

Reputation & Results™



SLATER & GORDON LIMITED
ANNUAL REPORT 2006-2007

**Slater &
Gordon**
Lawyers

**Slater &
Gordon**
Lawyers

Over its 72 year history Slater & Gordon has developed a reputation for fighting for the rights of its clients and delivering results, often breaking new legal ground to do so. Today Slater & Gordon is one of the best known names in the Australian legal market with a rapidly growing presence in most states and territories and over 440 employees

Legal Help Line 1800 555 777



CONTENTS

PAGE

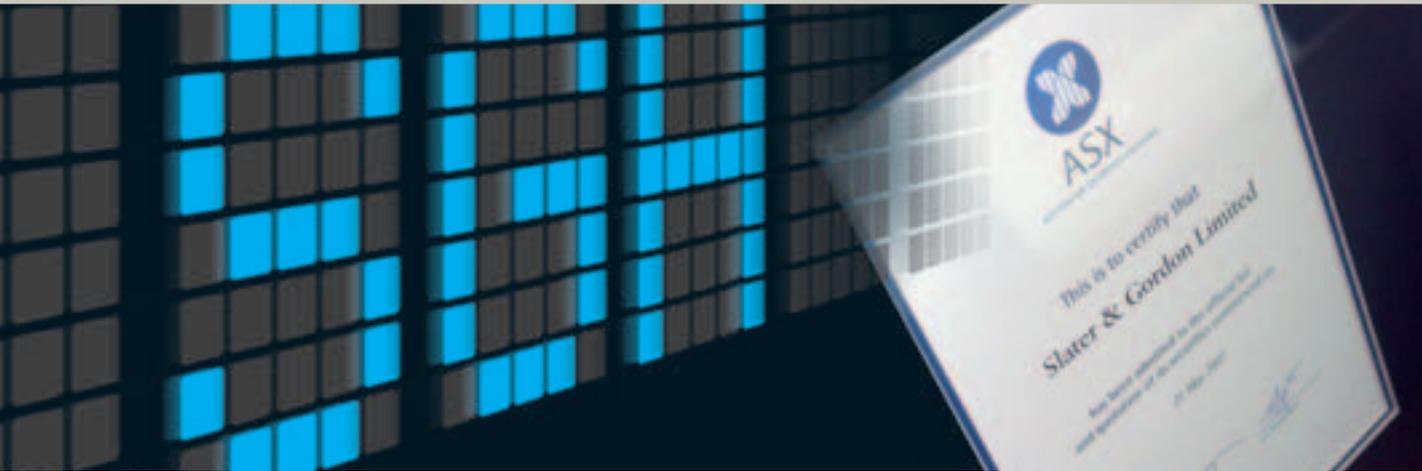
The Year in Brief	1
Chair's Report	3
Managing Director's Report	4

OVERVIEW OF SLATER & GORDON

Our Business	8
The Slater & Gordon Brand	10
Geographic Growth	12
Slater & Gordon and the Law	14
Our Merger Partners	16
Slater & Gordon and the Community	20
Corporate Governance	22
Board of Directors	31

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007	33
--	----

06 07



Financial highlights

- NPAT of \$10.65 million, up 17.7% on prospectus forecast
- NPAT up 175% year on year
- Year on year revenue up 38.8% to \$62.93 million

Business highlights

- Successful listing on 21 May – first law firm in the world
- Another year of strong organic growth
- Revenue from outside Victoria increased to 34% of total in line with jurisdiction diversification strategy
- Completed and integrated acquisitions of Gary Robb & Associates (ACT) and Paul Keady & Associates (Broken Hill)
- Post year end completed acquisitions of Brisbane firm D'Arcys Solicitors and prominent NSW and ACT firm McClellands
- Seven acquisitions since July 2005

Results summary

	2006	2007
	\$000's	\$000's
Total Income	45,337	62,933
Earnings Before Interest and Tax	6,246	16,434
Net Profit Before Tax	5,592	15,386
Net Profit After Tax	3,872	10,655
Basic EPS (cents)	6.9	16.2
Diluted EPS (cents)	5.5	12.9





Managing director Andrew Grech and Chair Anna Booth

Dear Shareholder

On behalf of the board of Slater & Gordon Limited, it is my pleasure to present the first Annual Report of our company as a publicly listed entity.

It is only a few months since Slater & Gordon made history by becoming the first law firm in the world to list on a stock exchange. That was another momentous event in the long and colourful history of Slater & Gordon. However, we have already put that well behind us to focus on delivering the growth plans we outlined in the prospectus. The float was all about providing access to capital to grow and we are moving down that track in a determined fashion.

Over the past financial year we have completed the acquisitions of Gary Robb & Associates (ACT) and Paul Keady & Associates (Broken Hill) and successfully integrated those practices into Slater & Gordon Limited. Since 30 June we have also completed the acquisitions of D'Arcys Solicitors (Brisbane) and the prominent Sydney and ACT firm, McClellands, which is our seventh acquisition in a little over two years and our largest to date. All of these firms have been excellent cultural and strategic fits for us and we will continue to seek out other firms that have the potential to add similar value to Slater & Gordon and our shareholders.

While there has been significant acquisition activity, our management team also remain focused on continuing the growth and strong financial performance of our existing business. I am pleased to report that our financial results for the 2006/2007 year comfortably exceeded the forecasts in our prospectus. The reported net profit after tax of \$10.6 million is 17.7% higher than the prospectus forecast.

Moving from a private to a public company environment brings with it increased corporate governance responsibilities. Led by my fellow independent director Ian Court and myself, our board is placing heavy emphasis on the continued development of the policy framework and the compliance regime required to discharge those responsibilities effectively. We currently consider that we meet the ASX Corporate Governance Council best practice recommendations in all material respects other than that we do not yet have a majority of independent directors.

Prior to listing we went from a board of seven executive directors to one with three executives and two independent non-executive directors. In this period of transition and given the knowledge base of the executive directors we consider that the current balance of independent and executive directors to be in the best interests of the company. It is the board's intention that over time it will evolve further into a board with a majority of independent directors.

In closing I would like to express the thanks of the board to all the Slater & Gordon staff for their dedication and their commitment to our principle reason for being – to provide the best possible legal services to every one of our thousands of clients.

Yours sincerely,



Anna Booth
Chair

Managing Director's Report

I have had the privilege of being the managing director of Slater & Gordon since 2000 but this is my first opportunity to report to shareholders of the publicly listed Slater & Gordon Limited.

In 2002, we developed the most comprehensive strategic plan our 70 year old business had seen. It was this plan that set us on the growth course we are still following and that eventually led to us listing to provide access to the capital to support that plan. We analysed every segment of our markets in every jurisdiction in detail and identified significant opportunities for our company to broaden the geographic spread of our traditional practice areas and to take the Slater & Gordon brand into other areas of law.

We have reviewed and updated the plan each year since but we have made only small changes to the original 2002 milestones. I am pleased to report that we are well on track against those milestones after a very strong performance in 2007.

FY 2007 HIGHLIGHTS

The clear highlight of the 2007 financial year was our successful public listing on 21 May 2007 but there were many others including:

- Delivering an after tax net profit of \$10.65 million, 17.7% higher than our prospectus forecast and 175% higher than the previous year;
- Delivering a 38.8% year on year revenue increase to \$62.93 million;
- Increasing revenue generated outside Victoria to 34%;
- The successful integration of the practices of Gary Robb & Associates and Paul Keady & Associates;
- Opening up a new office in Ringwood (Victoria);
- The roll out of the Employee Ownership Plan, a key element of the recognition, reward and retention strategies for our senior staff;
- Delivery of a highly successful multi-state advertising campaign;
- Completing the implementation of the Slater & Gordon National Practice Standards, the template for running a client matter to the same high standard in every one of our offices; and most importantly,
- Producing successful outcomes for thousands of clients across Australia.



A continuing priority for us in 2008 is to maintain the organic growth momentum built up over the last several years."

Andrew Grech, Managing director

ORGANIC GROWTH

Most of our existing practice areas enjoyed good growth in revenue through a combination of individual marketing initiatives, practice efficiency improvements and the accelerating impact of a large increase in advertising expenditure.

For the first time since 1994, Slater & Gordon advertised on television with campaigns in Victoria, New South Wales and Queensland. Each campaign delivered strong increases in enquiries to the company's specialist call centre.

We have also continued to build on the traditionally strong relationships we have with our trade union clients. The unions are our key institutional clients and also provide a valuable source of new client referrals.

MERGERS & ACQUISITIONS

As well as the positive financial impact, each of the acquisitions completed during the year and since year end have also added significant strategic value to the company.

- Canberra based Gary Robb & Associates has given us a much stronger base on which to build our presence in the important ACT market;
- Broken Hill's Paul Keady & Associates has further strengthened our relationships with NSW miners and their union;
- Brisbane based D'Arcys Solicitors are the market leaders in Military Compensation. Combined with our existing national Comcare practice, Slater & Gordon is now the clear market leader in the national workers compensation schemes; and
- Sydney, Parramatta and ACT based McClellands is a tremendous fit for us – they have a similar history to us, very similar values, they operate in the same areas of practice we do and we have offices in the same locations. The acquisition will be a great boost to the scale and efficiency of our operations in New South Wales in particular.

We have now completed seven acquisitions in a little over two years and I would like to take the opportunity of thanking all of the staff who have transferred to Slater & Gordon from those firms. It's not easy to move from a smaller firm into a much bigger one and everything doesn't always go exactly to plan, but every new group has approached the changes in a very positive manner and the individuals have worked hard to make the transition as smooth as possible. I would also like to thank our existing staff who went out of their way to welcome their new colleagues.



“

You know
who to call...”

Image from 2006-07 television advertising campaign

We highlighted in the prospectus that we expected the increased complexity in the law to drive consolidation of the fragmented personal injury market and that the consolidation will be led by the larger specialist firms such as ours. We will continue to identify the best of the potential merger and acquisition opportunities and initiate more extensive discussions with them.

DIVERSIFICATION

A key driver of our strategy has been and will continue to be to increase the geographic spread of our business and to expand our non personal injuries business. This diversification is about both taking up opportunities to spread the Slater & Gordon brand more widely as well as mitigating the risk of adverse legislative changes that might arise in any one jurisdiction or area of practice.

FY 2008 OUTLOOK

The stronger than forecast FY 2007 result positions the business well against the FY 2008 prospectus forecast before taking account of revenue from recent acquisitions. We estimate that the D'Arcys and McClellands acquisitions will contribute around \$5 million in additional (above prospectus forecast) revenue this financial year.

A continuing priority for us in 2008 is to maintain the organic growth momentum built up over the last several years. Each practice will continue to drive local business improvement initiatives and each state will continue to explore the potential for new offices in growth areas. To that end, we opened a new office in the Melbourne suburb of Reservoir, led by two of our most experienced lawyers, in late August 2007.

We intend to continue to invest in tailored marketing campaigns, including advertising, in most of the regions in which we operate to keep building the Slater & Gordon brand and to deliver further growth in our new client enquiry numbers.

We will continue to identify and pursue the most attractive merger and acquisition opportunities in 2008 with the aim of concluding one or more deals during the year, but our first imperative is to consolidate the integration of the recently merged practices. In particular we need to ensure that the integration of the McClellands business into Slater & Gordon is as smooth as possible and the benefits of integration are delivered as efficiently as possible.

As we spread our office network even further, we will continue to enhance the systems and procedures that enable us to deliver the same high quality Slater & Gordon service and excellent outcomes for clients in every office in which we operate.

All of this depends on our people. We have a dedicated team of the highest calibre at Slater & Gordon and our challenge is to continue to provide rewarding work, clear and well structured career paths and appropriate reward structures. The introduction of the Employee Ownership Plan has given us a tremendous vehicle to enable senior staff to build equity in the business as they progress along their career path.

Thank you to all our staff for their contribution in 2007 and for their enthusiasm for 2008 and beyond.

Yours sincerely



Andrew Grech
Managing Director



OVERVIEW OF SLATER & GORDON



Our Business

Slater & Gordon's business is operationally structured on a state and territory basis, with the state and territory practice group leaders ultimately responsible for the performance of the practices in their respective jurisdictions. Networks of national practice groups provide additional professional leadership in each specialist area of law.

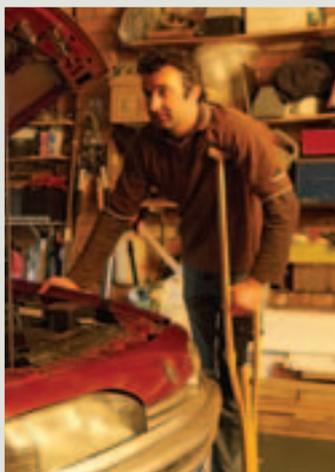
PERSONAL INJURY PRACTICES

Around 75% of revenue comes from personal injury work with most of that conducted on a No Win - No Fee™ basis where fees are paid on the successful conclusion of the client's matter. This can take anywhere from one to four years. Slater & Gordon lawyers have a very high success rate for their clients in No Win - No Fee™ matters.

