SLATER AND GORDON GROUP

APPENDIX 4D STATEMENT
(Listing rule 4.2A.3)

PRELIMINARY FINAL REPORT
for the half-year ended 31 December 2017

Results for announcement to the market

		31 December 2017 $'000	31 December 2016 $'000	% change to prior year	
1.	**Revenues from ordinary activities**	96,063[1]	117,079	down	18.0%
2.	**Profit / (Loss) from ordinary activities after tax attributable to members**	141,174	(424,964)	up	133.2%

1. Revenues from ordinary activities reflect continuing operations. The prior period comparative amount has been restated to exclude discontinued operations.

Dividend information

3. **Total dividend per ordinary share**
No dividends were proposed for the interim periods ending 31 December 2017 and 31 December 2016.

4. **Record date for determining entitlements to the final dividend**
Not applicable

5.	**Net tangible asset per security**	**31 December 2017 $'000**	**31 December 2016 $'000**
	Net Tangible Assets	90,118	(147,169)
		Number of shares	**Number of shares**
	Total number of ordinary shares of the Company	69,527,235[2]	352,377,933
	Net tangible asset backing per ordinary security	129.62 cents	(41.76) cents

2. Total shares at 31 December 2017 reflects the effect of the 100 to 1 share consolidation that took place on 8 December 2017.

6. **Details of entities over which control has been lost**

On 15 December 2017, the Group transferred control of Slater & Gordon (UK) 1 Limited and its subsidiaries to its Senior Lenders, as part of a Scheme of Arrangement with its Senior Lenders. Further details of the Scheme are provided in the consolidated financial report.

		15 December 2017 $'000	31 December 2016 $'000
7.	**Loss after tax of entities over which control has been lost (including non-controlling interest)**	(48,830)[3]	(410,595)

3. In addition, a net gain after tax from disposal of discontinued operations of $211,199 has been recognised in Profit / (Loss) from ordinary activities after tax attributable to members

This information should be read in conjunction with the 2017 Annual Report and any public announcements made in the period by Slater and Gordon Limited in accordance with continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional information supporting the Appendix 4D disclosure requirements can be found in the Director's report and the condensed consolidated financial report for the half-year ended 31 December 2017.

This report is based on the half-year condensed consolidated financial report which has been independently reviewed by Ernst and Young. The Independent Review Report provided by Ernst and Young is included in the condensed consolidated financial report for the half-year ended 31 December 2017.

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

FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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Directors' Report

The Directors present their report, together with the condensed consolidated half-year financial report consisting of Slater and Gordon Limited ("the Company") and its controlled entities (jointly referred to as "the Group"), for the half-year ended 31 December 2017. This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

Directors

The directors in office at any time during the half year ended 31 December 2017 and up to the date of this report are:

- James MacKenzie – Chair (appointed 22 December 2017)
- Merrick Howes (appointed 22 December 2017)
- Nils Stoesser (appointed 22 December 2017)
- Hayden Stephens – former Chief Executive Officer (appointed Director 6 December 2017, ceased as Chief Executive Officer 7 February 2018, continuing Non-Executive Director)
- John Skippen – former Chair (ceased as director 22 December 2017)
- Andrew Grech (ceased as director 6 December 2017)
- Tom Brown (ceased as director 22 December 2017)
- James M. Millar (ceased as director 22 December 2017)

Review of Operations

The Group ended the half-year to 31 December 2017 with:

- total revenue and other income from continuing operations of $96.3m (2016: $117.8m);
- a net loss from continuing operations after tax of $21.2m (2016: $14.5m); and
- operating cash outflows generated from continuing operations of $0.8m (2016: inflows of $6.1m).

Significant Changes in the State of Affairs

The result for the half-year ended 31 December 2017 was impacted by:

(a) Senior Lender Scheme Implementation

On 6 December 2017, the Company shareholders approved a Recapitalisation of the Group with the implementation of a creditor's Scheme of Arrangement ("the Senior Lender Scheme"). The Senior Lender Scheme was deemed effective from 15 December 2017 and implemented on 22 December 2017. Consequently, with effect from 15 December 2017, and implemented on 22 December 2017, the following significant changes have occurred to the Group:

- All UK operations and UK subsidiaries have separated from the Company and transferred to a new UK holding company wholly owned by the Senior Lenders;
- The Senior Lenders, headed by Anchorage Capital Group, were issued with ordinary shares of the Company representing 95% of the issued equity of the Company; and
- The senior secured debt facilities of the Australian Group companies were restated to $125m, comprising of a $65m Refinanced Super Senior Facility and a $60m Restated Syndicated Facility Agreement.

The Senior Lender Scheme provides the restructured Group with a sustainable level of debt and a stable platform for its future operations by providing additional liquidity support for its continuing operations. Further detail on the Recapitalisation has been included in Note 5 of the Financial Statements.

In accordance with the requirements of AASB Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments" and AASB 13 "Fair Value Measurement", the shares issued under the Senior Lender Scheme have been measured at the ASX share price on the implementation date of the scheme on 22 December 2017, being $3.35 per share.

The Directors note that in the independent expert's report prepared by KPMG Financial Advisory Services (Australia) Pty Ltd in relation to the creditors' Scheme of Arrangement, the expert made an assessment of the implied equity value of the Company, based on the assumptions, qualifications and financial analysis set out in that report. This implied equity value was in the range of $0.30 to $1.10 per share (price adjusted for the 100-for-1 share consolidation that occurred on 8 December 2017).

The independent expert report was published to the market as part of the Senior Lender Scheme Explanatory Statement on 30 October 2017. Attention was drawn again to the Senior Lender Scheme Explanatory Statement by the Company in the ASX Announcement dated 29 November 2017 and attention was specifically drawn to the implied equity value in the independent expert's report in the ASX Announcement by the Company dated 7 February 2018.

(b) Shareholder Claimant Scheme

On 14 December 2017 the Federal Court approved a scheme of arrangement between the Company and all shareholder claimants ("Shareholder Claimant Scheme"), including claimants in the Hall and Babscay proceedings (filed on 12 October 2016 and 20 June 2017 respectively). The Shareholder Claimant Scheme resolves and compromises all potential shareholder claims against the Company and its officers. The Shareholder Claimant Scheme became legally effective on 15 December 2017. Under the Scheme, shareholder claimants have released the Company and officers from any shareholder claims and the Scheme can be pleaded as a bar to any shareholder claim.

