ASX Announcement

SLATER AND GORDON GROUP

Slater and Gordon Group FY16 Half Year Financial Results

Results Summary

	H1 FY16 A$m	H1 FY15 A$m
Total Revenue	487.5	267.7
EBITDAW(1)	(58.3)	61.5
EBITDAW(1,2) – Normalised	(17.8)	32.6
Goodwill Impairment	(876.4)	-
Net (Loss)/Profit After Tax – Reported	(958.3)	49.3
Net (Loss)/Profit After Tax(2) – Normalised	(42.1)	19.8
Gross Operating Cash Flow(3)	(62.5)	31.1

(1) EBITDAW is defined as Earnings before interest, tax, depreciation, amortisation and movement in work in progress and is presented prior to goodwill impairment.

(2) Normalised for AASB3 adjustments, goodwill impairment and additional debtor/disbursement provisioning.

(3) Represents net cash (utilised)/provided by operating activities before interest received, borrowing costs paid and income tax paid.

Financial Results

Slater and Gordon Limited ("the Company") today reported a A$958.3 million loss for the six months ended 31 December 2015. The result was impacted by:

- a A$876.4 million non-cash impairment charge against the carrying value of goodwill;
- A$21.3 million of additional provisioning for debtors and disbursements across the Group;
- the application of revised accounting policies for acquisition consideration (AASB 3 Business Combinations) and valuation of work in progress (WIP) due to the early adoption of new accounting standard AASB 15 (Revenue from Contracts with Customers); and
- underperformance in the UK operations, in relation to both intake and resolution of personal injuries claims in Slater and Gordon Lawyers (SGL) UK and Slater Gordon Solutions (SGS) including lower resolutions in respect of Noise Induced Hearing Loss (NIHL) claims.

As at 31 December 2015 the Group remained in compliance with its financial covenants and continues to work co-operatively with its banking syndicate to amend the facilities. The Company has agreed to deliver an operating plan and restructure proposal to the banking syndicate and its financial advisers in March 2016. Agreement will be reached as to amendments, if any, which may be required to the facility by 30 April 2016. Facility maturity may be shortened to no earlier than 31 March 2017 if no agreement is reached.

Performance improvement programmes have been initiated in the UK and Australia with the goal of improving both the profitability and operating cash flow of the business and reducing the level of debt.

In light of these activities, the Directors have declared not to pay an interim dividend and the Company is unlikely to pay a dividend for the full financial year.

ASIC Queries

ASIC today confirmed that it has now discontinued its inquiries in relation to the Company's financial reports for the years ended 30 June 2014 and 30 June 2015.

Group Managing Director's Commentary

Slater and Gordon Group Managing Director Andrew Grech said: "Clearly today's results are very disappointing. In particular the decline in business performance in the UK is of serious concern to all at Slater and Gordon and equally will be of concern to our investors. We will therefore be taking a number of necessary and significant steps to improve the operational performance of both the UK business and the broader Slater and Gordon Group. Recent developments and initiatives include:

- Completion of a strategic review of our UK operations and implementation of a performance improvement programme including a major reorganisation which is intended to improve the productivity of the UK business;

- Business process changes to improve the performance of the case management system in SGL UK;

- Actively engaging with insurers as both business partners in the SGS Motor services business, and as counterparties, with the shared goal of reducing frictional costs and delay in claims management and resolution;

- Changes to screening policy and reductions in client to staff member ratios in SGS to drive improvements in case progression and resolution;

- Reviewing all opportunities to reduce debt levels over the short to medium term;

- Appointment of a new non-executive Director and Chair of the Audit, Compliance & Risk Management Committee and a new Group CFO;

- A strengthening of the finance function at both Group level and within the UK; and

- Driving operational effectiveness initiatives in Australia.

"We have made some tough but necessary decisions to establish a clear pathway for the future. We are continuing to daily serve thousands of clients in the UK and Australia and this underpins our confidence in the prospects for the Group. Our primary management focus now is on reinforcing the financial position of the Group and improving the operational performance of the UK business.

"It is important that we also continue to support the strong performance and growth of our Australian business, which continues to thrive. Our 1,400 people across 72 offices are handling around 40,000 clients and continuing to deliver for them. We're dealing with more than 10,000 new client enquiries every month. We continue to see opportunities for growth in Personal Injury Law and General Law in Australia both organically and from a renewed focus on operating effectiveness initiatives."