The company has specialist legal teams in each of the following personal injury practice areas:

- Asbestos Litigation;
- Comcare and Military Compensation;
- Medical Negligence;
- Motor Vehicle Accident;
- Public and Product Liability;
- Workers Compensation; and
- Total and Permanent Disability Insurance Claims.

The reputation and cumulative experience Slater & Gordon has gained and the expertise of its lawyers combine to give Slater & Gordon considerable strength in each practice area, particularly in Victoria but increasingly in other states and territories as well. The national practice groups in each of the personal injury practices are led by experienced lawyers with strong national reputations in their fields.



NON-PERSONAL INJURY PRACTICE AREAS

Around 25% of the company's core business (i.e. excluding Project Litigation) comes from outside the personal injury practices. Unlike those practices, most of the work for clients in the non-personal injury practices is performed on a fee for service, typically hourly rate, basis.

Slater & Gordon has a long standing Industrial and Employment Law practice and over the last few years the company's diversification strategy has also driven growth in other non-personal injury practices, particularly in Commercial Litigation.

The company now has practices in the following areas of law:

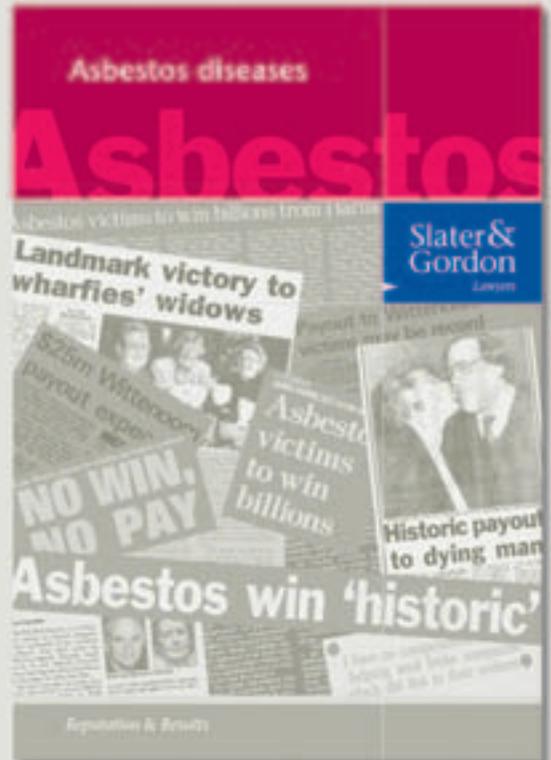
- Commercial Litigation, which covers a wide range of commercial disputes including those involved with businesses, property, franchising, financial services, insurance and shareholder actions;
- Industrial and Employment Law, conducted on behalf of the company's many union clients. Slater & Gordon acts for more than 50 union branches and offices nationally;
- Family Law; and
- Wills, Probate and Estate Litigation.

As with the personal injury practices, networks of national practice groups provide additional professional leadership in each of these specialist areas of law.

The company is also building its capability to handle advisory and transactional work, both to complement the Commercial Litigation practice through cross referrals and to offer a more complete range of legal services to existing and new clients. The areas covered by the Commercial Advisory practice include regulatory compliance and corporate governance advice, property and business transactions and estate planning.

PROJECT LITIGATION

Slater & Gordon has been involved in identifying and conducting a number of large class or group legal actions. The benefits to the company of these often groundbreaking projects are the potential for impressive returns and the boost to the company's public profile. The prospect of breaking new legal ground in Project Litigation is also instrumental in the company's ability to attract and retain high calibre staff.



“You know who to call”

The Slater & Gordon Brand

Slater & Gordon has evolved from a Victorian labour law firm to a national consumer law firm and now has one of the most recognised brands in the legal industry.

The Slater & Gordon brand is by far the greatest driver of new work for the company. Well over 30,000 enquiries from potential clients were received in 2007, with most handled by the Slater & Gordon Legal Help Line.

In 2004 the company commissioned an external brand awareness survey which confirmed the strength of the Slater & Gordon name. Total national awareness of the brand was 60%, while awareness in Melbourne alone was 83%.

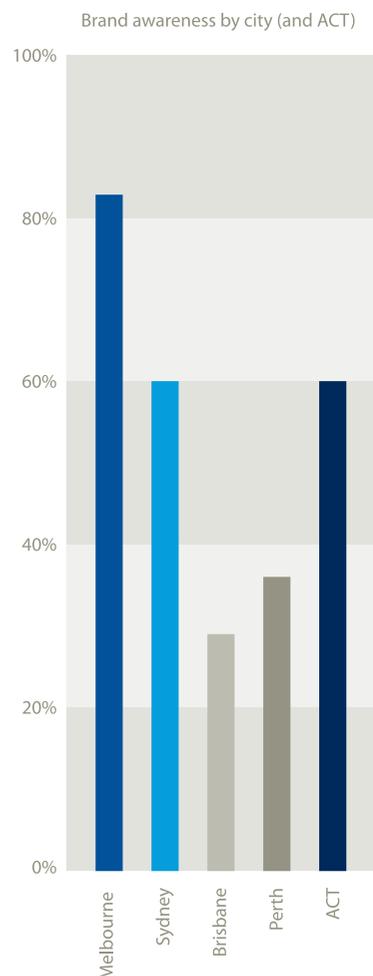
The results from outside Victoria are indicative of the impact of media coverage. There had been little or no advertising in New South Wales up to the time of the brand study and the operations of Slater & Gordon in that state were still relatively modest. However brand awareness in Sydney was still high. This can be explained by the high profile cases which Slater & Gordon was conducting on behalf of its clients being regularly featured in the New South Wales media. Analysis of new client enquiry statistics shows a peak in inquiry numbers immediately after the publication of a high profile story featuring clients of Slater & Gordon.

The 83% brand awareness in Melbourne has developed through a combination of Slater & Gordon's history, size, presence in the media and advertising. As the company builds its presence in other states and territories and supplements media coverage with selective advertising and other marketing initiatives, there is the potential to increase brand awareness throughout Australia. Brand awareness will be retested in a new survey to be conducted later in 2007.

BRAND AWARENESS BY CITY (AND ACT)

Some Australian jurisdictions have imposed restrictions on the advertising of personal injuries and workers compensation legal services with New South Wales, Queensland and Western Australia having the most heavily regulated advertising regimes. Personal injuries and workers compensation practices in New South Wales and Western Australia are essentially only able to promote their name and not the services they offer.

Slater & Gordon, which already has strong brand awareness and consumer knowledge of the services it offers, has an advantage over most competitors in states with a regulated advertising environment. Most competitors need to build awareness of what they do to grow their market position, but the regulations severely restrict personal injuries firms from doing so through advertising. However Slater & Gordon can reinforce its existing strong market awareness through brand advertising, which is permissible in all jurisdictions in Australia.

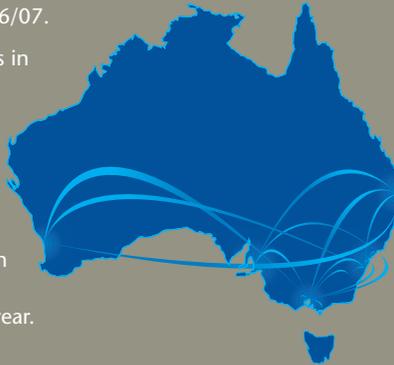


Geographic Growth

A key component of the Slater & Gordon strategy has been to continue to increase the geographic spread of the business. This geographic diversification is about both taking up opportunities to spread the Slater & Gordon brand more widely as well as mitigating the risk of any adverse legislative changes that might arise in any one jurisdiction.

As a result of the geographic diversification strategy revenue from outside Victoria has increased from 21% of net fee revenue in 2002/03 to 34% in 2006/07.

This non-Victorian market growth is in addition to and not at the expense of growth in the Victorian business. The majority of the Victorian practices continue to grow strongly. New offices were set up in the outer Melbourne suburbs of Ringwood and Frankston and one opened in the northern suburb of Reservoir in August this year.



Adelaide*

South Australia



Canberra

Australian Capital Territory



Frankston

Victoria



Geelong

Victoria



Melbourne

Victoria



Perth

Western Australia



Reservoir

Victoria



Ringwood

Victoria



Ballarat

Victoria



Brisbane

Queensland



Broken Hill

New South Wales



Carlton

Victoria



Dandenong

Victoria



Footscray

Victoria



Morwell

Victoria



Newcastle

New South Wales



Parramatta

New South Wales



Sydney

New South Wales



Werribee

Victoria



Wollongong

New South Wales



Slater & Gordon and the Law

CASES

Over its long history, Slater & Gordon has won many landmark cases on behalf of its clients and established several legal firsts. Over the past 25 years these include:

- conducting the first successful asbestos related cancer claim in Australia;
- winning the Wittenoom asbestos case;
- conducting the first group settlement in Australia for 200 Wittenoom asbestos victims;
- conducting the first successful HIV AIDS common law claim in the world;
- conducting the first successful asbestos case to verdict against James Hardie;
- pioneering the No Win - No Fee™ initiative in Australia, giving the company a competitive edge and firmly establishing Slater & Gordon as a consumer brand;
- representing 30,000 landowners affected by BHP's operations at Ok Tedi in Papua New Guinea;
- conducting the Kraft peanut butter contamination case, one of the first Federal Court class action settlements;
- winning the historic Crimmins case in the High Court, clearing the way for hundreds of waterside workers and their families to be compensated for asbestos disease;
- achieving the first mass breast implant settlement against Dow Corning worldwide; and
- representing the ACTU and asbestos victim support groups in the James Hardie Inquiry, resulting in a historic \$1.5 billion settlement.

Insurance claim win

A complex damages claim brought by prominent law firm Slater & Gordon has been settled. The long-running dispute and prolonged litigation in several jurisdictions was resolved in mediation. A confidentiality agreement prevents disclosure of the settlement details.

Ken Fowle said the outcome was a good result for his client. "In cases like these, insurance companies can employ many tactics to delay or disrupt progress, you've just got to ensure that your case is well structured."

WorkCover win for widow

Well known WorkCover law firm Slater & Gordon has won an early settlement on behalf of the widow of a man killed in a work incident. The matter was settled without the necessity of a court action, with the widow receiving almost \$250,000 in WorkCover benefits against

According to Slater & Gordon lawyer, Craig Sidebottom, the settlement is a good outcome, particularly as the widow and her child will also be entitled to ongoing weekly pension payments as well as reimbursement for her late husband's funeral expenses.

Lawyer wins large sum for TAC claimant

A woman who suffered serious injuries in a car crash on a Victorian freeway has won over \$800,000 in damages in a Melbourne court.

The woman, who was represented by Slater & Gordon lawyer Cath Evans, expressed her gratitude for the help she received in securing such a significant lump sum payment.

According to Cath Evans, senior lawyer at Slater & Gordon: "This settlement is important for my client as it will supplement the amount currently paid by TAC for funding of medical expenses and means she'll have received fair compensation for her pain and suffering and loss of income."

Slater & Gordon continues to take on complex legal cases for its clients with some of the more prominent cases in 2007 including:

- bringing a successful conclusion to a matter on behalf of the family of a Tongan man who died in tragic circumstances at the Maribyrnong detention centre in Melbourne;
- a settlement for retirees who sold their properties into the failed Money for Living scheme;
- a substantial compensation settlement for survivors of a devastating fire aboard HMAS Westralia (after eight years and three enquiries); and
- a record compensation settlement for a victim of the asbestos related disease mesothelioma.

QUALITY AND RISK MANAGEMENT

As the national network of Slater & Gordon's offices continues to spread, the company is focused on further strengthening the systems and procedures that enable it to deliver the same high quality Slater & Gordon service and excellent outcomes for clients in every office in which it operates.

The spine on which these systems and procedures are built is the Slater & Gordon National Practice Standards. Every Slater & Gordon lawyer formally confirms his or her agreement to conducting all client matters in accordance with these practice standards. All practice groups are subject to internal audit at least annually to monitor conformance with the standards.



"I am driven by the desire to achieve the best result for my client. It also gives me great satisfaction when a client says that we've made a difference for them."

Katalin Blond, Practice Group Leader, Ballarat



Ken Fowlie, Practice Group Leader, NSW, with Stuart Barnett, Practice Group Leader, Newcastle, outside the heritage building 'Court Chambers', former office of Reid & Reid.

Our Merger Partners

Over the past few years Slater & Gordon has pursued a growth strategy aimed at broadening its business base geographically and across the areas of law in which it operates. A key element of that strategy has been an aggressive merger/acquisition program which has resulted in seven smaller practices in New South Wales, Queensland and ACT merging with Slater & Gordon in a little over two years.

The mergers completed over that time have been Geoffrey Edwards & Co (Sydney and Newcastle), Maurice May Lawyers (Sydney and Wollongong), Reid & Reid (Newcastle), Gary Robb & Associates (ACT), Paul J Keady & Associates (Broken Hill), D'Arcys Solicitors (Brisbane) and McClellands (Sydney, Paramatta and ACT).