On 14 December 2017 the Federal Court also approved the settlement of the Hall proceeding and dismissed that proceeding. The Company's contribution to this settlement of $5m was recognised as a provision at 30 June 2017. The Hall proceeding settlement is implemented by the Shareholder Claimant Scheme. The Babscay proceeding has not yet been formally dismissed or discontinued, however the Shareholder Claimant Scheme releases the Company and officers and bars the prosecution of that claim.

Under the Shareholder Claimant Scheme shareholder claimants have released the Company and officers from shareholder claims. Shareholder claimants may pursue third parties, such as the Company's auditors, for shareholder claims in the Federal Court that can be apportioned under operation of Proportionate Liability Provisions and the third parties against whom the claim is commenced do not have a contractual right of indemnity from the Company. Under the Shareholder Claimant Scheme, shareholder claimants have indemnified the Company and officers against any loss that arises as a result of shareholder claimants pursuing third party claims.

Consequently, other than legal costs to enforce the Company's rights, under the operation of the Shareholder Claimant Scheme there is no potential future material exposure for the Company as a result of shareholder claims.

Refer to Note 6 (c) for further details.

(c) Receipt of Cross-Claim against Slater & Gordon and its former directors

Slater & Gordon and its former directors have been served with a Notice of Cross-Claim (Cross Claim), filed by Pitcher Partners (a firm), in relation to proceedings commenced by Babscay Pty Ltd against Pitcher Partners in the Federal Court (Proceedings). The Proceedings relate to the preparation of Slater & Gordon's financial accounts for the periods FY12 – FY15 and Pitcher Partners' engagement as auditor for the purposes of those accounts.

By the Cross Claim, Pitcher Partners allege that Slater & Gordon is liable for damages. At this stage the amount of damages Pitcher Partners seeks against Slater & Gordon is unspecified.

Slater & Gordon is of the view that Pitcher Partners has no basis to claim damages against it given the operation of Slater & Gordon's recently implemented scheme of arrangement.

Slater & Gordon is considering its position in response to the Cross Claim including the possibility of bringing a strike-out application. The matter is scheduled for a Case Management Conference on 20 April 2018.

Events Subsequent to Reporting Date

(a) New AUD Super Senior Facility draw down

A draw down of $5m was made by the Group on 7 February 2018 from the New AUD Super Senior Facility to fund costs incurred in connection with the implementation of the Senior Lender Scheme.

(b) General Law and Footprint Review

Following an internal review of the operations of the General Law practice, the company announced on 7 February 2018 its plans to:

- Downsize the general law business, by winding down or divesting the practice areas of Succession, Criminal, and Family Law to focus on Personal Injury, Class Actions and the Industrial/Union practice.
- Retain a smaller commercial litigation practice.
- Expand Union Services to maintain a criminal services offering and free wills for our union clients as part of our strong commitment to the Australian Trade union movement.
- Continue to focus on improving the Firm's service delivery, including reviewing our footprint.

Given the Board made the decision to restructure the general law business post 31 December 2017, no provision has been recognised at 31 December 2017 for these restructuring costs.

(d) CEO appointment

Effective 7 February 2018, Hayden Stephens retired from his position as the Australian Group CEO. He was replaced by John Somerville as the new Group CEO on the same date. Mr Stephens remains on the Board as a Non-Executive Director.

There have not been any other matters or circumstances that have significantly affected, or may significantly affect, the results reported in the financial statements.

Directors' Report

Auditor's Independence Declaration

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

Rounding of Amounts

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

Signed in accordance with a resolution of the Directors.

James MacKenzie	Hayden Stephens
Chair	Director

Melbourne

27 February 2018

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

As lead auditor for the review of Slater and Gordon Limited and Controlled Entities for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Slater and Gordon Limited and the entities it controlled during the financial period.

Ernst & Young

Christopher George
Partner
Melbourne
27 February 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year Ended 31 December 2017

	Note	31 Dec 2017 $'000	Restated[1] 31 Dec 2016 $'000
Continuing Operations			
Revenue			
Fee revenue		99,678	114,205
Net movement in work in progress		(3,615)	2,874
Revenue from contracts with customers	3	**96,063**	**117,079**
Other income		232	744
Total revenue and other income		**96,295**	**117,823**
Less expenses			
Salaries and employee benefit expense		60,982	72,184
Payments to former owners		-	2,022
Share based payment expense to former owners		682	1,620
Rental expense		9,308	7,349
Advertising, marketing and new business development		6,916	8,536
Administration and office expense		13,449	14,675
Consultant fees		5,337	4,491
Finance costs		11,951	9,810
Bad and doubtful debts		5,914	3,266
Depreciation and amortisation expense		1,988	2,630
Other expenses		2,369	3,330
Total expenses		**118,896**	**129,913**
(Loss) from continuing operations before income tax		**(22,601)**	**(12,090)**
Income tax (benefit) / expense		(1,410)	2,405
(Loss) for the half-year from continuing operations after income tax		**(21,191)**	**(14,495)**
Discontinued Operations			
Pre-tax (loss) from discontinued operations	7	(47,738)	(394,604)
Income tax expense from discontinued operations	7	1,092	15,991
Net gain from disposal of discontinued operations	7	196,144	-
Income tax (benefit) on disposal of discontinued operations	7	(15,055)	-
Profit / (loss) from discontinued operations after income tax		**162,369**	**(410,595)**
Profit / (loss) for the half-year after income tax		**141,178**	**(425,090)**
Profit / (loss) for the half-year attributed to:			
Owners of the Company		141,174	(424,964)
Non-controlling interests		4	(126)
		141,178	**(425,090)**

[1] The prior period comparative has been restated in accordance with the requirements of Australian Accounting Standards as a result of the discontinued operation.

Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

For the Half-Year Ended 31 December 2017

	Note	31 Dec 2017 $'000	Restated[2] 31 Dec 2016 $'000
Other comprehensive income / (loss), net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss) on translation of discontinued operations		(10,414)	(11,158)
(Loss) / gain on changes in fair value of cash flow hedges		(250)	746
Total items that may be reclassified subsequently to profit or loss		**(10,664)**	**(10,412)**
Other comprehensive (loss) for the half-year, net of tax		**(10,664)**	**(10,412)**
Total comprehensive income / (loss) for the half-year, net of tax		**130,514**	**(435,502)**
Total comprehensive income / (loss) for the half-year attributed to:			
Owners of the Company		130,515	(435,372)
Non-controlling interests		(1)	(130)
		130,514	**(435,502)**
Total comprehensive income / (loss) for the half-year attributed to owners of the Company from:			
Continuing operations		(21,191)	(14,495)
Discontinued operations		151,706	(420,877)
		130,515	(435,372)
Earnings / (loss) per share from continuing operations:			
Basic (loss) per share	3(b)	(3.159)	(4.109)
Diluted (loss) per share	3(b)	(3.159)	(4.109)
Earnings / (loss) per share from discontinued operations:			
Basic earnings / (loss) per share	3(b)	24.208	(116.355)
Diluted earnings / (loss) per share	3(b)	24.208	(116.355)

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

[2] The prior period comparative has been restated in accordance with the requirements of Australian Accounting Standards as a result of the discontinued operation.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31 Dec 2017 $'000	30 Jun 2017 $'000
Current assets			
Cash and cash equivalents		14,394	33,303
Receivables		70,740	395,466
Work in progress		116,186	294,871
Current tax assets		-	3
Other current assets		3,409	21,144
Total current assets		**204,729**	**744,787**
Non-current assets			
Property, plant and equipment	4(b)	9,968	26,555
Receivables		14,524	91,492
Work in progress		120,954	220,094
Intangible assets	4(a)	-	13,112
Deferred tax assets		-	8,432
Other non-current assets		14	536
Total non-current assets		**145,460**	**360,221**
Total assets		**350,189**	**1,105,008**
Current liabilities			
Payables		57,092	418,619
Short term borrowings		7,544	466,240
Current tax liabilities		-	8,250
Other current liabilities		-	1,815
Derivative financial instruments		217	-
Provisions		24,885	54,532
Total current liabilities		**89,738**	**949,456**
Non-current liabilities			
Long term borrowings		109,594	314,702
Deferred tax liabilities		50,564	67,075
Derivative financial instruments		-	1,419
Provisions		10,175	21,172
Total non-current liabilities		**170,333**	**404,368**
Total liabilities		**260,071**	**1,353,824**
Net assets / (liabilities)		**90,118**	**(248,816)**
Equity			
Contributed equity	5(b)	1,340,764	1,119,235
Reserves		20,077	44,023
Accumulated losses		(1,270,723)	(1,411,897)
Total equity attributable to equity holders in the Company		**90,118**	**(248,639)**
Non-controlling interest		-	(177)
Total equity		**90,118**	**(248,816)**

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

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2017

31 December 2017	Note	Contributed Equity	Accumulated Losses	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling Interest	Total Equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2017		**1,119,235**	**(1,411,897)**	**(598)**	**27,513**	**17,108**	**(248,639)**	**(177)**	**(248,816)**
Net profit after tax for the half-year		-	141,174	-	-	-	141,174	4	141,178
Total other comprehensive income/(loss) for the half-year		-	-	(250)	(10,409)	-	(10,659)	(5)	(10,664)
Total comprehensive (loss)/income for the half-year		**-**	**141,174**	**(250)**	**(10,409)**	**-**	**130,515**	**(1)**	**130,514**
Transactions with owners in their capacity as owners									
Issuance of shares under Senior Lender Scheme	5(b)	221,270	-	-	-	-	221,270	-	221,270
Transfer from share based payments reserve		259	-	-	-	(259)	-	-	-
Recognition of share based payments expense to former owners		-	-	-	-	3,220	3,220	-	3,220
Reclassification to profit or loss on disposal of discontinued operation	7(d)	-	-	-	(17,104)	-	(17,104)	178	(16,926)
Reclassification to profit or loss on extinguishment of debt	7(d)	-	-	848	-	-	848	-	848
Costs of equity raising		-	-	-	-	-	-	-	-
Performance rights		-	-	-	-	8	8	-	8
Total transactions with owners in their capacity as owners		**221,529**	**-**	**848**	**(17,104)**	**2,969**	**208,242**	**178**	**208,420**
Balance as at 31 December 2017		**1,340,764**	**(1,270,723)**	**-**	**-**	**20,077**	**90,118**	**-**	**90,118**

31 December 2016	Note	Contributed Equity	Accumulated Losses	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Total	Non-controlling Interest	Total Equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2016		**1,116,048**	**(865,348)**	**(2,319)**	**35,699**	**20,910**	**304,990**	**107**	**305,097**
Net (loss) after tax for the half-year		-	(424,964)	-	-	-	(424,964)	(126)	(425,090)
Total other comprehensive income/(loss) for the half-year		-	-	746	(11,154)	-	(10,408)	(4)	(10,412)
Total comprehensive (loss)/income for the half-year		**-**	**(424,964)**	**746**	**(11,154)**	**-**	**(435,372)**	**(130)**	**(435,502)**
Transactions with owners in their capacity as owners									
Ordinary and VCR shares issued (net)		127	-	-	-	-	127	-	127
Transfer from share based payments reserve		100	-	-	-	(100)	-	-	-
Recognition of share based payments expense to former owners		-	-	-	-	3,806	3,806	-	3,806
Costs of equity raising		(7)	-	-	-	-	(7)	-	(7)
Performance rights		-	-	-	-	507	507	-	507
Total transactions with owners in their capacity as owners		**220**	**-**	**-**	**-**	**4,213**	**4,433**	**-**	**4,433**
Balance as at 31 December 2016		**1,116,268**	**(1,290,312)**	**(1,573)**	**24,545**	**25,123**	**(125,949)**	**(23)**	**(125,972)**