Revenue & EBITDAW by Segment

Revenue[(1)](A$m)	H1 FY16 A$m	H1 FY15 A$m	Variance %
SGL Australia	139.3	113.5	22.7
SGL UK	117.5	109.1	7.7
SGS	239.3	-	-
Group Revenue[(1)]	496.1	222.6	122.9
WIP movement	(8.6)	6.3	(235.8)
Gain from bargain purchase	-	38.8	-
Total Revenue	487.5	267.7	82.1

EBITDAW – Normalised [(2)](A$m)	H1 FY16 A$m	H1 FY15 A$m	Variance %
SGL Australia	16.4	14.2	15.4
SGL UK	(10.2)	18.4	(155.3)
SGS	(24.0)	-	-
Group	(17.8)	32.6	(154.4)

(1) *Excluding movement in WIP and prior year gain from bargain purchase.*

(2) *EBITDAW is defined as Earnings before interest, tax, depreciation, amortisation and movement in work in progress and is presented prior to goodwill impairment. Normalised for AASB3 adjustments and additional debtor/disbursement provisioning.*

SGL Australia

- SGL (Australia) is trading well with strong growth in net fees underpinned by performance in Victoria. Overall the Personal Injury Law division remains on track.

- Key practices within the General Law division are growing in line with expectations. The Family Law practice maintained its growth trajectory, particularly in Queensland and Victoria. The Business & Specialised Litigation Services practice continued to build momentum across its practice areas. Conveyancing volumes did not meet expectations for growth and performance improvement initiatives will be implemented.

- Management continues to closely monitor staff and client satisfaction levels and to date there is no evidence of any material change to either in the Australian business. Speculation about the Company’s financial performance does not appear to be causing damage to its long standing reputation as Australia’s leading consumer law firm.

- WIP was impacted by a decline in active files since 30 June 2015 with strong billings more than offsetting case openings.

- This segment includes Group costs and A$3 million of one-off costs which were incurred on the AASB15 implementation project and in responding to ASIC.

SGL UK

- Whilst SGL (UK) General Law revenue was in line with expectations, SGL (UK) Personal Injury Law revenue was materially weaker than expected.

- Factors negatively impacting the performance of SGL (UK) Personal Injury Law included lower than anticipated case resolutions and the deployment of a new practice and case management system which caused a loss of productivity in the first half.

- Notwithstanding that work will be required to stabilise and improve the performance of SGL UK Personal Injury Law, including an operational reorganisation, our objective is for it to emerge from these changes as a strong business, generating margins broadly in line with those of SGL Australia Personal Injury Law.

SGS

- Performance in SGS was significantly below pre-acquisition expectations in the first full half year following its purchase. The primary cause of this was a misalignment of case intake compared to case resolution rates and delays in achieving Noise Induced Hearing Loss settlements.

- While the SGS business is now making good progress in improving resolution performance this remains below targeted levels and accordingly the Company has reduced case intake to support improved resolution performance and to improve cash flow from operations.

Goodwill Impairment

The Company has recognised a non-cash impairment charge of A$876.4 million against the carrying value of its goodwill. The majority of this is accounted for by the A$814.2 million impairment in goodwill from the SGS acquisition. This arises from a downward revision in the expectation for future performance of SGS having regard for the poorer than anticipated financial performance since acquisition and the assessment of its prospects going forward. In addition, the proposed changes to UK laws in relation to personal injury claims lower than £5,000 and the associated uncertainty of the future earnings trajectory of the UK business have been assessed and the assumptions addressing these issues have contributed to 27% of the impairment.

There was also a A$52.7 million impairment charge in the Australian business. A$13.9 million of this related to the General Law cash generating unit and A$38.8 million arises in the Personal Injury Law cash generating unit as a result of moving to a methodology based on the performance of State based cash generating units for assessing goodwill impairment.

Accounting Changes

In August 2015, Slater and Gordon announced several accounting changes to enhance financial reporting including the early adoption of AASB 15 at 31 December 2015, the new accounting standard for revenue recognition.

The new standard requires that revenue under “no win - no fee” arrangements only be recognised when it is “highly probable that a significant reversal of revenue recognised will not occur”. Prior to 31 December 2015, Slater and Gordon has applied AASB 118 which requires that revenue only be recognised when it is “probable” that the economic benefits associated with a transaction will flow to a company.