A key criterion in selecting merger partners is compatibility of people and purpose, where the cultures make a clean and natural fit. Slater & Gordon also looks for strong professional standards, management strength and depth, and above all a commitment to servicing the needs of clients.

Each of the acquisitions completed have added significant strategic value to the company and have brought with them talented individuals who add to the depth of its resources.

Some of the recent mergers partners are introduced in the following pages.

Reid & Reid

Stuart Barnett

Practice Group Leader, Newcastle

Determined, passionate and straight forward, Stuart Barnett found himself drawn to practise in personal injury and workers' compensation by the personal rewards of achieving results that would go some way to compensating ordinary people facing difficult times as a result of injury or personal loss in the wake of an accident.

At the heart of his approach was the importance of ensuring that his advice was not only right for his clients but also achievable, and that no matter how complex the issue it was always explained in a way that would be easily understood.

Representing workers, mums and dads and ordinary individuals, Stuart entered into partnership at Newcastle solicitors Reid & Reid from where the firm's client base grew steadily, largely on the basis of word of mouth, into a well-run and profitable business built around people and results.

Stuart says that when the prospect of Reid & Reid merging with Slater & Gordon was initially examined it was "the opportunity to work with like-minded people with the same vision and ethics as myself", which carried the strongest appeal. That and the ability to offer an across-the-board legal service with unlimited resources which would enable Reid & Reid to expand their reach beyond Newcastle and the Hunter Valley.

"I was well aware of the Slater & Gordon brand name, especially their work in class actions and of their strength in the Victorian market place," says Stuart.

In return, Reid & Reid brought to Slater & Gordon considerable experience in the running of a local business, a strong connection to the local community and a loyal client base.

The advantages for Reid & Reid clients, believes Stuart, are in place for the long-term – access to the individual service they have come to know and appreciate, "but, for the same price, they also get the strength of a national firm with the ability to take on any issue against any opponent".

Having overseen the successful completion of the merger, Stuart cites as a highlight "my involvement with senior members of the Slater & Gordon team who are interested in similar aspects of the law to me and who have a deep genuine concern for individuals".

For Stuart the merger enabled him "to do what I do, on a bigger stage, with more resources, with a team who are interested in similar aspects of the law to myself and who have a deep genuine concern for individuals."



D'Arcys Solicitors

Vince Green

Principal Lawyer, Brisbane

For Vince Green, the decision to practise military law was a natural extension of his completion of national service as an infantry officer and then spending in excess of twenty years in the legal corps as a legal officer. He developed a growing interest in military matters and a belief in the importance of restoring justice to injured personnel given a raw deal by the compensation system.

Tenacious, straight forward and with no time to waste on red tape and bureaucracy, Vince places particular emphasis on the importance of not only cutting to the heart of legal issues quickly, but also ensuring that, for his clients, the complex is made simple.

"I can't stress enough how important it is for clients to be able to understand the process that the lawyer is embarking on. They need to know the starting point, the end point and the steps along the way," says Vince.



Our Merger Partners

A barrister and solicitor since 1976, Vince built a national practice from his Brisbane base, representing governments and large institutions as well as many smaller parties, including for the past 14 years acting for injured ex-Australian Defence Force personnel and currently serving members.

"What matters most to me in terms of legal work is ensuring the clients are receiving the highest levels of service from the lawyers looking after their claims.

"I tend to call a spade a spade [and] will only settle in the long term on the highest standards from my lawyers and the best results for the clients."

It's an approach to practise that mirrors Slater and Gordon's own and one that made Slater & Gordon a natural choice when Vince was sizing up a suitable partner to take D'Arcys into the future.

Says Vince: "I could not rely on myself as sole principal to do justice to the clients that I had Australia-wide in the long term and [I knew] that it would be beneficial to merge with a large national entity.

"Slater and Gordon was the only national firm that suited the needs of my clients and I thought they would make a reasonably good fit."

"An additional benefit was that brand recognition and recall would be complemented by the merger."

Both firms' long-standing commitment to looking after injured parties and their expertise in military compensation consolidated the decision.

The merger has brought to clients the staff and resources of Slater & Gordon's national network of offices, backed by D'Arcys established, structured and well organised method of handling military compensation claims.

And the highlights so far are readily apparent, says Vince – "We now have the convenience of having clients referred to a particular state office for an appointment on shorter notice than I could have achieved myself from Brisbane and the ability to distribute work to competent staff."

"I have also enjoyed having access to additional staff rather than having to spend my time seeking out staff to employ and train up from scratch."

Having played a key role in the transition period, Vince is in no doubt about the benefits that will flow from his decision to merge with Slater & Gordon.

"My clients will have the knowledge that their claims will continue to be looked after by conveniently located and well-trained staff in Australia's leading military compensation law firm."

Maurice May Lawyers

Roshana May
Practice Group Leader, Sydney

For Roshana May, joining forces with Slater & Gordon has brought access to the infrastructure and resources of a national firm with lawyers in every state and enabled her NSW practice to link up with a group of like-minded practitioners who share her attitude, approach and political ideology.

At a time of legislative change to legal practice in NSW, the match has also brought certainty to the future of Roshana's practice and continuity of service for her mostly union client base.

"I had reached a critical point where to continue to practice in the personal injury field, particularly workers compensation, I needed the benefits of a larger organisation," says Roshana.

"The merger has allowed us to continue to do the work we did well, without the worry of the sustainability of the practice."



For Slater & Gordon the merger has brought the sum of expertise gathered over 40 years in private practice, the introduction of three accredited specialists in NSW, an established office in Wollongong covering the South Coast of NSW and a group of experienced solicitors with a strong work ethic, integrity and concentration on service to their clients.

The benefits into the long-term, says Roshana, are clear: "I will be able to sustain my practice of workers compensation law for the foreseeable future...and my clients have the benefit of drawing on a collective pool of knowledge that exceeds in quality, in my opinion, anything offered by any other firm in NSW."

And the highlights, so far? Says Roshana: "The opportunity to meet with and discuss practice with solicitors of Slater & Gordon from other states and being able to lead a group of ambitious, enthusiastic, like-minded lawyers, guiding them in the practice of workers compensation law."

Gary Robb & Associates

Gary Robb

Practice Group Leader, ACT

Doing his utmost to secure his clients the best possible outcome is the central tenet of Gary Robb's approach to practice and one that has held him in good stead for the past 31 years.

From early beginnings as a newly qualified solicitor in a Wodonga firm specialising in personal injury, Gary went on to build a personal injury / workers compensation practice with partner, Gerard Rees which operated in Canberra for more than 20 years.

Acting on behalf of mainly union and returning clients, Gary Robb & Associates built up a well-established practice across the areas of workers compensation, industrial accidents, compulsory third party insurance claims, as well as advice on matters including leasing, commercial and sports law.

The success of the firm was underpinned by a high level of personal service and commitment, and a loyal client base that included eight different unions. Strength of commitment still occupies Gary Robb, and almost twelve months into the merger with Slater & Gordon what matters most is that the reputation his firm built over two decades is maintained in its newly acquired identity.

The decision to merge has brought benefits to both parties that show every sign that the combined entity has what it takes to combine the best of each firm long into the future.

For Gary Robb's client base, the merger means the long-term benefits of a broader referral base for work, better resources and access to expertise in areas such as medical negligence and industrial law.

For national firm, Slater & Gordon, merging with Gary Robb & Associates has brought the sum of local know how and experience accumulated across the partners' combined total of 55 years in practice.

Says Gary: "We also thought that there was considerable benefit in becoming part of a national firm, particularly given that firms of our size of two to three partners were becoming an endangered species."

And now that the deed is done, says Gary, "the real challenge is for the merged entity to establish a profile in the Canberra community... [and] to push the idea of a national firm with local knowledge."



Pictures this page:

Cath Evans, National Practice Group Leader, Motor Vehicle Accidents, at Royal Talbot Rehabilitation Centre inspecting hoist donated by the Slater & Gordon Fund

Tim Downie (far left) with Paul Keady (far right) at the St Patrick's Day Races at Broken Hill



Slater & Gordon and the Community

The overriding principle on which Slater & Gordon was founded in the 1930s and which still drives the business and its staff today is the commitment to social justice. This is demonstrated every day in the type of work the firm takes on, the lengths to which its lawyers will go to seek just outcomes for their clients and the causes the firm and its staff support.

PUBLIC INTEREST LITIGATION AND PRO BONO WORK

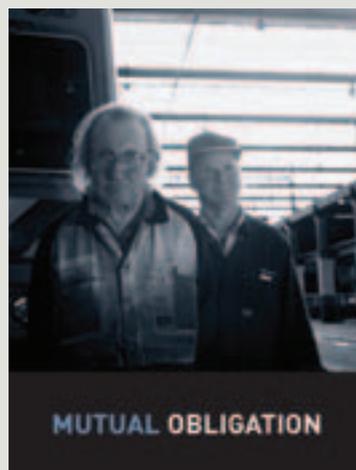
Slater & Gordon has made and continues to make a substantial commitment to public interest litigation. The Company believes this is an essential part of its commitment to the advancement of social justice issues. From time to time the Company conducts public interest cases aimed at exploring new areas of law, protecting rights and acting for disenfranchised members of the community. Such cases are typically conducted by Slater & Gordon lawyers on a pro bono basis.

Many Slater & Gordon lawyers also give of their personal time to provide professional support for community organisations, including community legal centres around the country.

NO WIN - NO FEE™

Slater & Gordon pioneered the No Win - No Fee™ initiative in Australia in 1994. By deferring legal fees until the successful settlement of the client's matter, the initiative provided access to the legal system for many Australians who would not otherwise have been able to pursue compensation for their injuries. Today, almost all of Slater & Gordon's personal injury litigation work is conducted on a No Win - No Fee™ basis.





Pictures this page:

Members of the Calwell Swans football club, (ACT) sponsored by Slater & Gordon

Poster from Grant Hobson's photographic exhibition, 'The Industry of Working', sponsored by Slater & Gordon

PHILANTHROPY

Established by Slater & Gordon principals in 2001, the Slater & Gordon Fund supports community and social welfare activities linked with the firm's values and activities. The Fund has particular focus on indigenous issues and on providing support for people who are marginalised as a result of the effects of serious injury. Some of the causes supported recently include the granting of bursaries for indigenous law students at James Cook University in Townsville and the funding of equipment for people with spinal injuries at a Melbourne rehabilitation facility.

The Slater & Gordon Fund now has a corpus of over \$630,000 following substantial personal donations by the seven vendor shareholders after the recent public listing of the company. Opportunities for all staff to make regular contributions to the fund through salary sacrifice are currently being developed.

The Asbestos Research Trust was established in 2004 by the company. Slater & Gordon has made a commitment to contribute \$500,000 to the Asbestos Research Trust over five years from the time of its establishment, \$350,000 of which has already been contributed. The Asbestos Research Trust contributes towards medical research into asbestos-related diseases and towards support services for victims of those diseases. Families and friends of asbestos victims have also made contributions to the Trust.

Both The Asbestos Research Trust and the Slater & Gordon Fund are sub-funds of the Melbourne Community Foundation.

LOCAL COMMUNITY SUPPORT

Slater & Gordon recognises the importance of supporting local communities and encourages its staff to be active participants in community programs, activities and events. The company also financially supports several local community activities.

Some of the activities undertaken recently include the sponsorship of the iconic racing event - the annual St Patrick's Day races at Broken Hill and sponsorship of local football clubs including the Calwell Swans in the ACT and the East Ringwood Football Club in the outer-eastern suburbs of Melbourne. In addition, Slater & Gordon supports the activities of the Geelong Cycling Club in Victoria.

Slater & Gordon also recognises the importance of supporting the arts and has been pleased to support the work of Victorian photographer Grant Hobson in his exhibition 'The Industry of Working' that explores the idea of upheaval as a symbol for what is occurring in the current industrial relations climate.

Staff, with some company backing, support and participate in charity fundraising events including the National Breast Cancer Foundation's "Mothers' Day Classic" annual run in Perth, the Smith Family "Around the Bay in a Day" cycling challenge and the Cerebral Palsy Education Centre's Melbourne Marathon.

Corporate Governance

The board of Slater & Gordon Limited ("the Company") recognises that a genuine commitment to sound principles of corporate governance is fundamental to the sustainability of the Company and its performance.

BOARD RESPONSIBILITY

The board has the following responsibilities:

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



"What matters most is getting the best results for my clients and improving their quality of life."

Dina Tutungi, Senior Associate, Ringwood

BOARD COMPOSITION

The size of the board is determined by the Company's constitution which specifies a minimum of three (and must include at least one Legal Practitioner Director), or such other number as the directors may determine being not less than the number of directors then holding office. The board currently consists of two non-executive directors and three executive directors who are also legal practitioners.

The nomination and remuneration committee of the board ensures that the board consists of directors with an appropriate mix of skills and experience from different backgrounds, who together provide the necessary breadth and depth of experience to meet the board's responsibilities and objectives.

BOARD INDEPENDENCE

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or reasonably be seen to interfere with, the exercise of their unfettered and independent judgment, and their ability to act in the best interests of the Company as a whole. Materiality is assessed on a case by case basis as well as by reference to certain indicative materiality thresholds.