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

Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2017

	Note	31 Dec 2017 $'000	Restated[3] 31 Dec 2016 $'000
Cash flow from operating activities			
Receipts from customers		126,325	131,436
Payments to suppliers and employees		(116,897)	(127,034)
Payments to former owners		(5,250)	(4,000)
Interest received		70	151
Borrowing costs		(2,130)	(2,049)
Income tax received/(paid)		(2,916)	7,625
Net cash (used in) / provided by operating activities of continuing operations		**(798)**	**6,129**
Net cash (used in) operating activities of discontinued operations		(30,703)	(15,334)
Total net cash (used in) operating activities		**(31,501)**	**(9,205)**
Cash flow from investing activities			
Payment for software development		-	(516)
Payment for plant and equipment		(913)	(1,856)
Cash balance transferred on disposal of businesses		(18,439)	-
Payment for acquisition of businesses – deferred consideration		(425)	(1,444)
Net cash flow (used in) investing activities of continuing operations		**(19,777)**	**(3,816)**
Net cash (used in) investing activities of discontinued operations		(3,168)	(4,993)
Total net cash (used in) investing activities		**(22,945)**	**(8,809)**
Cash flow from financing activities			
Costs of equity issued		-	(7)
Loans/payments to related parties and employees		42	(280)
Proceeds from borrowings		25,000	-
Repayment of borrowings		(821)	(1,349)
Net cash provided / (used) by financing activities of continuing operations		**24,221**	**(1,636)**
Net cash provided / (used) by financing activities of discontinued operations		8,475	(3,056)
Total net cash provided / (used) by financing activities		**32,696**	**(4,692)**
Net decrease in cash held		(21,750)	(22,706)
Net foreign exchange differences		2,841	(2,817)
Cash at beginning of half-year		33,303	82,494
Cash at end of half-year		14,394	**56,971**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

[3] The prior period comparative has been restated in accordance with the requirements of Australian Accounting Standards as a result of the discontinued operation.

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 1: Basis of Preparation

This note sets out the accounting policies adopted by Slater and Gordon Limited (the "Company" or "parent") and its consolidated entities (the "consolidated entity" or the "Group") in the preparation and presentation of the half-year financial report.

The half-year financial report was authorised for issue by the Directors as at the date of the Directors' Report.

Slater and Gordon Limited is a for-profit company whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Company were to provide consumer legal services in Australia and the United Kingdom ("UK"). Following transfer of the UK operations (effective on 15 December 2017 and implemented on 22 December 2017), the Company's activities are to provide consumer legal services in Australia.

(a) Basis of Accounting

This half-year financial report for the six months ended 31 December 2017 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The condensed consolidated financial statements of Slater and Gordon Limited also comply with IAS 34 *Interim Financial* Reporting as issued by the International Accounting Standards Board ("IASB").

The half-year financial report does not include all the information and disclosures required in the annual financial report and should be read in conjunction with the Group's annual financial report as at 30 June 2017. The financial statements present reclassified comparative information where required for consistency with the current period presentation.

It is also recommended that the half-year financial report be considered with any public announcements made by the Company up to the date of this report in accordance with the continuous disclosure obligations of the Australian Securities Exchange listing rules.

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

Going Concern

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

The Recapitalisation of the Group was implemented on 22 December 2017 after passing the requisite Shareholders' approval at the AGM on 6 December 2017.

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

The Group permanently reduced its outstanding secured debt under the Recapitalisation (refer Note 5). As at 30 June 2017 the Group's total liabilities exceeded its total assets by $248.8m and Group's Syndicated Facility Agreement ("SFA") banking facilities had been fully drawn with borrowings of $761.6m.

Following the Recapitalisation, as at 31 December 2017, the Group's total borrowings (excluding lease liabilities) were $112.9m. Of this $3.3m is presented as current liabilities, being due for repayment on 22 June 2018. The remaining $109.6m of debt is non-current. Furthermore, as at 31 December 2017, the Group has a positive net current asset balance of $115.0m and a positive overall net asset balance of $90.1m. Based on internal cash flow forecasts to 30 June 2019, the Group expects to remain in compliance with financial covenants under the New Super Senior Facility and has sufficient funds available to meet its obligations.

Consequently, the Directors have concluded that there are reasonable grounds to believe that the Group will continue to be able to pay its debts as and when they become due and payable, and the preparation of the 31 December 2017 half-year financial report on a going concern basis is appropriate.

(b) Adoption of New Accounting Standards

The accounting policies adopted in the preparation of the half-year financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2017.

(c) Significant Accounting Judgements, Estimates and Assumptions

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2017. Additional significant judgements are outlined in detail within the specific notes to which they relate.

Note 2: Segment Reporting

Up until the date of the transfer of the UK operations, the Company had three operating segments which also represented its three reportable segments, as described below.

For the year ended 30 June 2017, the Group Managing Director was the Chief Operating Decision Maker ("CODM"). For the six months ended 31 December 2017, the Australian CEO and UK CEO were joint CODM for the Group. This change did not affect the information received and reviewed by the CODMs for the six months ended 31 December 2017.

The CODMs regularly reviewed all operating segment results, to make decisions about resources to be allocated to the segment and to assess its performance.

The following summary describes each of the Company's reportable segments (prior to the recapitalisation of the Group in December 2017):

- **Slater and Gordon Australia ("AUS")** – includes the parent company Slater and Gordon Limited and its subsidiaries in Australia. This segment conducts a range of legal services within the geographical area of Australia. Prior to the implementation of the Senior Lender Scheme, this segment also includes borrowings and capital raising activities to finance investment and operations of the combined Group.
- **Slater and Gordon UK ("SGL UK")** – conducted a range of personal injury and general law legal services in the UK.
- **Slater Gordon Solutions ("SGS")** – represented the acquired business assets/entities from Quindell Plc in the UK, offering legal services relating to road traffic accidents, employee liability and noise induced hearing loss. This segment also provides complementary services in health and motor services.

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

Effective from 15 December 2017, the UK operations were transferred to the Senior Lenders as part of the Senior Lender Scheme of Arrangement (the "Senior Lender Scheme") and have been treated as a discontinued operation within this interim financial report, refer note 7.