To reflect the requirements of the new standard, the Company in consultation with accounting and actuarial advisors has refined its methodology for measuring work in progress (WIP). The new methodology is underpinned by a more data driven approach to valuing WIP, and specifically, the determination of average fees per file and probability of success.

Consistent with the previous standard, revenue continues to be recognised over time, or the life of a case, using a basis which relates to specific claim-related milestones for each client matter.

The Company has adopted the new accounting standard on a fully retrospective basis. This necessitated derivation of WIP balances under the new standard as at 1 July 2014, 31 December 2014, 30 June 2015 and 31 December 2015. WIP balances under AASB 15 are lower than the previously existing AASB 118 balances by approximately 15% to 20% throughout that date range. This outcome provides comfort that the previous methodology, which had an inherent requirement for higher levels of management judgement, provided intuitively sound outcomes given the lower probability thresholds which previously applied.

Application of AASB 15 will provide greater consistency and a more systematic approach to generating reported values of revenue and WIP.

UK Performance Improvement Programme[1]

Following the SGS acquisition, the Company initiated a review and assessment of its service offering, and as a result has established a comprehensive performance improvement programme in the UK.

As a part of this program, the Company will accelerate a reorganisation and operate through three specialised legal services' divisions across the UK. It intends to continue to offer motor, health and other services adjacent to the delivery of services by its legal services' divisions.

The Company proposes to operate centres of excellence assisting clients with:

- Fast track personal injury claims;
- Serious and specialist personal injury claims; and
- General Law services.

This approach will secure further synergies and reduce overlap in the delivery of legal services to clients in the UK.

Fast track personal injury services increasingly lend themselves to larger operations, which benefit from economies of scale. The UK business will consolidate its fast track Personal Injury Law services within a more limited number of regional centres. The Company plans to deliver its fast track personal injury services predominantly through the specialist operating platform established within SGS.

Serious and specialist personal injury and general law services benefit from specialisation and locality to markets. These services will therefore be consolidated into specialised units at selected, strategically important locations and delivered through SGL UK.

While this substantial reorganisation will not impact on the Company's service to its existing clients nor its ability to service future clients throughout the UK, it is anticipated to result in the closure of a number of current sites. The Company will undertake a consultation process with its potentially impacted employees. Reorganisation costs associated with these plans are likely to be recorded in H2 FY16 and beyond. No costs were incurred as at 31 December 2015. The Company anticipates that the proposed reorganisation will result in a reduction in the total number of UK employees over the course of the next 12 months. This is anticipated to occur through a combination of natural attrition and redundancy.

The Group expects these changes, together with an accompanying reorganisation of supporting functions, to enhance its UK operation's ability to deliver world class legal services to clients with greater efficiency, agility and profitability.

Potential UK Legislative Changes

The Company expects the consultation process foreshadowed by the Ministry of Justice to commence shortly and has made its best effort to factor potential changes into its assessment of

[1] All proposals set out in this announcement are subject to consultation with relevant UK employees

the carrying value of goodwill and the resultant impairment losses recorded at 31 December 2015, even though results are not yet certain. Slater and Gordon maintains its view that SGS will be well positioned to be a leading provider of services to people who require legal, car hire, car repair and rehabilitation services assistance as a result of road traffic accidents and legal services for other fast track claims in the UK.

FY16 Priorities

Mr Grech said: “Clearly our key priority for the 2016 financial year is reducing debt and focusing on re-establishing a sustainable capital structure to support the transformation programme. We have a clear plan which we have begun to implement which will place our UK business on a sounder footing and which is responsive to the evolving market environment. The changes we are making, whilst difficult, will help to ensure that our UK business is sustainable and thrives over the long term.

“We remain convinced that the emerging market environment in the UK will make scale at least as important as it has been in Australia in generating sustainable returns. We now have a brand recognised for legal services by nearly one in four Britons and an opportunity to lead the ongoing consolidation of the market.

“In addition, we are the clear market leader in consumer law in Australia with a strong platform for future growth. Our people are 100% committed to serving the interests of our clients and our clients are showing great loyalty to us. We are very appreciative of that support. As a Board and Management team we firmly believe that if we continue to focus on the service we provide to our clients in Australia and the UK, we will produce sustainable shareholder returns.”

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.