It is the board's view that both of its non-executive directors are independent.

The board does not currently consist of a majority of independent directors. However, the board has adopted a number of measures to ensure that independent judgment is achieved and maintained in its decision-making processes, including:

- the chair is an independent director;
- the chair of each board committee is an independent director;
- directors are entitled to seek independent professional advice at the Company's expense with prior notification to the chair; and
- directors having a conflict of interest must absent themselves from discussion on a matter unless the board decides otherwise.

CHAIR OF THE BOARD

The chair of the board is an independent director. The chair is selected by the board from the non-executive directors.



"Assisting clients to come up with an overall strategy to navigate often complex and stressful commercial disputes is hugely satisfying. Successfully implementing that strategy and delivering the outcome the client wants is even more rewarding."

Ben Hardwick, Senior Associate, Commercial Litigation

BOARD COMMITTEES

The board uses the following committees to support it in matters which require more intensive review. Each committee has a written charter, approved by the board, defining its duties, reporting procedures and authority. Committees report back to the board at each board meeting. Copies of the committee charters are available on the Company's website at www.slatergordon.com.au

Nomination and Remuneration Committee

The nomination and remuneration committee has delegated responsibility from the board for:

- evaluating the performance of the board and the directors against agreed performance standards;
- recommending the appointment or removal of directors;
- recommending the structure and quantum of director remuneration;
- recommending the structure and quantum of remuneration packages for senior executives;
- reviewing and making recommendations on Slater & Gordon's recruitment, development and retention policies;
- overseeing the implementation of the Employee Ownership Plan ("EOP") and recommending employees for participation in the plan;
- reviewing and making recommendations on other forms of employee incentives; and
- making recommendations on superannuation arrangements.

The current members of the nomination and remuneration committee are Anna Booth (independent director – chair), Ian Court (independent director) and Andrew Grech (managing director).

Audit, Compliance and Risk Management Committee

The audit, compliance and risk management committee provides assistance to the board in fulfilling its corporate governance responsibilities in relation to the Company's:

- implementation of appropriate management systems to ensure directors and all lawyers employed by the company comply with the letter and spirit of the legislative provisions, regulations and rules of conduct which govern legal practice in the state or territory concerned;
- financial reporting;
- internal control structure;
- external audit functions;
- trust accounting audit requirements;
- compliance; and
- risk management.

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

The current members of the audit, compliance and risk management committee are Ian Court (independent director – chair), Anna Booth (independent director) and Ken Fowlie (executive director).

NOMINATION AND APPOINTMENT OF NEW DIRECTORS

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

REMOVAL AND ROTATION OF DIRECTORS

The Company's constitution specifies that one third of the board, excluding the managing director, must retire from office and stand for re-election at each annual general meeting. Further, each director, excluding the managing director, must stand for re-election at least every three years. Directors may be appointed by the board during the year. Directors appointed by the board are required to submit themselves for re-election at the next annual general meeting.

REVIEW OF BOARD AND KEY EXECUTIVE PERFORMANCE

The board has stated its intention to review its overall performance and the performance of individual directors annually. The next review is scheduled for December 2007. The board also intends to obtain the assistance of independent experts every three years, to assist with its review of individual directors and board performance.

Senior executives participate in the annual performance review process which applies to all Slater & Gordon employees. This process involves the establishment of performance objectives and measures on an annual basis, and review of achievement of the same. For senior staff the process also involves assessment of remuneration tied to the Company achieving its stated financial and other goals.

The performance of the managing director is reviewed annually by the nomination and remuneration committee and / or the board. The managing director is assessed on achievement of Company goals and budgets applicable to the year in review. The committee also reviews the remuneration of the managing director on an annual basis. The findings are reported to, and approved by, the board. As with senior executives, the process also involves assessment of remuneration tied to the Company achieving its financial goals. Further details are provided in the Remuneration Report.



"The clients are the best part of my work. What matters to me is getting a good result for extremely deserving clients during what's often an incredibly difficult time for them and their friends and family."

Michael Magazanik, Lawyer, Perth



It is very important that those you are working for or communicating with can see and feel that you respect and understand their needs."

Ike Nwokolo, Principal Lawyer,
Public Liability



SUCCESSION PLANNING

The board plans succession of its own members in conjunction with the nomination and remuneration committee. The board retains overall responsibility for succession planning of the managing director, via the nomination and remuneration committee. The nomination and remuneration committee and managing director are responsible for the succession planning of other senior executives.

RELATIONSHIP WITH MANAGEMENT

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

INDEPENDENT ADVICE

Directors and board committee members have the right to seek independent professional advice in connection with their duties and responsibilities, at the Company's expense. Prior notification to the chair is required. Directors also have access to any employees, Company advisers, records and information they may require to carry out their duties.

CONFLICTS OF INTEREST

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

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

AUDITOR

The Company's auditor is appointed by the board and based upon a recommendation from the audit, compliance and risk management committee. The committee monitors and reviews the activities of the Company's auditors, including scope and quality of the audit and independence of the auditor. The Company's auditor, Pitcher Partners ("PP") has committed to assist the audit, compliance and risk management committee review the quality of its work and its independence. To this end:

- PP provides an annual declaration of independence for review by the audit, compliance and risk management committee;
- PP provides an analysis of all fees received together with a description of the services provided. This enables the audit, compliance and risk management committee to ensure the independence of the audit work from other work in the Company;
- the audit, compliance and risk management committee obtains details from management annually on how management has satisfied itself that significant assignments have been undertaken by the best provider; and
- the audit, compliance and risk management committee regularly reports to the board on these matters.

In addition, PP has agreed to rotate the audit signing partner after no more than five years.

PP was appointed auditor in October 2005. The external auditor attends and will be available to answer questions relevant to the conduct of the audit and preparation of the audit report and received in writing by the Company five days prior to the annual general meeting, at the annual general meeting.

SHARE TRADING POLICIES

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

- prohibit directors from trading at any time in the Company's securities without first notifying the chair and company secretary;
- prohibit directors and nominated employees from trading in the Company's securities other than in the approved trading windows which are:
 - within the 6 week periods commencing 24 hours after the company has released its half year and full year results; and
 - within the period commencing 24 hours after the company lodges its annual report with this ASX through to one month after the Company's AGM.

ETHICAL STANDARDS AND SOCIAL RESPONSIBILITY

Both directors and employees are expected to adhere to the Company's Code of Conduct. This sets out detailed standards of ethical behaviour. The board has also endorsed the Company's policies covering equal employment opportunity, discrimination, harassment, confidentiality and safety. These policies are aimed at ensuring the maintenance of high standards of honesty, integrity and fair dealing.

WHISTLEBLOWING

Under the Company's whistleblower policy employees are actively encouraged to bring any problems to the attention of management or human resources. This includes activities or behaviour that may not be in accordance with the Company's Code of Conduct, financial reporting policies, insider trading policy, other Company policies, or other regulatory requirements of laws.

BOARD EDUCATION

The board is committed to ensuring new directors are adequately educated on the Company's operations. New directors are provided with an orientation and education program.

Directors are expected to continuously update and develop their knowledge and skills in relation to the industry context, financial management and corporate governance and may undertake continuing education courses at the Company's expense, with the prior approval of the chair.

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

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

	ASX Principle	Compliance / Comment
Principle 1	Lay solid foundations for management and oversight	
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	Complies
Principle 2	Structure to the board to add value	
2.1	A majority of the board should be independent directors.	Does not comply ⁽¹⁾
2.2	The chairperson should be an independent director.	Complies
2.3	The roles of chairperson and managing director should not be exercised by the same individual.	Complies
2.4	The board should establish a nomination committee.	Complies
2.5	Provide the information indicated in Guide to reporting on Principle 2.	Complies
Principle 3	Promote ethical and responsible decision-making	
3.1	Establish a code of conduct to guide the directors, the managing director (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: <ul style="list-style-type: none"> the practices necessary to maintain confidence in the Company's integrity. the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Complies
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees.	Complies
3.3	Provide the information indicated in Guide to reporting on Principle 3.	Complies
Principle 4	Safeguard integrity in financial reporting	
4.1	Require the managing director (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the Company's financial reports present a true a fair view, in all material respects, of the Company's financial condition and operation results and are in accordance with relevant accounting standards.	Complies
4.2	The board should establish an audit committee.	Complies
4.3	Structure the audit committee so that it consists of: <ul style="list-style-type: none"> only non-executive directors a majority of independent directors an independent chairperson, who is not chairperson of the board at least three members 	Partially complies ⁽²⁾

	ASX Principle	Compliance / Comment
4.4	The audit committee should have a formal charter.	Complies
4.5	Provide the information indicated in Guide to reporting on Principle 4.	Complies
Principle 5	Make timely and balanced disclosure	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Complies
5.2	Provide the information indicated in Guide to reporting on Principle 5.	Complies
Principle 6	Respect the rights of shareholders	
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Complies
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	Complies
Principle 7	Recognise and manage risk	
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	Complies
7.2	The managing director (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that: <ul style="list-style-type: none"> the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. 	Complies
7.3	Provide the information indicated in Guide to reporting on Principle 7.	Complies
Principle 8	Encourage enhanced performance	
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	Complies
Principle 9	Remunerate fairly and responsibly	
9.1	Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	Complies
9.2	The board should establish a remuneration committee.	Complies

	ASX Principle	Compliance / Comment
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Complies
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans, approved by shareholders.	Complies ⁽³⁾
9.5	Provide the information indicated in Guide to reporting on Principle 9.	Complies
Principle 10	Recognise the legitimate interests of stakeholders	
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations.	Complies

Note 1

The board currently consists of two independent directors and three executive directors, with one of the independent directors being the chair. Prior to listing the Company went from a board of seven executive directors to one with two independent and three executive directors. This is a period of transition and given the knowledge base of the executive directors, the current balance of independent and executive directors is considered to be in the best interests of the Company. It is the board's intention to evolve over time into a board with a majority of independent directors.

Note 2

As per note 1, with only two independent directors, it is not possible for the Audit, Compliance and Risk Management Committee to consist of three independent directors, but the committee is chaired by an independent director who is not the chair of the Company and it has a majority of independent members.

Note 3

Equity granted through the Employee Ownership Plan prior to listing has been disclosed in the Company's prospectus. Any subsequent grants will be submitted to shareholders for approval at the AGM.



"I have always relished the fact that my work has enabled me to help injured people. Acting for asbestos disease victims is a privilege."

Suzanne Sandford, Principal Lawyer, Asbestos Litigation



BOARD OF DIRECTORS

Board Members



ANNA BOOTH – CHAIR

In 1987 Anna became the first woman National Secretary of the Clothing and Allied Trades Union of Australia. She has been a vice president of the Australian Council of Trade Unions and a member of the boards of the Commonwealth Bank of Australia and the NRMA. She was also a member of the Sydney Organising Committee for the Olympic Games (SOCOG). Anna is a non-executive director of Members Equity Bank and an executive director of CoSolve where she also consults in workplace relations. She is a fellow of the Macquarie University Labour-Management Studies Foundation and chairs the Mothers Day Classic Sydney Organising Committee which stages an annual event to raise funds for the National Breast Cancer Foundation.



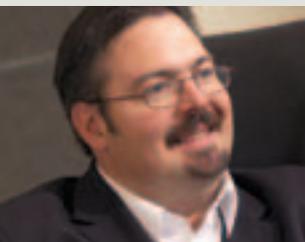
PETER GORDON – EXECUTIVE DIRECTOR AND DEPUTY CHAIR

Internationally renowned for his work on numerous landmark cases, Peter conducted the first successful asbestos related cancer claim in Australia in 1984 and is currently the National Practice Group Leader in Asbestos Litigation and in Project Litigation. Peter continues to litigate asbestos claims and work at the cutting edge of mass tort and consumer class action litigation. In 2004 Peter represented the ACTU and asbestos support groups in the James Hardie Inquiry, which has resulted in the establishment of a compensation fund for future asbestos victims. Peter is currently working on the Vioxx class action.



ANDREW GRECH – MANAGING DIRECTOR

Andrew joined Slater & Gordon in 1994 and has worked as a litigator in most areas of the Company's litigation practice. Andrew also spent three years in the then fledgling Sydney office. Since he became managing director in 2000, the Company has enjoyed substantial growth and has opened or acquired new offices in Brisbane, Canberra, Parramatta, Newcastle, Wollongong, Broken Hill, Geelong and Ballarat. In the same period Andrew also opened an office in Adelaide which he operates under the Slater & Gordon name through a Service Agreement with the Company. Andrew has been the architect of the next phase of growth for the Company and has successfully managed the acquisition and integration of seven smaller firms over the past few years.



KEN FOWLIE – EXECUTIVE DIRECTOR

Ken has taken a lead role in establishing Slater & Gordon's presence in New South Wales. One of two original Slater & Gordon employees in that State, Ken now leads a team of more than 80 people, the majority of whom have joined the Company through the acquisition of smaller firms. Ken remains a highly regarded asbestos lawyer. Over his ten year career with Slater & Gordon, Ken has also led several high profile class actions with Peter Gordon. He is currently working on the Telstra class action. Since 2004 Ken has acted for the ACTU and asbestos support groups in negotiations with James Hardie and the New South Wales Government which resulted in the establishment of a compensation fund for future asbestos victims.