	AUS		SGL UK (discontinued)		SGS (discontinued)		TOTAL	
	31 Dec 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue								
Fee and services revenue	**99,678**	114,205	**60,856**	75,636	**110,078**	140,675	**270,612**	330,516
Net movement in work in progress ("WIP")	**(3,615)**	2,874	**(1,851)**	(9,557)	**(11,392)**	(7,995)	**(16,858)**	(14,678)
Revenue from contracts with customers	**96,063**	117,079	**59,005**	66,079	**98,686**	132,680	**253,754**	315,838
Other income							**3,172**	6,825
Total revenue and other income							**256,926**	322,663
Result								
EBITDA*	**(8,732)**	(80)	**(28,323)**	(43,352)	**(2,253)**	17,552	**(39,309)**	(25,880)
Depreciation and amortisation	**(1,988)**	(2,630)	**(2,023)**	(1,937)	**(654)**	(835)	**(4,665)**	(5,402)
Impairment of intangible assets	**-**	-	**-**	(42,744)	**-**	(307,560)	**-**	(350,304)
Loss before tax and net finance expense	**(10,720)**	(2,710)	**(30,346)**	(88,033)	**(2,907)**	(290,843)	**(43,974)**	(381,586)
Net finance expense (including discontinued operations)							**(26,365)**	(25,108)
Add back net loss of discontinued operations included above							**47,738**	394,604
(Loss) from continuing operations before income tax							**(22,601)**	(12,090)

Note 2: Segment Reporting (continued)

	AUS		SGL UK (discontinued)		SGS (discontinued)		TOTAL	
	31 Dec 2017 $'000	30 Jun 2017 $'000	31 Dec 2017 $'000	30 Jun 2017 $'000	31 Dec 2017 $'000	30 Jun 2017 $'000	31 Dec 2017 $'000	30 Jun 2017 $'000
Total segment assets	**350,189**	400,124	**-**	443,268	**-**	287,902	**350,189**	1,131,294
Total segment liabilities	**260,071**	355,683	**-**	802,335	**-**	222,092	**260,071**	1,380,110
Net assets/(liabilities) per statement of financial position	**90,118**	44,441	**-**	(359,067)	**-**	65,810	**90,118**	(248,816)

*EBITDA = Earnings before net interest, taxes, depreciation, amortisation and impairment.

Note 3: Financial Performance

(a) Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

The Company derives revenue from the transfer of goods and services over time and at a point in time, in the major product lines of Personal Injury Law ("PIL") and General Law ("GL"). Revenue was derived across the geographical regions of Australia and the UK until implementation of the Senior Lender Scheme effective from 15 December 2017. From this date the UK operations were transferred and have been treated as a discontinued operation within this interim financial report, refer note 7. The amounts relating to the UK operations therefore reflect the period to 15 December 2017.

	Australia		UK (discontinued)			
Half-Year ended 31 December 2017	PIL $'000	GL $'000	PIL $'000	GL $'000	SGS $'000	Total $'000
Type of contract:						
Fixed price	-	5,919	676	3,162	19,591	29,348
Time and Materials	-	7,451	2,663	11,009	30,168	51,291
No Win – No Fee	83,254	(561)	40,834	661	48,927	173,115
Revenue from contracts with customers	**83,254**	**12,809**	**44,173**	**14,832**	**98,686**	**253,754**
Half-Year ended 31 December 2016						
Type of contract:						
Fixed price	-	9,340	540	2,749	23,094	35,723
Time and Materials	-	11,514	3,067	19,519	47,156	81,256
No Win – No Fee	87,211	9,014	39,706	498	62,430	198,859
Revenue from contracts with customers	**87,211**	**29,868**	**43,313**	**22,766**	**132,680**	**315,838**

Note 3: Financial Performance (continued)

(b) Earnings per Share

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

	31 Dec 2017	Restated 31 Dec 2016
Loss used in calculating basic and diluted earnings per share from continuing operations ($'000)	(21,191)	(14,495)
Gain / (loss) used in calculating basic and diluted earnings per share from discontinued operations ($'000)	162,365	(410,469)
Weighted average number of ordinary shares used in calculating basic loss per share ('000's)	6,707	3,528
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share ('000's)	6,707	3,528

On 8 December 2017, the Company undertook a share consolidation of 1 ordinary share for every 100 on issue (refer Note 5(b)). The number of shares used in calculating basic and diluted earnings per share has been adjusted retrospectively for the periods presented.

Note 4: Assets and Liabilities

(a) Intangible Assets

	Goodwill $'000	Software Development $'000	Trademarks & Brand Names $'000	Total $'000
Movement in carrying amounts				
Balance at 1 July 2016	332,868	17,409	43,693	393,970
Additions	-	5,959	-	5,959
Reclassifications from property, plant and equipment	-	(52)	-	(52)
Exchange differences	(17,922)	(790)	(2,313)	(21,025)
Amortisation	-	(4,068)	(127)	(4,195)
Impairment	(314,946)	(5,066)	(41,253)	(361,265)
Disposals	-	(280)	-	(280)
Balance at 30 June 2017	**-**	**13,112**	**-**	**13,112**
Additions	-	-	-	-
Reclassifications from property, plant and equipment	-	-	-	-
Exchange differences	-	382	-	382
Amortisation	-	(1,308)	-	(1,308)
Impairment	-	-	-	-
Disposal of UK operations	-	(12,186)	-	(12,186)
Balance at 31 December 2017	**-**	**-**	**-**	**-**

Note 4: Assets and Liabilities (continued)

(b) Property, Plant and Equipment

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

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

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

	Plant & Equipment $'000	Land & Buildings $'000	Low Value Asset Pool $'000	Total $'000
Gross Cost	77,624	249	2,995	80,868
Less accumulated depreciation	(51,903)	-	(2,410)	(54,313)
At 30 June 2017	**25,721**	**249**	**585**	**26,555**
Gross Cost	30,361	-	2,773	33,134
Less accumulated depreciation	(21,069)	-	(2,097)	(23,166)
At 31 December 2017	**9,292**	**-**	**676**	**9,968**
Movement in carrying amounts				
Balance at 1 July 2016	**32,172**	**265**	**770**	**33,207**
Additions	1,858	-	139	1,997
Exchange differences	(920)	(16)	-	(936)
Depreciation expense	(6,730)	-	(303)	(7,033)
Disposals	(659)	-	(21)	(680)
Balance at 30 June 2017	**25,721**	**249**	**585**	**26,555**
Additions	2,328	-	223	2,551
Exchange differences	515	8	-	523
Depreciation expense	(3,238)	-	(119)	(3,357)
Disposals	(183)	-	(13)	(196)
Disposal of UK Operations	(15,851)	(257)	-	(16,108)
Balance at 31 December 2017	**9,292**	**-**	**676**	**9,968**

The carrying amount of plant and equipment under finance lease included above amounted to $3.7m (30 June 2017: $4.5m).

