'limited or no financial consequence' for the Company. The condition must be satisfied, waived or extended by 10 July 2017.

The recapitalisation is also subject to a number of other conditions precedent which are summarised in Appendix A. The Company believes the Senior Lender Scheme will be executed successfully, but in the event conditions are not satisfied or waived by their respective deadlines, alternative pathways to implement the recapitalisation have been considered.

Board Renewal Process and Senior Management Changes

Under the RSD, the Board has agreed to undertake a board renewal process which will enable the New Lending Group, who will own approximately 95% of the Company's equity on implementation of the recapitalisation, to elect new directors. All existing directors will resign in due course as new directors are appointed. Details of the proposed governance arrangements with effect from implementation of the restructure are set out in Appendix A.

Andrew Grech has decided to step down from his position as Group Managing Director, effective immediately. Andrew will remain a Non-Executive Director of SGH in the short term until a replacement with the qualifications required to fill the role of legal practitioner director as required by the relevant provisions of the *Legal Professions Act 2007* (Victoria) and equivalent provisions in the jurisdictions in which the Company conducts legal practices.

Hayden Stephens CEO, Australia and Ken Fowle CEO, UK will continue to lead the businesses in Australia and the UK respectively. All SGH group functions will now report through to the CEO, Australia.

Update on Hall Proceedings

As previously announced, two shareholder class action proceedings have been filed against the Company and it has received notification of one other potential class action proceeding by former and existing shareholders.

The Company continues to participate in a mediation of the Hall Proceeding facilitated by the Federal Court. The Company will provide a further update on those discussions in coming days.

The Senior Lender Scheme and the restructure are conditional on settlement of the Hall Proceeding.

ENDS

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About Slater and Gordon

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

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

Term	Summary
Conditions Precedent	<p>The recapitalisation is conditional upon the satisfaction or waiver (if applicable) of certain conditions precedent, including:</p> <ul style="list-style-type: none"> • (Derivative Claims) the Company and the Majority Supporting Lenders agreeing to an arrangement (for inclusion in the Senior Lender Scheme, pursuant to the Shareholder Creditor Scheme or otherwise as part of the overall recapitalisation) whereby: (i) the Hall Proceeding is settled; and (ii) all derivative claims for indemnity or contribution made against the Company that follow a claim by subordinate claimholders (including class action litigants) against a third party will have limited or no financial consequence for the Company. Such Majority Supporting Lenders may determine, in their absolute discretion, whether an arrangement is acceptable to them, and what constitutes ‘limited or no financial consequence’ for the Company. The condition must be satisfied, waived or extended with agreement between the Company and the Majority Supporting Lenders by 10 July 2017; • (FIRB Approval) the Treasurer of the Commonwealth has provided written advice or confirmation to the effect there are no objections under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) to the restructure, or is otherwise precluded from making an order in respect of the recapitalisation; • (Shareholder Meeting) Shareholders of the Company approving the required resolutions at the general meeting by the requisite majorities (if required); • (Senior Lender Scheme Meeting) the creditors’ scheme of arrangement is approved at the scheme meeting by the requisite majorities of the New Lending Group; • (Court Approvals) Court approval of the Senior Lender Scheme, the Shareholder Creditor Scheme and the proposed settlement of the Hall Proceeding; • (Regulatory Approvals and Authorisations) the Company obtaining all other relevant regulatory approvals, authorisations, consents or waivers, including from ASX and ASIC; • (Material Contracts) the Company has obtained the consent from each person who is entitled to exercise any right under any provision of any material contract that entitles the person to terminate or modify the contract as a result of the recapitalisation and in respect of which the Majority Supporting Lenders require the Company to seek such consent; • (Deed Poll) deeds poll entered into by certain third parties continue to benefit the beneficiaries named in those deeds poll, and those deeds poll have not been terminated. <p>Each party must use its respective reasonable endeavours to procure that each of the conditions precedent is satisfied as soon as reasonably practicable.</p> <p>The RSD may be terminated by the Majority Supporting Lenders if the Derivative Claims conditions precedent is not satisfied or waived, or has become incapable of satisfaction, by 10 July 2017 (or such other date agreed between the Company and the Majority Supporting Lenders).</p> <p>The Company or the Majority Supporting Lenders may, if any other condition precedent is not satisfied or waived, or becomes incapable of satisfaction, by 31 October 2017, terminate the RSD if the parties are not able to reach agreement on how to proceed with the recapitalisation following a period of consultation.</p>
Implementation of Restructure and Timetable	<p>The parties agree to undertake the recapitalisation on, and subject to the terms of, the RSD, and to use all reasonable endeavours to do so in accordance with the Timetable (as set out below).</p> <p>The parties will use all reasonable endeavours to agree definitive transaction documents to give effect to the recapitalisation and consult reasonably to agree any changes to the Timetable which may be necessary or desirable.</p>

Term	Summary
Conduct of the Company Business	<p>During the period from the date of the RSD up to and including the earlier of the termination of the RSD and implementation of the recapitalisation, the Company must:</p> <ul style="list-style-type: none"> • procure that the S+G Group conducts its business and operations in the ordinary course and substantially consistent with the manner in which each such business and operation has been conducted in the 12 months immediately prior to entry into the RSD; and • use its reasonable endeavours to preserve intact the S+G Group's current business organisation, <p>except to the extent required to be done or procured by the Company pursuant to, or that is otherwise expressly permitted by, the scheme documents, or the undertaking of which the Majority Supporting Lenders have approved in writing.</p>
Transfer Restrictions	<p>The equity and debt facilities are proposed to be subject to transfer restrictions requiring the New Lending Group to collectively retain ownership of the equity and debt facilities until the release of the Company's FY19 half year results in respect of the New Lending Group except that the transfer restrictions relating to the equity will apply to Anchorage until the release of the Company's FY19 full year results.</p>
Governance	<p>Following the recapitalisation, the Company board will comprise 7 directors. Anchorage will be entitled to nominate 4 non-executive directors, other members of the Majority Supporting Lenders (excluding Anchorage) will be entitled to nominate 2 non-executive directors, and the Majority Supporting Lenders together (including Anchorage) will be entitled to nominate the other director.</p>
Management Incentive Plan	<p>A new management incentive plan (on terms to be developed) with the intention that it will allow for the economic equivalent of 10% of the Company's fully diluted share capital to be available to beneficiaries of the plan over time. The proposed beneficiaries are employees of the Company and its various subsidiaries who contribute to its future success.</p> <p>The Company has committed to not exercise any board discretion to vest any incentive rights or options granted to directors, management or senior executives in anticipation of any potential change of control pursuant to the recapitalisation, without discussion with the Majority Supporting Lenders.</p>

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

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

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

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

Indicative Timetable

Date*	Milestone
7 August 2017	Lodgement of draft documentation with ASIC and ASX
30 August 2017	First Court hearing for Senior Lender Scheme
Week commencing 28 August 2017	<ul style="list-style-type: none"> • Despatch Scheme Materials to creditors • Despatch Shareholder Materials to shareholders • Release materials to ASX
Week commencing 2 October 2017	Scheme Meeting for the Senior Lender Scheme
Week commencing 2 October 2017	Shareholder meeting (if required)
Week commencing 2 October 2017	Second Court hearing for Senior Lender Scheme
1 business day after the Second Court hearing	Effective Date of Senior Lender Scheme
Early-mid October 2017	Implementation Date of Senior Lender Scheme

* Dates are indicative only and subject to change.