IAN COURT – NON-EXECUTIVE DIRECTOR

Ian has over 30 years experience in senior executive positions and as a non-executive director of private and public companies. Ian has worked in superannuation administration and investment, infrastructure and private equity funds management, financial services, industrial relations/human resources, industry development and public policy at the national and state levels. His experience covers a wide range of industry sectors.

Ian is currently a non-executive director of Pacific Hydro Pty Ltd, Victorian Funds Management Corporation, Bennelong Funds Management Pty Ltd, Epic Energy Group and ACTU Member Connect Pty Ltd. He was a former chief executive of Development Fund Management Ltd and a former executive chairman of the trustee of Cbus. Earlier in his career, Ian was a senior ACTU industrial officer.



SLATER & GORDON LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS	PAGE
Directors' Report	35
Auditor's Independence Declaration	45
Financial Report for the Year Ended 30 June 2007	
Income Statement	46
Balance Sheet	47
Statement of Changes in Equity	48
Statement of Cash Flows	49
Notes to the Financial Statements	50
Directors' Declaration	78
Independent Auditor's Report	79

DIRECTORS' REPORT

The Directors present their report together with the financial report of Slater & Gordon Limited ("the Company"), for the financial year ended 30 June 2007 and auditors' report thereon. This financial report has been prepared in accordance with Australian equivalents of International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures compliance with International Financial Reporting Standards ("IFRS").

Directors

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

Anna Booth⁽¹⁾ – Chair

Peter Gordon – Deputy Chair

Andrew Grech – Managing Director

Ian Court⁽¹⁾

Ken Fowle

Paul Henderson⁽²⁾

Hayden Stephens⁽²⁾

Cath Evans⁽²⁾

Marcus Clayton⁽²⁾

⁽¹⁾ Appointed as a Director with effect from 22 March 2007.

⁽²⁾ Resigned as a Director with effect from 22 March 2007.

Details of the qualifications, experience and special responsibilities of each Director are set out in a subsequent section of this report.

Principal Activities

The principal activity of the Company during the financial year was the operation of legal practices throughout Victoria, New South Wales, Western Australia and the Australian Capital Territory ("ACT").

A significant change in the nature of the principal activity of the Company during the year was as a result of changes in the ACT legislation which allow Incorporated Legal Practices ("ILP's") to operate in the ACT with effect from 1 July 2006. The business operations, assets and liabilities of the Slater & Gordon ACT practice were acquired by the Company with effect from 6 July 2006.

Results

The profit after income tax of the Company was \$10,655,000 (2006: \$3,872,000).

Review of Operations

A review of the operations of the Company during the financial year, its financial position and business strategies and prospects for the future financial years is set out below.

Significant Changes in the State of Affairs

Significant changes in the Company's state of affairs during the year ending 30 June 2007 were as follows:

- As a result of changes allowing for the incorporation of legal practices in the ACT, with effect from 6 July 2006, the business operations, assets and liabilities of the Slater & Gordon Partnership operating in the ACT were acquired by the Company.
- The practice of Gary Robb & Associates in Canberra was acquired with effect from 29 September 2006, involving an initial payment of \$1,062,500 by way of cash and shares (including the issue of 809,000 Ordinary Shares) and deferred consideration of \$1,537,500, subject to the achievement of nominated performance targets.
- The practice of Paul J Keady & Associates in Broken Hill was acquired with effect from 6 November 2006, involving an initial payment of \$50,000 and deferred consideration of \$200,000, subject to the achievement of nominated performance targets.
- A capital restructure was conducted during November 2006 which involved the following:
 - A declaration of a dividend of \$910,000;
 - A share split of the Capital Shares at the rate of 10,000,000 for every 1 Capital Share;
 - The simplification of the number of classes of shares on issue from four (being Capital Shares, Income Shares, Partnership Shares and Foundation Shares) to two classes (being Ordinary Shares and Foundation Shares); and

— A share buyback of 17,807,350 Ordinary Shares for the sum of \$2,590,000.

- On 22 December 2006, 15,175,000 Vesting Convertible Redeemable ("VCR") Ordinary Shares were issued to employees of the Company under the Employee Ownership Plan ("EOP"). Please refer to Note 23 in the Financial Statements for the terms of the VCR Shares.
- On 22 March 2007, 3,483,334 vested VCR Shares were converted to 3,483,334 Ordinary Shares and are subject to the terms of VCR Shares set out at Note 23.
- On 27 March 2007 the Company converted from being a proprietary company to a public company.
- On 27 March 2007 a share split of 15 Ordinary Shares for every 14 Ordinary Shares and 15 VCR Shares for every 14 VCR Shares was completed.
- On 13 April 2007 the Company issued a replacement Prospectus ("the Prospectus") which was an offer for a new issue of 17,700,002 \$1.00 Ordinary Shares and a \$17,299,998 sell down of 17,299,998 \$1.00 Ordinary Shares by Peter Gordon, Andrew Grech, Paul Henderson, Ken Fowlie, Marcus Clayton, Cath Evans and Hayden Stephens (defined as Vendor Shareholders in the Prospectus). As part of the sell down all of the 13,999,998 Foundation Shares converted to 13,999,998 Ordinary Shares on 29 March 2007.
- The Prospectus was fully subscribed and the Company was listed on the Australian Stock Exchange on 21 May 2007.

After Balance Date Events

Particulars of matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years are as follows:

- As a result of the changes in Queensland legislation to allow ILP's to operate in Queensland with effect from 1 July 2007, the Brisbane practice was transferred from Andrew Grech trading as Slater & Gordon Lawyers to the Company for the value of the practice's net assets which was fully offset by amounts owed to the Company from the service and licence agreement.
- An agreement effective 1 July 2007 was executed for the acquisition of D'Arcy's Solicitors, a Brisbane based firm specialising in Military Compensation, subject to the formal adoption of amendments to the law governing legal practices in Queensland. The consideration for the acquisition of the D'Arcy's practice totalled \$2.8 million involving an initial payment of \$1.5 million and the issue of \$475,000 in Company Ordinary Shares at the volume weighted average price at which shares traded during the period from 21 to 25 May 2007. The issue of the Ordinary Shares will be subject to shareholder approval at the Annual General Meeting, if that approval is not obtained, the share component of the deal will be paid in cash. The balance of \$800,000 is deferred consideration, the payment of which is subject to the achievement of nominated performance targets.
- An agreement effective 31 August 2007 was executed for the acquisition of McClelland's, a Sydney based firm specialising predominately in Personal Injury law. The consideration for the acquisition of the McClelland's practice is a combination of cash and the issue of \$2.0 million in Ordinary Shares in the Company. The price per share is to be determined at the volume weighted average price at which the shares traded at during the five business days prior to completion. The issue of the shares will be subject to shareholder approval at the Annual General Meeting. If that approval is not obtained, the share component of the deal will be paid in cash. The balance of the consideration is to be finalised at completion and will be paid on deferred terms progressively over two years.

Likely Developments

The Company will continue to pursue its operating strategy as outlined in the Prospectus to create shareholder value. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Company.

Environmental Regulation

The Company's operations are not subject to any significant environmental, Commonwealth or State, regulations or laws.

Dividend Paid, Recommended and Declared

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

- Declaration and payment of a fully franked dividend of \$910,000 as part of the capital restructure undertaken in November 2006 as detailed above.
- Declaration and payment of a fully franked dividend of 2 cents per share to ordinary shareholders and holders of vested VCR Shares eligible for dividend payments at 27 March 2007. This represented a total dividend payment of \$1,186,320 which was paid on 31 May 2007.
- A final dividend was declared on 23 August 2007 to pay a fully franked dividend of 2.0 cents per share to ordinary shareholders with a record date of 4 September 2007. This dividend is to be paid on 12 October 2007. This dividend was not provided for in the accounts as at 30 June 2007.

Share Options

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

Indemnification and Insurance of Directors, Officers and Auditors

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

A premium of \$39,983 (2006: \$7,935) for a twelve month period was incurred in respect of Directors, Officers and the Company Secretary of the Company against a liability brought upon such an officer.

Further disclosure required under section 200(9) of the Corporations Act 2001 is prohibited under the terms of the contract.

Information on Directors and Company Secretary

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

Anna Booth
B Ec Hons
FAICD
Non-executive Chair

Anna joined the board as the Non-Executive Chair on 22 March 2007. In 1987 Anna became the first woman National Secretary of the Clothing and Allied Trades Union of Australia. She has been a vice president of the Australian Council of Trade Unions ("ACTU") and a member of the boards of the Commonwealth Bank of Australia and NRMA. She was also a member of the Sydney Organising Committee for the Olympic Games (SOCOG). Anna is a non-executive director of Members Equity Bank and an executive director of Cosolve where she also consults in workplace relations. She is a fellow of the Macquarie University Labour-Management Studies Foundation and chairs the Mothers Day Classic Sydney Organising Committee which stages an annual event to raise funds for the National Breast Cancer Foundation. Anna is the Chair of the Board and also serves on the Audit, Compliance and Risk Management Committee and the Nomination and Remuneration Committee.

Peter Gordon
LLB (Hons)
Executive Director and Deputy
Chair

Peter is internationally renowned for his work on numerous landmark cases, Peter conducted the first successful asbestos related cancer claim in Australia in 1984 and is the National Practice Group Leader in Asbestos Litigation and in Project Litigation. Peter continues to litigate asbestos claims and work at the cutting edge of mass tort and consumer class action litigation. In 2004 Peter represented the ACTU and asbestos support groups in the James Hardie Inquiry, which has resulted in the establishment of a compensation fund for future asbestos victims. Peter is currently working on the Vioxx class action.

Andrew Grech
LLB MAICD
Managing Director

Andrew joined Slater & Gordon in 1994 and has worked as a litigator in most areas of the Company's litigation practice. Andrew also spent three years in the then fledgling Sydney office. Since he became Managing Director in 2000, the Company has enjoyed substantial growth and has opened or acquired new offices in Canberra, Parramatta, Newcastle, Wollongong, Broken Hill, Geelong and Ballarat. In the same period Andrew also opened offices in Adelaide and Brisbane which he operates under the Slater & Gordon name through Service and License Agreements with the Company. Andrew has been the architect of the next phase of growth for the Company and has successfully managed the acquisition and integration of five smaller firms over the past two years. Andrew is a member of the Nomination and Remuneration Committee.

Ken Fowlie
LLB BCom
Executive Director

Ken has taken a lead role in establishing Slater & Gordon's presence in New South Wales. One of two original Slater & Gordon employees in that State, Ken now leads a team of 80, the majority of whom have joined the Company through the acquisition of smaller firms. Ken remains a highly regarded asbestos lawyer including acting for the ACTU and asbestos support groups in negotiations with James Hardie. Ken is a member of the Audit, Compliance and Risk Management Committee.

Ian Court
FAICD
Non-executive Director

Ian joined the Board as a Non-Executive Director on 22 March 2007. Ian has over 30 years experience in senior executive positions and as a Non-Executive Director of private and public companies. Ian has worked in superannuation administration and investment, infrastructure and private equity funds management, financial services, industrial relations/human resources, industry development and public policy at the national and state levels. His experience covers a wide range of industry sectors.

Ian is currently a Non-Executive Director of Pacific Hydro Pty Ltd, Victorian Funds Management Corporation, Benclong Funds Management Pty Ltd, Epic Energy Group and ACTU Member Connect Pty Ltd. He was a former Chief Executive of Development Australia Fund Management Ltd and a former Executive Chairman of the trustee of Chus. Ian is the Chair of the Audit, Compliance and Risk Management Committee and is a member of the Nomination and Remuneration Committee.

Paul Henderson
LLB
Executive Director

Paul has led or worked in most of the Company's personal injury practices with considerable success. Paul is regarded as an authority in the field of catastrophic injury claims and currently practises in the Medical Negligence and Workers Compensation practices. In addition, Paul has extensive experience in the design and implementation of precedent and workflow systems within the Company. Paul resigned as an Executive Director with effect from 22 March 2007.

Marcus Clayton
LLB BA
Executive Director

Marcus is the National Practice Group Leader for the Industrial and Employment Law practice. Highly regarded in the union movement, he leads the Company's national Industrial and Employment Law practice, with overall responsibility for dealings with the many unions for which the Company acts. Marcus resigned as an Executive Director with effect from 22 March 2007.

Cath Evans
LLB BA
Executive Director

Cath is the National Practice Group Leader for the Motor Vehicle Accident practice. Cath oversaw rapid growth in the Melbourne Motor Vehicle Accident practice, and now leads that practice nationally. Cath resigned as an Executive Director with effect from 22 March 2007.