(c) Fair Value Measurements

(i) Fair Value Hierarchy

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

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

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

Note 4: Assets and Liabilities (continued)

(c) Fair Value Measurements (continued)

(i) Fair Value Hierarchy (continued)

31 December 2017 **Recurring fair value measurements**	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Derivative financial instruments – interest rate swaps	-	217	-	217
	-	**217**	**-**	**217**

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

(1) Part of Vendor Liabilities which were included in Payables in the Statement of Financial Position

(ii) Valuation Techniques and Inputs used in Level 2 and Level 3 Fair Value Measurements

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

The fair value of contingent consideration payable in a business combination was measured with reference to current fee and performance forecasts which can be used to estimate future cash flows. The final tranche of contingent consideration was paid in December 2017. The key inputs into the valuation at 30 June 2017 were the estimated future cash flows and the average discount rate of 9% used to determine the present value of the future cash flows.

(iii) Reconciliation of Recurring Level 3 Fair Value Movements

	31 Dec 2017 $'000	30 Jun 2017 $'000
Opening balance	455	2,068
Payments relating to contingent consideration	(425)	(1,505)
Fair value movement on contingent consideration (2)	(30)	(108)
Closing balance	-	**455**

(2) Unrealised (gains)/losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income within Other Income

Note 5: Capital Structure and Financing

(a) Financing Arrangements

On 6 December 2017, the Company shareholders approved a Recapitalisation of the Group with the implementation of a creditor's Scheme of Arrangement ("the Senior Lender Scheme"). The Senior Lender Scheme was effective from 15 December 2017 and implemented on 22 December 2017. The effect of the implementation of the Senior Lender Scheme on the financial performance and position of the Group is disclosed in Note 7.

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

Separation of UK operations

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

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

a) A promissory note of $40.0m, which was applied to reduce outstanding debt under the Australian Restated Syndicated Facility Agreement (no cash directly transferred) (see below for more information).

b) A right to receive the first $40.0m of net proceeds from Watchstone-related clams in the UK (refer Watchstone Receivable below for further information). This amount represents a contingent asset as the realisation of income from the underlying Watchstone-related claims is not virtually certain (refer note 6(b)).

c) Assignment to Slater and Gordon UK Holdings Limited of $1.3m of intercompany payables owed by the Australian Group to the UK operations.

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

Issue of shares in the Company to the Senior Lenders

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

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

New Australian Debt Facilities

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

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

a) Refinanced Super Senior Facility ($65.0m): Prior to implementation of the Senior Lender Scheme, the limit of this facility was $40.0m, which was fully drawn down. The facility limit was increased by $25.0m to $65.0m under the Senior Lender Scheme. The facility has a 3 year term commencing from the implementation date (being 22 December 2017), with interest not payable until the end of the term. The facility will be used for working capital purposes. The total undrawn amount of the facility is $25.0m at 31 December 2017, of which a further $5.0m was drawn down on 7 February 2018.

b) Restated Syndicated Facility Agreement ($60.0m): Prior to the implementation of the Senior Lender Scheme, the total balance owing under the Syndicated Facility Agreement was $125.6m. The balance owing was restated to $60.0m through the issuance of shares in the Australian parent company and application of the promissory note of $40.0m (discussed above) received as consideration for the transfer of the UK operations. The facility was restated with the following key amendments:

   - a 5 year term from the implementation date of the Senior Lender Scheme, and
   - interest is not payable until the end of the term.

   Payment of the deferred restructure fee relating to the previous restructure of the facility in May 2016, which comprised warrants and cash of $10.8m, has been further deferred and is now due at the end of the new 5 year term.

c) Existing lease facilities of $4.3m which are due for settlement by 30 June 2018.

Note 5: Capital Structure and Financing (continued)

(a) Financing Arrangements (continued)

Watchstone Receivable

As noted above, as partial consideration for the transfer of S&G UK shares from the Company to Slater and Gordon UK Holdings Limited, the Company has recourse to the first $40.0m of any net proceeds that S&G UK receives from successful settlement of the Watchstone-related claims (refer to note 6(b)). These are required to be applied by the Company first to reduction of the Super Senior Facility. This amount represents a contingent asset, and has not been recognised as a receivable as the inflow of economic benefits is not considered virtually certain. It has been disclosed as a contingent asset (refer note 6(b) for details).

Security

The security that was provided over the Australian Operations in respect of secured facilities of the UK Operations was released in full on implementation of the Senior Lender Scheme. No ongoing security has been provided by the Australian Group for UK debt. For details of other security provided to S&G UK by the Australian Operations, please refer note 8.

(b) Contributed Equity

	31 Dec 2017 Shares	31 Dec 2017 $'000	30 Jun 2017 Shares	30 Jun 2017 $'000
Ordinary shares fully paid	69,527,235	1,340,764	347,245,601	1,119,235

Movement in Ordinary Share Capital

	For the half-year ended			
	31 Dec 2017 Shares	31 Dec 2017 $'000	31 Dec 2016 Shares	31 Dec 2016 $'000
Balance at the beginning of the period	**347,245,601**	**1,119,235**	**352,377,933**	**1,116,573**
Issued during the year				
• Transfer from share-based payment reserve	-	259	-	100
• Costs of equity raising	-	-	-	(7)
• Consolidation of shares prior to Recapitalisation[(1)]	(343,769,240)	-	-	-
• Issuance of shares under Senior Lender Scheme	66,050,874	221,270	-	-
Balance at the end of the period	**69,527,235**	**1,340,764**	**352,377,933**	**1,116,666**
VCR Share Capital balance at the end of the period	**-**	**-**	**-**	**(398)**
Total Share Capital balance at the end of the period	**69,527,235**	**1,340,764**	**352,377,933[(2)]**	**1,116,268**

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

[(2)] The movement in the balance of shares on issue from 31 December 2016 of 352,377,933 to the balance at 30 June 2017 of 347,245,601 is due to a share buy-back that occurred in this six month period.

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

At 31 December 2017, there were nil VCR shares on issue (30 June 2017: nil VCR shares), with the Employee Ownership Plan (EOP) being discontinued in the financial year ended 30 June 2017 due to it no longer fulfilling its intended purpose.

Note 6: Unrecognised Items

(a) Commitments

Disbursement Funding Guarantees

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

The total amount funded by the funder to the Group's clients at 31 December 2017 was $11.3m (30 June 2017: $16.0m). The maximum exposure of the Group at 31 December 2017 was $11.3m (30 June 2017: $16.0m) if the disbursements on client matters are not recovered and the guarantee takes effect.

From September 2017 no further disbursements have been funded by the funder.

(b) Contingent Asset

Watchstone Receivable

As part of the consideration provided for the implementation of the Senior Lender Scheme, the Company was provided with a $40.0m receivable giving it recourse to the first $40m of the net proceeds that S&G UK receives from successful settlement of the claims against Watchstone (formerly Quindell plc). Such claims were brought by S&G UK against Watchstone arising from its acquisition of Watchstone's Professional Services Division in May 2015. On 29 November 2016, the Group obtained a positive merits based opinion of its claims from an independent barrister, in accordance with the provisions of the Share Purchase Agreement ("SPA") between the Group and Watchstone. Having met this threshold requirement, under the SPA provisions, the escrow amount of £50.0m will not be released until such time as the claim made against Watchstone is resolved (through proceedings or settlement). The Group notified Watchstone of these claims on 19 September 2016, and on 13 June 2017, S&G UK filed and served a claim in the English High Court against Watchstone Group Plc for approximately £600.0m. Subsequent to this there have been no further significant developments in the claim proceedings other than the exchange of further pleadings under the Court's rules. The claim is based upon serious allegations against Watchstone and its then senior management, including fraudulent misrepresentation, concerning the purchase by Slater and Gordon of Watchstone's Professional Services Division in 2015. Watchstone filed its defence on 12 October 2017. The parties are due to appear before the English High Court for a case management conference in March 2018 with a trial date not expected to occur before 2019.

(c) Contingent Liabilities

Class Action Proceedings

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

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

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

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

Note 6: Unrecognised Items (continued)

(c) Contingent Liabilities (continued)

Class Action Proceedings (continued)

Under the Shareholder Claimant Scheme shareholder claimants have released the Company and officers from shareholder claims. Shareholder claimants may pursue third parties, such as the Company's auditors, for shareholder claims in the Federal Court that can be apportioned under operation of Proportionate Liability Provisions and the third parties against whom the claim is commenced do not have a contractual right of indemnity from the Company. Under the Shareholder Claimant Scheme, shareholder claimants have indemnified the Company and officers against any loss that arises as a result of shareholder claimants pursuing third party claims.

Consequently, other than legal costs to enforce the Company's rights, under the operation of the Shareholder Claimant Scheme there is no potential future material exposure for the Company as a result of shareholder claims.

(d) Receipt of Cross-Claim against Slater & Gordon and its former directors

Slater & Gordon and its former directors have been served with a Notice of Cross-Claim (Cross Claim), filed by Pitcher Partners (a firm), in relation to proceedings commenced by Babscay Pty Ltd against Pitcher Partners in the Federal Court (Proceedings). The Proceedings relate to the preparation of Slater & Gordon's financial accounts for the periods FY12 – FY15 and Pitcher Partners' engagement as auditor for the purposes of those accounts.

By the Cross Claim, Pitcher Partners allege that Slater & Gordon is liable for damages. At this stage the amount of damages Pitcher Partners seeks against Slater & Gordon is unspecified.

Slater & Gordon is of the view that Pitcher Partners has no basis to claim damages against it given the operation of Slater & Gordon's recently implemented scheme of arrangement.

Slater & Gordon is considering its position in response to the Cross Claim including the possibility of bringing a strike-out application. The matter is scheduled for a Case Management Conference on 20 April 2018.

Note 7: Discontinued operations

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

a) Separation of all UK operations and UK subsidiaries from the Group effective from 15 December 2017 (including Slater and Gordon (UK) 1 Ltd), by way of transfer of these operations and entities to Slater and Gordon UK Holdings Limited, an entity wholly owned by the Company's majority Senior Lender.

b) Issue of 66,050,874 shares in the Australian parent company to the Senior Lenders, representing 95% of the Company's total issued capital.

c) Reduction of outstanding secured debt facilities owed by the Group by a combination of restating and refinancing the debt.

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

Classification as discontinued operations - Critical accounting judgements

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

Note 7: Discontinued operations (continued)

(a) Financial performance from discontinued operation

The financial performance and cash flow information presented are for the period ended 15 December 2017 (being the effective date from which the UK subsidiaries were deconsolidated) and the half-year ended 31 December 2016.

	to 15 Dec 2017 $'000	31 Dec 2016 $'000
Revenue	157,691	198,759
Other income	2,940	6,081
Expenses	(208,369)	(599,444)
(Loss) of discontinued operation before income tax expense	**(47,738)**	**(394,604)**
Income Tax Expense	(1,092)	(15,991)
(Loss) from discontinued operations net of tax	**(48,830)**	**(410,595)**

(b) Carrying value of net assets divested

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

	15 Dec 2017 $'000
Current assets	
Cash and cash equivalents	18,439
Receivables	303,128
Work in progress	183,159
Other current assets	16,152
Total current assets	**520,878**
Non-current assets	
Property, plant and equipment	15,980
Receivables	66,531
Work in progress	86,968
Intangible assets	12,185
Deferred tax assets	8,443
Total non-current assets	**190,107**
Total assets	**710,985**
Current liabilities	
Payables	356,266
Current tax liabilities	6,315
Other current liabilities	34
Provisions	11,585
Total current liabilities	**374,200**(1)
Non-current liabilities	
Long term borrowings	-
Provisions	12,623
Total non-current liabilities	**12,623**
Total liabilities	**386,823**
Net assets / (liabilities)	**324,162**

(1) The carrying amount of liabilities is shown after the extinguishment of $674.2m of debt. This amount is included within the gain from discontinued operations shown in Note 7(d)

Note 7: Discontinued operations (continued)

(c) Cash flows arising from disposal

	15 Dec 2017 $'000
Consideration received, satisfied in cash	-
Cash and cash equivalents disposed of	(18,439)
Net cash outflows	**(18,439)**

(d) Gain from discontinued operations

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

	2017 $'000
Carrying value of net assets disposed	(324,162)
Derecognition of non-controlling interests	(178)
Consideration received	40,000
Fair value of equity instruments issued by SGL (i)	(221,270)
Extinguishment of debt (ii)	693,864
Recycling of cash flow hedge reserve balance	(848)
Acceleration of UK share based payments expense to former owners (iii)	(1,662)
Transaction costs relating to scheme of arrangement	(6,704)
Reclassification of foreign currency translation reserve upon disposal	17,104
Income tax benefit	15,055
Net gain on implementation of the Senior Lender Scheme and disposal of the UK operations	**211,199**

(i) Fair value of equity instruments issued

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

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

(ii) Extinguishment of debt

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

Immediately prior to the deconsolidation of the UK operations, the outstanding secured debt of $674.2m owed by S&G UK was also extinguished.