Hayden Stephens
LLB BA
Executive Director

Hayden is the National Practice Group Leader for the Workers Compensation practice. In his previous role Hayden was instrumental in the rapid growth of the Perth practice. Hayden has now returned to Melbourne to take national responsibility for the growth of the Workers Compensation practice. Hayden resigned as an Executive Director with effect from 22 March 2007.

Wayne Brown
BCom(Hons), M Int Bus (Melb),
CA
Company Secretary

Prior to joining the Company in 2004, Wayne was the Financial Controller of the ASX listed Grand Hotel Group. Prior to that Wayne spent ten years with Arthur Andersen where he specialised in corporate recovery and restructuring. Wayne is Chief Financial Officer and Company Secretary of the Company.

Directors' Meetings

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

	Board of Directors		Audit, Committee & Risk Management		Nomination & Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
A Booth	4	4	1	1	1	1
P Gordon	13	12	-	-	-	-
A Grech	13	12	-	-	1	1
I Court	4	4	1	1	1	1
K Fowle	13	10	1	1	-	-
P Henderson	9	9	-	-	-	-
H Stephens	9	9	-	-	-	-
C Evans	9	9	-	-	-	-
M Clayton	9	9	-	-	-	-

Directors' Interests in Shares

Directors' beneficial interests in shares of the Company are detailed below.

	Ordinary Shares of the Company
A Booth	50,000
P Gordon	60,252,848
A Grech	60,252,848
I Court	15,000
K Fowle	60,252,848

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 26 to the financial statements.

Auditor's Independence Declaration

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

Non-Audit Services

Non-audit services are approved by resolution of the Audit, Compliance and Risk Management Committee and approval is provided in writing to the Board Of Directors. Non-audit services provided by PwC Partners, the auditors of the Company, during the year are detailed below. The Directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

	2007 \$	2006 \$
Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to the Company for: The preparation of the Independent Accountants Report contained in the Prospectus prepared by PwC Partners Corporate Pty Ltd.	81,530	-

Remuneration Report

The Remuneration Report outlines the Director and executive remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 *Related Party Disclosures*, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes of this report, Key Management Personnel ("KMP") of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company, and includes the key executives of the Company.

For the purposes of this report, the terms 'executive' encompasses the Chief Operating Officer, Chief Financial Officer, senior executives and senior employees of the Company.

Nomination and Remuneration Committee

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

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

Remuneration Philosophy

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

To this end, the Company embodies the following principles in its remuneration framework:

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

Remuneration Structure

In accordance with good corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

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

Structure

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

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

The remuneration of Non-Executive Directors is set for the position of Chair of the Board at \$110,000 and for a Director at \$55,000. An additional fee of \$12,500 is paid for any Director who acts as a Chair of a Board sub-committee. The payment of the additional fees for being the Chair of a Board sub-committee is to reflect the additional time commitment required by the director. Non-Executive Directors receive no other form of remuneration however reasonable expenses incurred in the course of their role are reimbursed.

Executive Remuneration

Objective

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

- Reward executives for Company, Practice Group and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Structure

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

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

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

Executive remuneration is made up of the following components:

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

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee. The process consists of a review of Company, Practice Group and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

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

Variable Remuneration – Short Term Incentive ("STI")

Objective

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

Structure

Cash bonuses to executives/senior employees are paid under predetermined bonus arrangements and are subject to a range of performance criteria. The bonus arrangement varies between executives depending upon their position and responsibilities. The criteria are predominantly weighted on the financial performance of practices and/or the Company. Discretionary components are assessed or approved by the Company's Nominations and Remuneration Committee.

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

Variable Remuneration – Long Term Incentive (“LTI”)

Objective

As detailed in the Prospectus during the financial year ending 30 June 2007 the firm introduced the EOP to provide an opportunity for senior employees to build a shareholding in the Company over time. The EOP serves as an incentive and reward for longer term performance and a retention strategy for key employees.

Structure

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

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

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

The EOP provides for a limited recourse loan from the Company to the employee to facilitate the employee's subscription for VCR Shares. The offer made by the Board must specify the date by which the loan must be repaid. This date may not be later than 5 years after vesting. Refer to Note 23.

The vesting conditions for VCR Shares are based on the KPI's set and approved by the Board for the relevant senior employee in respect of their area(s) of responsibility. The KPI's will include financial and non-financial KPI's.

The EOP provides for senior managers to be offered from one to several allocations of VCR Shares over their career with Slater & Gordon. Individuals can therefore build a substantial stake in the company over time.

If the participant ceases employment with Slater & Gordon their vested and unvested VCR Shares can be forfeited or bought back by the Company and set off against any outstanding loan.

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

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

Employment Contracts

Managing Director

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

- Mr Grech receives fixed remuneration of \$375,000 per annum (inclusive of superannuation).
- Mr Grech may resign from his position and thus terminate this contract by giving 3 months written notice.
- The Company may terminate this employment agreement by providing 3 months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Grech's remuneration).
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

- The employment agreement contains a restraint of trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company 24 months).
- In addition, as detailed in the Prospectus Mr Grech is a Vendor Shareholder and is subject to a Shareholders Agreement which has been entered into by all seven Vendor Shareholders. This agreement places restrictions on the ability of Mr Grech and all other Vendor Shareholders to dispose of their shareholding which includes the following provision:
 - If a Vendor Shareholder cease(s) to be employed by the Company, they may be required to transfer some or all of their shares to, or at the direction of, the other Vendor Shareholders for nominal consideration. The ramifications of a departure from employment are linked to the circumstances surrounding that departure, as determined pursuant to the terms of the agreement by simple majority decision of the other Vendor Shareholders.

The Company is not a party to the Shareholders Agreement and cannot enforce the Shareholders Agreement. Only the Vendor Shareholders may enforce compliance with these restrictions. Those rights are vested in the Vendor Shareholders jointly and severally.

Other Executives (standard contracts)

- All executives have rolling contracts.
- The Company may terminate the executive's employment agreement by providing 1 to 3 months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration).
- Any executive who is an Employee Ownership Plan Participant is subject to consequences which flow from the cessation of their employment as discussed above in the LTI.
- Any executive who is a Vendor Shareholder is subject to the consequences which flow from the cessation of their employment as a term of the Shareholders Agreement which has been entered into by the seven Vendor Shareholders as discussed above.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- The employment agreement contains a restraint of the trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company 24 months).

The names and positions of each person who held the position of director at any time during the financial year is provided above.

Further details regarding components of Directors' and executive remuneration are detailed below.

Directors' Remuneration:

2007	Short term			Post employment		Equity	Other benefits	TOTAL
	Salary fees	Cash Bonus	Non-monetary	Super	Retirement benefits	VCR Shares		
A Booth ⁽¹⁾	28,775	-	-	2,590	-	-	-	31,365
P Gordon ⁽²⁾	354,746	-	7,568	12,686	-	-	-	375,000
A Grech ⁽³⁾	346,617	-	15,697	12,686	-	-	-	375,000
I Court ⁽¹⁾	16,672	-	-	1,501	-	-	-	18,173
K Fowle ⁽¹⁾	303,760	-	8,554	12,686	-	-	-	325,000
P Henderson ⁽²⁾⁽³⁾	305,167	-	7,147	12,686	-	-	-	325,000
H Stephens ⁽²⁾⁽³⁾	300,651	-	11,663	12,686	-	-	-	325,000
C Evans ⁽²⁾⁽³⁾	297,907	122,540	14,407	12,686	-	-	-	447,540
M Clayton ⁽²⁾⁽³⁾	212,735	-	-	12,686	-	-	-	225,421
2006								
P Gordon ⁽²⁾	352,553	-	10,308	12,139	-	-	-	375,000
A Grech ⁽³⁾	323,068	-	39,793	12,139	-	-	-	375,000
K Fowle ⁽¹⁾	307,509	-	5,352	12,139	-	-	-	325,000
P Henderson ⁽³⁾	305,458	-	7,403	12,139	-	-	-	325,000
H Stephens ⁽³⁾	305,743	-	7,118	12,139	-	-	-	325,000
C Evans ⁽³⁾	305,743	-	7,118	12,139	-	-	-	325,000
M Clayton ⁽³⁾	212,955	-	-	12,139	-	-	-	225,094

⁽¹⁾ Appointed as a Director with effect from 22 March 2007.

⁽²⁾ Resigned as a Director with effect from 22 March 2007.

⁽³⁾ These are also executives and would be included for the purposes of the Executives' Remuneration.

Executives' Remuneration:

2007	Short term			Post employment		Equity	Other benefits	TOTAL
	Salary fees	Cash Bonus	Non-monetary	Super	Retirement benefits	VCR Shares		
M Feehan ⁽⁴⁾	179,650	50,000	-	10,979	-	-	-	240,629
W Brown	135,092	60,000	18,360	12,686	-	8,468	5,237 ⁽⁵⁾	239,843
2006								
W Brown	127,235	-	25,233	12,139	-	-	-	164,607

⁽⁴⁾ Appointed as Chief Operating Officer on 28 August 2006.

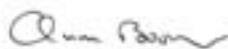
⁽⁵⁾ Notional benefit on interest-free VCR Share loan calculated at a commercial interest rate.

There are no other non-director executives

Rounding of Amounts

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

Signed in accordance with a resolution of the Directors.



Anna Booth
Chair
Melbourne
21 September 2007



Andrew Grech
Managing Director



AUDITOR'S INDEPENDENCE DECLARATION
To the Directors of Slater & Gordon Limited

In relation to the independent audit for the year ended 30 June 2007, to the best of my knowledge and belief there have been:

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

A handwritten signature in black ink that reads 'Peter Jose'.

P A JOSE
21 September 2007

A handwritten signature in black ink that reads 'Pitcher Partners'.

PITCHER PARTNERS
Melbourne

SLATER & GORDON LIMITED
ABN 93 097 297 400

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
Revenue	3	62,933	45,337
Bad and doubtful debts	4	(1,279)	(1,838)
Salaries and employee benefits expense		(30,905)	(24,536)
Depreciation and amortisation expenses	4	(208)	(136)
Work in progress settlement payments		-	(1,150)
Rent expense		(2,846)	(2,140)
Advertising and marketing expense		(2,524)	(1,051)
Consultant fees		(343)	(1,092)
Administration and office expenses		(5,383)	(4,459)
Finance costs	4	(1,515)	(1,421)
Other expenses		(2,544)	(1,922)
Profit before income tax expense		<u>15,386</u>	<u>5,592</u>
Income tax expense	5	(4,731)	(1,720)
Profit after tax		<u>10,655</u>	<u>3,872</u>
Basic earnings per share (cents)	21	16.2 cents	6.9 cents
Diluted earnings per share (cents)	21	12.9 cents	5.5 cents

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

BALANCE SHEET
AS AT 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
CURRENT ASSETS			
Cash and cash equivalents	7	5,190	1,394
Receivables	8	35,496	31,757
Work in progress	9	64,564	58,070
Other current assets	10	2,387	855
TOTAL CURRENT ASSETS		<u>107,637</u>	<u>92,076</u>
NON-CURRENT ASSETS			
Plant and equipment	11	1,130	544
Work in progress	9	3,138	2,429
Intangible assets	12	3,460	3,049
Other non-current assets	13	7,373	-
TOTAL NON-CURRENT ASSETS		<u>15,101</u>	<u>6,022</u>
TOTAL ASSETS		<u>122,738</u>	<u>98,098</u>
CURRENT LIABILITIES			
Payables	14	16,459	16,687
Short term borrowings	15	1,447	9,367
Current tax liabilities	5	1,199	(779)
Provisions	16	4,596	4,043
TOTAL CURRENT LIABILITIES		<u>23,701</u>	<u>29,318</u>
NON-CURRENT LIABILITIES			
Payables	14	689	3,513
Long term borrowings	15	8,350	8,150
Deferred tax liabilities	5	21,604	20,569
Provisions	16	845	819
TOTAL NON-CURRENT LIABILITIES		<u>31,488</u>	<u>33,051</u>
TOTAL LIABILITIES		<u>55,189</u>	<u>62,369</u>
NET ASSETS		<u>67,549</u>	<u>35,729</u>
EQUITY			
Contributed equity	17	39,852	14,001
Retained profits	18	27,697	21,728
TOTAL EQUITY		<u>67,549</u>	<u>35,729</u>

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
Total equity at the beginning of the year		35,729	43,624
Net Profit after tax for the year		10,655	3,872
Total income and expense recognised in equity for the year		10,655	3,872
Transactions with equity holders in their capacity as equity holders:			
Shares issued	17	20,664	-
VCR Shares issued	17	5,188	-
Buy-backs	18	(2,590)	-
Income Preference Shares redeemed	17	(1)	-
Dividends paid	6	(2,096)	(11,767)
Total equity at the end of the year		67,549	35,729

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		55,171	51,107
Payments to suppliers and employees		(44,418)	(35,681)
Interest received		187	767
Finance costs		(1,498)	(1,375)
Income tax paid		(913)	(2,954)
Net cash provided by operating activities	19 (b)	<u>8,529</u>	<u>11,864</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for plant and equipment		(722)	(211)
Payment for acquisitions of businesses		(3,802)	(616)
Net cash used in investing activities		<u>(4,524)</u>	<u>(827)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue		17,700	-
Costs of raising equity		(2,685)	-
Proceeds from related parties		(2,819)	1,530
Proceeds from borrowings		7,200	-
Repayment of borrowings		(9,520)	(6,486)
Share buy back		(2,590)	-
Dividends paid		(2,096)	(8,414)
Net cash provided/(used in) financing activities		<u>5,190</u>	<u>(13,370)</u>
Net increase/(decrease) in cash held		9,195	(2,333)
Cash at beginning of financial year		(4,452)	(2,119)
Cash at end of financial year	19 (a)	<u>4,743</u>	<u>(4,452)</u>

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION

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

The financial report covers Slater & Gordon Limited ("the Company") which is a company limited by shares, incorporated and domiciled in Australia.

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

(a) Basis of preparation of the financial report

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards ("AIFRS's"). Compliance with AIFRS ensures compliance with International Financial Reporting Standards ("IFRS's").

Historical Cost Convention

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

(b) Revenue recognition

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

Rendering of services for Project Litigation

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

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

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

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

Interest Revenue

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

Other Revenue

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

All revenue is stated net of the amount of goods and services tax ("GST").

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION (Continued)

(c) Income tax

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

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

Deferred tax liabilities and assets are calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, short-term deposits with an original maturity of three months or less and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding banking overdrafts.

(e) Disbursements

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

(f) Work in progress

Work in progress is carried at cost, and for certain practice areas as described below, also includes profit recognised to date based on the value of work completed. Cost includes both variable and fixed costs directly related to projects and those that can be attributed to project activity and that can be allocated to specific projects on a reasonable basis. The following methodologies are used in determining the value of work completed:

Non-personal Injury

For Family Law, Estate/Probate, Industrial Law and Commercial Law matters, time records and historical levels of fees billed are used in determining the value of work completed.

Personal Injury

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

Project Litigation

Work in progress on project litigation is only recognised on projects for which a favourable outcome is considered probable. For such projects, work in progress is initially valued at costs incurred less a discount for the likely recovery of those costs. Where a project litigation matter has reached partial or full settlement and a signed agreement for fee exists, work in progress is valued at the settled fee amount and discounted for percentage file completion, and the probability of the full fee being collected. Project litigation matters that are not expected to be realised within 12 months are classified as non current.

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION (Continued)

(g) Plant and equipment

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

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

Depreciation

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

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

<i>Class of fixed asset</i>	<i>Depreciation rates</i>	<i>Depreciation Method</i>
Plant and equipment	7.50 – 40.00 %	Straight Line & Diminishing Value
Low value asset pool	18.75 – 37.50 %	Diminishing Value

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

(h) Leases

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

(i) Intangibles

Goodwill

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

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

Discount on acquisition

Discount on acquisition represents the excess of the fair value of the Company's share of net identifiable assets of the acquired business over the cost of acquisition at the date of acquisition. Discount on acquisition is recognised in the income statement in the period in which it is incurred.

(j) Impairment of assets

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

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

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION (Continued)

(k) Acquisition of assets

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

(l) Borrowing costs

All other borrowing costs are recognised in income in the period in which they are incurred.

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

(m) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result and that an outflow can be reliably measured.

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

(n) Employee benefits

Service benefits

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

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. These estimated future cash flows have been discounted using market yields, at the reporting date, on government bonds with matching terms to maturity.

Share-based payment transactions

The Company operates an EOP. The EOP allows employees to purchase VCR Shares in the Company by way of an interest-free loan. The loan has been recorded as a financial instrument as described in section (p) below.

The VCR Shares vest over a specified period of time. At the time of vesting, VCR Shares convert into ordinary shares with disposal restrictions. The terms and conditions of these shares are further described at Note 23.

The value of the benefit received by an employee from issue of the VCR Shares is assessed as the difference between the value of the VCR Shares at the date of issue and the present value of the amount payable by the employee for purchase of the VCR Shares. In accordance with AASB 2 Share Based Payments, the benefit is expensed on a proportional basis over the period from issue date to the date on which the employee becomes unconditionally entitled to the full benefit of ownership of the shares.

(o) Solicitor liability claims

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: BASIS OF PREPARATION (Continued)

(p) Financial instruments

Loans and Receivables

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

Financial Liabilities

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

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

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

Revenues, expenses and assets are recognised net of the amount of GST, except where the GST incurred is not recoverable from the Australian Taxation Office ("ATO"), and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the balance sheet.

(r) Comparatives

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

(s) Earnings per share

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

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

The prior year EPS Calculation has been adjusted in accordance with paragraph 64 "Retrospective Adjustments" of the Accounting Standard AASB 133 Earnings Per Share. This calculation adjusts the prior year number of ordinary shares and potential ordinary shares to reflect the changes to the capital structure that occurred during the Financial Year ended 30 June 2007.

(t) Rounding amounts

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Estimated impairment of goodwill

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

(b) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Work in Progress

The valuation of work in progress includes, for the personal injury and project litigation practices, estimates for the percentage of completion and probability of success.

	Note	2007 \$'000	2006 \$'000
NOTE 3: REVENUE			
Revenues from operations			
- rendering of services		60,238	41,851
- service and licence fee		1,771	500
- interest	3(a)	467	767
- distributions from Slater & Gordon Partnerships		-	2,018
- other revenue		457	201
Total Revenue		<u>62,933</u>	<u>45,337</u>

(a) Interest from

- Other persons		187	767
- VCR share loans to employees		280	-
		<u>467</u>	<u>767</u>

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 4: PROFIT FROM CONTINUING ACTIVITIES

	2007	2006
	\$'000	\$'000
Finance costs expense	1,515	1,421
Depreciation of non-current assets		
– Plant and equipment	208	136
Bad and doubtful debts	1,279	1,838
Share based payments expense	463	-

NOTE 5: INCOME TAX

Income tax expense:		
Current tax	2,891	1,244
Deferred tax	1,840	476
	<u>4,731</u>	<u>1,720</u>

Deferred income tax (revenue)/expense included in income tax expense comprises:

Increase in deferred tax assets	(854)	(320)
Increase in deferred tax liabilities	1,889	796
Deferred income tax related to items charged or credited directly to equity – costs of equity raising	805	-
	<u>1,840</u>	<u>476</u>

The prima facie tax payable on profit differs from the income tax provided in the financial statements as follows:

Total profit before income tax expense	<u>15,386</u>	<u>5,592</u>
At the statutory income tax rate of 30% (2006: 30%)	4,616	1,678
Add:		
Tax effect of:		
– other non-allowable items	119	76
	<u>4,735</u>	<u>1,754</u>
Less:		
Tax effect of:		
– other non-assessable items	4	34
Income tax expense attributable to profit	<u>4,731</u>	<u>1,720</u>

Current tax liability:		
Balance at the beginning of the year	(779)	954
Income tax	2,891	1,244
Tax payments	(913)	(2,954)
Other	-	(23)
Balance at the end of the year	<u>1,199</u>	<u>(779)</u>

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 5: INCOME TAX (Continued)

	2007 \$'000	2006 \$'000
Deferred tax assets:		
The balance comprises:		
- Provision for doubtful debts and non-recoverable disbursements	497	482
- Employee benefits	1,550	1,345
- Accruals	110	225
- Undeducted legal costs	699	-
- Other	50	-
	<u>2,906</u>	<u>2,052</u>
Deferred tax liabilities:		
The balance comprises temporary differences attributable to:		
- Prepayments	-	1
- Work in progress	19,370	17,808
- Unrendered disbursements	5,105	4,781
- Plant and equipment	35	30
- Other	-	1
	<u>24,510</u>	<u>22,621</u>
Balance after set off of deferred tax assets and liabilities	<u>(21,604)</u>	<u>(20,569)</u>

NOTE 6: DIVIDENDS

(a) Dividends paid during the year

Dividends on ordinary shares interim franked dividend at the tax rate of 30% for 2007; (2.0 cents per share)	<u>1,186</u>	-
	1,186	-
Dividends on income preference shares Final franked dividend at the tax rate of 30% for 2006	<u>910</u>	650
	910	650
Dividends on DMTE Shares Final franked dividend at the tax rate of 30% for 2006	<u>-</u>	11,117
	-	11,117
Total Dividends paid during the year	<u>2,096</u>	<u>11,767</u>

(b) Dividends proposed and not recognised as a liability

Dividends on ordinary shares final franked dividend at the tax rate of 30% for the year ending 30 June 2007 (2.0 cents per share)	<u>1,905</u>	-
--	--------------	---

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 6: DIVIDENDS (continued)	Note	2007	2006
		\$'000	\$'000
(c) Franking credit balance			
Balance of franking account at year-end adjusted for franking credits arising from payment of provision for income tax and after deducting franking credits to be used in payment of proposed dividends:		7,414	8,966
Impact on franking account of dividend recommended by the directors since the year end but not recognised as a liability at year end		<u>816</u>	<u>-</u>
NOTE 7: CASH AND CASH EQUIVALENTS			
Cash at bank		<u>5,190</u>	<u>1,394</u>
		<u>5,190</u>	<u>1,394</u>
NOTE 8: RECEIVABLES			
CURRENT			
Trade debtors		16,088	12,478
Provision for doubtful debts		<u>(733)</u>	<u>(700)</u>
		<u>15,355</u>	<u>11,778</u>
Disbursements		18,413	16,857
Less provision for non-recoverable disbursements		<u>(924)</u>	<u>(865)</u>
		<u>17,489</u>	<u>15,992</u>
Related party receivables			
Associates	26		
- Slater & Gordon (ACT)		-	1,955
- Slater & Gordon Lawyers		<u>2,552</u>	<u>2,032</u>
		<u>2,552</u>	<u>3,987</u>
Other receivables		100	-
Total receivables		<u>35,496</u>	<u>31,757</u>
NOTE 9: WORK IN PROGRESS			
CURRENT			
Non-personal injury		2,297	1,741
Personal injury		62,122	56,072
Project litigation		<u>145</u>	<u>257</u>
		<u>64,564</u>	<u>58,070</u>
NON CURRENT			
Project litigation		<u>3,138</u>	<u>2,429</u>
		<u>3,138</u>	<u>2,429</u>
Total Work in Progress		<u>67,702</u>	<u>60,499</u>

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 10: OTHER ASSETS	2007	2006
	\$'000	\$'000
CURRENT		
Prepayments	713	716
Other current assets	1,674	139
	<u>2,387</u>	<u>855</u>

NOTE 11: PLANT AND EQUIPMENT

Plant and equipment at cost	1,369	638
Less accumulated depreciation	(340)	(173)
	<u>1,029</u>	<u>465</u>
Low value asset pool at cost	187	122
Less accumulated depreciation	(86)	(43)
	<u>101</u>	<u>79</u>
Total plant and equipment	<u>1,130</u>	<u>544</u>

(a) Movements in Carrying Amounts

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

Plant and Equipment

Balance at the beginning of the year	465	373
Additions	665	140
Additions through acquisition of entity	72	58
Depreciation expense	(173)	(69)
Write offs	-	(37)
Carrying amount at end of year	<u>1,029</u>	<u>465</u>

Low Value Asset Pool

Balance at the beginning of the year	79	38
Additions	57	71
Depreciation expense	(35)	(30)
Carrying amount at end of year	<u>101</u>	<u>79</u>

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 12: INTANGIBLES

	2007	2006
	\$'000	\$'000
Goodwill - at cost	3,460	3,049
Accumulated impairment loss	-	-
Net carrying amount	<u>3,460</u>	<u>3,049</u>

(a) Movements in carrying amount of goodwill between the beginning and the end of the current financial year.

Opening net book amount	3,049	-
Additions	411	3,049
Impairment charge	-	-
Closing net book value	<u>3,460</u>	<u>3,049</u>

Goodwill acquired through business combinations has been allocated to individual cash generating units ("CGU") for the purposes of impairment testing being the operations in the state of New South Wales and the operations in the Australian Capital Territory.

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

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

The key assumptions made by management in determining the value in use include:

	CGU NSW	CGU ACT
Goodwill recognised (\$'000)	\$3,237	\$223
Growth in fees	5.0%	5.0%
Risk free discount rate	6.3%	6.3%
Assumed debt ratio	10.0%	10.0%
Equity risk premium	6.3%	6.3%
Weighted average cost of capital	11.0%	11.0%

NOTE 13: OTHER NON-CURRENT ASSETS

	2007	2006
	\$'000	\$'000
VCR loans to employees	<u>7,373</u>	-
	<u>7,373</u>	-

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 14: PAYABLES

	Note	2007 \$'000	2006 \$'000
CURRENT			
<i>Unsecured liabilities</i>			
Trade creditors		618	104
Legal creditors and accruals		15,841	16,275
Loans from associates			
– Slatergordon Services Pty Ltd	26	-	308
		<u>16,459</u>	<u>16,687</u>
NON-CURRENT			
<i>Unsecured liabilities</i>			
- Non-interest bearing		689	3,513
		<u>689</u>	<u>3,513</u>

NOTE 15: BORROWINGS

CURRENT			
<i>Secured</i>			
Bank overdraft		447	5,846
Bank loans		-	161
Bills of exchange		1,000	3,360
		<u>1,447</u>	<u>9,367</u>
NON-CURRENT			
<i>Secured</i>			
Bills of exchange		8,350	8,150
		<u>8,350</u>	<u>8,150</u>

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

The bank overdraft and commercial bills are both provided by Westpac Banking Corporation ("Westpac") and are secured by a charge over the assets and undertakings of the Company subsequent to the Company's listing on the Australian Stock Exchange ("ASX") on 21 May 2007. Prior to 21 May 2007 the facilities with Westpac were secured by joint and several guarantees from the shareholders, an unlimited debt & interest guarantee from Slatergordon Services Pty Ltd as trustee for Esange Holdings Trust and a charge over the assets of the Company and Slatergordon Services Pty Ltd as trustee for the Esange Holdings Trust.