(iii) Acceleration of share based payments

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

Note 8: Related Party Disclosures

(a) Guarantees for UK lease obligations

To effect the separation of the Group's UK operations and subsidiaries from its Australian operations under the Senior Lender Scheme (as detailed in Note 5 and Note 7), the Company and Slater & Gordon (UK) 1 Limited ("S&G UK") entered into certain transitional arrangements that are governed by a business separation agreement ("Business Separation Agreement").

The transitional arrangements involve the parties to the Business Separation Agreement seeking to procure that the Company is released from parent guarantees and other forms of security and financial support that it has provided to the UK operations. Any potential material contingent liability relates to parent guarantees for UK leases for the major office premises used by the UK operations.

The Company has agreed that the timeframe which is reasonably practical for the UK operations to procure the release of the parent guarantees will be a period of up to 18 months following the date of implementation of the Recapitalisation, being 15 December 2017 (or such longer period as agreed between the Company and S&G UK).

If, during the transition period, the UK operations default on the UK leases subject to the parent guarantees, and those parent guarantees have not yet been released, the Company may be liable for any unpaid amounts under those leases at the time of default. Any contingent liability has the potential to be material in the event that the UK operations were in default and the parent guarantees were called upon and the Company was unable to take steps that are typically commercially available to mitigate its loss, such as sub-leasing. At 31 December 2017, the aggregate unpaid amounts under these lease agreements for the remainder of the lease terms are $89.0m.

It is not currently possible for the Company to estimate any liability or contingent liability under these guarantees as there would need to be an event of default by the UK operations to cause any liability. In addition, numerous factors would impact on the extent of any potential liability in that event, such as when the guarantee would be called and the amounts outstanding at that time, the Company's ability to take steps to mitigate loss, including subleasing the premises, and its capacity to negotiate with the third parties who have the right to call on those guarantees. The UK operations also have a number of operational and financial mechanisms in place which seek to prevent an event of default occurring. Liability in respect of these guarantees will only arise if the UK operations default on their obligations under the leases and other material contracts subject to a parent guarantee, prior to an agreement being made to release that guarantee.

Note 9: Subsequent Events

There has not been any other matter or circumstance, other than those referred to in the financial statements or notes thereto, that has arisen since the end of the financial half-year, that has significantly affected, or may significantly affect, the operations of the Group or the results of those operations, other than:

(a) New AUD Super Senior Facility draw down

A draw down of $5.0m was made by the Group on 7 February 2018 from the New AUD Super Senior Facility to fund costs incurred in connection with the implementation of the Senior Lender Scheme.

(b) General Law and Footprint Review

Following an internal review of the operations of the General Law practice, the company announced on 7 February 2018 its plans to:

- Downsize the general law business, by winding down or divesting the practice areas of Succession, Criminal, and Family Law to focus on Personal Injury, Class Actions and the Industrial/Union practice.
- Retain a smaller commercial litigation practice.
- Expand Union Services to maintain a criminal services offering and free wills for our union clients as part of our strong commitment to the Australian Trade union movement.
- Continue to focus on improving the Firm's service delivery, including reviewing our footprint.

Given the Board made the decision to restructure the general law business post 31 December 2017, no provision has been recognised at 31 December 2017 for these restructuring costs.

(c) CEO appointment

Effective 7 February 2018, Hayden Stephens retired from his position as the Group CEO. He was replaced by John Somerville as the new Group CEO on the same date. Mr Stephens remains on the Board as a Non-Executive Director.

There have not been any other matters or circumstances that have significantly affected, or may significantly affect, the results reported in the financial statements.

Slater and Gordon Limited
Directors' Declaration

The directors declare that the financial statements and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001* and:

(a). Comply with Australian Accounting Standard AASB *134 Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and

(b). Give a true and fair view of the financial position of the consolidated entity as at 31 December 2017 and of its performance and cash flows for the half-year ended on that date.

(c). The condensed consolidated half-year financial report also complies with IAS 34 *Interim Financial Reporting,* as issued by the International Accounting Standards Board.

In the directors' opinion there are reasonable grounds to believe that Slater and Gordon Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving declarations from the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001 as recommended by the ASX Corporate Governance Principles and Recommendations.

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

James MacKenzie	Hayden Stephens
Chair	Director

Melbourne

27 February 2018

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Slater and Gordon Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Ernst & Young

Christopher George
Partner
Melbourne
27 February 2018

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Corporate Directory

Directors
James MacKenzie – Chair
Merrick Howes
Hayden Stephens
Nils Stoesser

Company Secretary
Kirsten Morrison

Registered Office and Corporate Office
Level 12
485 La Trobe Street
Melbourne Victoria 3000
Telephone: (03) 9602 6888
Facsimile: (03) 9600 0290

Company Website
www.slatergordon.com.au

Company Numbers
ACN 097 297 400
ABN 93 097 297 400

Auditor
Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000

Bankers
Westpac Banking
Corporation
Level 7
150 Collins Street
Melbourne Victoria 3000

National Australia Bank
Level 30
500 Bourke Street
Melbourne Victoria 3000

Solicitor
Arnold Bloch Leibler
Level 21
333 Collins Street
Melbourne Victoria 3000

Securities Exchange Listing
Slater and Gordon Limited shares are listed on the Australian Securities Exchange. The Home Exchange is Melbourne.
ASX Code: SGH

Share/Security Registers
The Registrar
Computershare Investor
Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

GPO Box 2975
Melbourne Victoria 3001

Telephone
Toll Free 1300 850 505
(Australia)
+61 3 9415 4000
(Overseas)

Investor Centre Website:
www.computershare.com.au

Email:
web.queries@computershare.com.au