Interest on the bank overdraft is charged at a variable rate as determined by Westpac.

NOTE 16: PROVISIONS

		2007 \$'000	2006 \$'000
CURRENT			
Employee benefits	(a)	4,321	3,633
Solicitor liability claim		275	410
		<u>4,596</u>	<u>4,043</u>
NON-CURRENT			
Employee benefits	(a)	845	819
(a) Aggregate employee benefits liability		5,166	4,452
(b) Number of employees at year end		399	380

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 17: CONTRIBUTED EQUITY

	2007		2006	
	Shares	\$'000	Shares	\$'000
Ordinary Shares fully paid	95,252,848	34,664	7	-
VCR Shares	12,526,801	5,188	-	-
Foundation Shares fully paid	-	-	13,999,998	14,000
Income preference Shares fully paid	-	-	650	1
Partnership Shares fully paid	-	-	7	-
DMTE Shares fully paid	-	-	-	-
Total issued capital	107,779,649	39,852	14,000,662	14,001
a) Movement in Ordinary share capital				
	2007		2006	
	Shares	\$'000	Shares	\$'000
Balance at the beginning of the period	7	-	8	-
Shares redeemed – 24 April 2006	-	-	(1)	-
Restructure of share capital by share split – 3 November 2006	69,999,993	-	-	-
Share buy back – 3 November 2006	(17,807,350)	-	-	-
Share capital issued – 22 December 2006	3,640,000	2,475	-	-
Conversion of vested shares – 22 March 2007	3,483,334	2,369	-	-
Restructure of share capital by share split – 27 March 2007	4,236,864	-	-	-
Conversion of Foundation Shares to ordinary shares – 29 March 2007	13,999,998	14,000	-	-
Shares issued to public via float – 11 May 2007	17,700,002	17,700	-	-
Less capital raising costs	-	(1,880)	-	-
Balance at end of the period	95,252,848	34,644	7	-
b) Movement in VCR share capital				
	2007		2006	
	Shares	\$'000	Shares	\$'000
Balance at the beginning of the period	-	-	-	-
Share capital issued under Employee Ownership Plan – 22 December 2006	15,175,000	7,094	-	-
Conversion of vested VCR Shares to ordinary shares – 29 March 2007	(3,483,334)	(2,369)	-	-
Restructure of share capital by share split – 22 March 2007	835,135	-	-	-
Share based payments cost	-	463	-	-
Balance at end of the period	12,526,801	5,188	-	-
c) Movement in Foundation share capital				
	2007		2006	
	Shares	\$'000	Shares	\$'000
Balance at the beginning of the period	13,999,998	14,000	13,999,998	14,000
Restructure of share capital to convert to Ordinary share capital – 29 March 2007	(13,999,998)	(14,000)	-	-
Balance at end of the period	-	-	13,999,998	14,000
d) Movement in Income Preference share capital				
	2007		2006	
	Shares	\$'000	Shares	\$'000
Balance at the beginning of the period	650	1	650	1
Share capital redeemed – 3 November 2006	(650)	(1)	-	-
Balance at end of the period	-	-	650	1

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 17: CONTRIBUTED EQUITY (continued)

e) Movement in Designated Mass Tort Entitlement ("DMTE") share capital

	2007		2006	
	Shares	\$'000	Shares	\$'000
Balance at the beginning of the period	-	-	4	-
Share capital redeemed - 2005	-	-	(1)	-
Share capital redeemed - 2006	-	-	(3)	-
Balance at end of the period	-	-	-	-

f) Movement in Partnership share capital

Balance at the beginning of the period	7	-	7	-
Share capital redeemed - 3 November 2006	(7)	-	-	-
Balance at end of the period	-	-	7	-

Ordinary Shares

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

VCR Shares

Please refer to Note 23 for detailed discussion on the rights attaching to VCR Shares.

NOTE 18: RETAINED PROFITS

	Note	2007 \$'000	2006 \$'000
Retained earnings	18(a)	27,697	21,728
(a) Retained earnings			
Balance at the beginning of year		21,728	29,623
Net profit attributable to ordinary equity holders		10,655	3,872
Total available for appropriation		32,383	33,495
Share buy back		(2,590)	-
Dividends paid		(2,096)	(11,767)
Balance at end of year		27,697	21,728

NOTE 19: CASH FLOW INFORMATION

(a) Reconciliation of cash

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

Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand	7	5,190	1,394
Bank overdrafts	15	(447)	(5,846)
		4,743	(4,452)

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 19: CASH FLOW INFORMATION (continued)

	2007 \$'000	2006 \$'000
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	10,655	3,872
<i>Non-cash flows in profit from ordinary activities</i>		
VCR share loans income	(280)	-
Depreciation	208	136
Share based payments expenses	463	-
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in receivables	(2,375)	9,066
(Increase)/decrease in other assets	(25)	224
Increase in work in progress	(3,641)	(137)
Increase/(decrease) in payables	(757)	365
Increase/(decrease) in income tax payable	1,978	(1,733)
Increase/(decrease) in deferred taxes	1,035	(55)
Increase in provisions	463	126
Increase in deferred taxes capital	805	-
Cash flows from operations	<u>8,529</u>	<u>11,864</u>
(c) Acquisition of Businesses		
The details of the acquisitions of Gary Robb & Associates (29 September 2006) and Paul J Keady & Associates (6 November 2006), Maurice May & Co. (31 March 2006) and Reid & Reid (31 May 2006) are as follows:		
Purchase consideration:		
Cash consideration	512	575
Deferred cash consideration	1,795	3,912
Shares issued	550	1,925
Total consideration	<u>2,907</u>	<u>6,412</u>
Assets and liabilities held at acquisition date:		
Receivables	622	1,373
Work in progress	2,185	2,016
Plant and equipment	72	58
Creditors	(300)	(7)
Provisions	(83)	(79)
Prepayments and other debtors	-	2
	<u>2,496</u>	<u>3,363</u>
Goodwill	411	3,049
	<u>2,907</u>	<u>6,412</u>
Credit facility		
	28,376	28,654
Amount utilised	(10,808)	(17,195)
	<u>17,478</u>	<u>11,459</u>

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 19: CASH FLOW INFORMATION (continued)

Banking Overdrafts

Bank overdraft facilities are arranged with Westpac with the general terms and conditions being set and agreed to annually. The current facility is \$5,050,000.

Interest rates are variable and subject to adjustment.

Commercial Bill Facility

The current facility is \$22,225,000 (2006: \$22,585,000) variable interest rate facility provided by Westpac, expiring no later than 5 years.

NOTE 20: COMMITMENTS AND CONTINGENCIES

	2007 \$'000	2006 \$'000
Operating lease commitments		
Non-cancellable operating leases (including rental of office space) contracted but not capitalised in the financial statements:		
Within one year	3,338	2,922
One year or later and not later than five years	5,741	5,221
	<u>9,079</u>	<u>8,143</u>
Bank guarantees in respect of rental properties	1,011	1,019

The proceedings identified in the 30 June 2006 financial accounts between the Company and Paul Mulvany (and associated entities) were successfully defended. There is no further exposure to the Company.

Slater & Gordon acted for Rolah McCabe and, following her death, her estate in an action against British American Tobacco Australia Services Limited ("BATAS") which commenced in 2001 and in which judgement on an appeal by BATAS was delivered in December 2002 ("the McCabe proceedings"). While Mrs McCabe was successful in obtaining an award of damages in the Supreme Court of Victoria, that judgement was subsequently set aside by the Victorian Court of Appeal.

In November 2006, BATAS and British American Tobacco Australia Limited (together, "BAT") commenced two proceedings in the Equity Division of the Supreme Court of New South Wales against Slater & Gordon. Peter Gordon is also a defendant in one of the proceedings ("the BAT proceedings").

The BAT proceedings potentially expose the Company to cost orders in favour of BAT. The level of potential exposure depends, in part, on whether the proceedings proceed to trial and also on whether the Company is successful at trial or on any subsequent appeal.

BAT has obtained a costs order against the Company in respect of an interlocutory application in the BAT proceedings. The costs ordered to be paid by the Company will either be agreed between the Company and BAT or assessed independently. In either case the directors do not expect the value of those costs orders to be material.

The directors are of the opinion that the BAT proceedings will be successfully defended. However if the BAT proceeding is not successfully defended then there remains a risk that the proceeding may result in a material financial exposure to the Company in the future to the extent that continuing to defend the BAT proceedings may expose the Company to a risk that it will be ordered to pay further legal costs by the court. The directors are of the opinion that continuing to defend the proceedings is of sufficient importance to the values and reputation of the Company to satisfy the directors that the course of action is in the best interests of the Company and its shareholders.

There is no other current or threatened litigation of a material nature in which the Company is involved.

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 21: EARNINGS PER SHARE

	2007 \$'000	2006 \$'000
The following reflects the income and share data used in the calculations of basic and diluted earnings per share		
Net profit after tax	10,655	3,872
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	10,655	3,872
	2007 000	2006 000
Weighted average number of Ordinary Shares used in calculating basic earnings per share	65,805	55,921
Effect of dilutive securities:		
Foundation Shares	10,395	14,000
VCR Shares	6,246	-
Adjusted weighted average number of Ordinary Shares used in calculating diluted earnings per share	82,446	69,921

Foundation Shares

Foundation Shares prior to listing on the ASX were converted into ordinary shares. Prior to the conversion the Foundation Shares were a class of shares which did not receive dividends however due to their conversion prior to listing they have been included as a dilutive security for the purposes of the calculation and determination of diluted earnings per share.

VCR Shares

VCR Shares are considered to be potentially ordinary shares and have been included in the determination of diluted earnings per share. Refer to Note 23 for a detailed explanation of VCR Shares.

NOTE 22: DIRECTORS' AND EXECUTIVES' COMPENSATIONS

(a) Details of key management personnel

(i) Directors

Anna Booth	Chair – Non-Executive – Appointed 22 March 2007
Peter Gordon	Deputy Chair and Executive Director
Andrew Grech	Managing Director
Ian Court	Director – Non-Executive – Appointed 22 March 2007
Ken Fowlie	Executive Director
Paul Henderson	Executive Director – Retired 22 March 2007
Hayden Stephens	Executive Director – Retired 22 March 2007
Cath Evans	Executive Director – Retired 22 March 2007
Marcus Clayton	Executive Director – Retired 22 March 2007

(ii) Executives

Mike Feehan	Chief Operating Officer – Appointed 28 August 2006
Wayne Brown	Chief Financial Officer

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007
NOTE 22: DIRECTORS' AND EXECUTIVES' COMPENSATIONS (continued)

(b) Compensation of Key Management Personnel

(i) Principles of compensation

The Company has applied the option under Corporations Amendments Regulation 2006 to transfer the key management personnel remuneration disclosures required by AASB 124 Related Party Disclosures paragraph Aus 25.4 to Aus 25.7.2 to the Remuneration Report Section of the Director's report. These transferred disclosures have been audited.

(ii) Compensation by category

	2007	2006
	\$'000	\$'000
Short-term employment benefits	2,798	2,343
Post employment benefits	116	97
Share-based payments	8	-
	2,922	2,440

NOTE 23: EMPLOYEE OWNERSHIP PLAN ("EOP")

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

Invitation and Eligibility

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

Plan

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

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

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

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

Vesting, Redemptions and Conversion

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

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

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 23: EMPLOYEE OWNERSHIP PLAN ("EOP") (continued)

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

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

After conversion

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

If the participant ceases employment with the Company, their converted VCR Shares can be forfeited or bought back by the Company and set off against any outstanding loan.

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

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

Transfer

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

Recognition in the Accounts

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

The key assumptions used in the present value calculation are:

- Issue price of the shares of \$0.68
- Expected timeframe of repayment of the loan amount is the period from the issue date to the date of maturity.
- An effective interest rate of 7.8%

The interest income recognised on VCR Share loans to employees has been disclosed in Note 3.

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

The share based payments expense has been disclosed in Note 4.

SLATER & GORDON LIMITED
ABN 93 097 297 400
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 24: KEY MANAGEMENT PERSONNEL

(a) Shareholdings of Key Management Personnel Shares held in Slater & Gordon Limited (number)

Net movement in share capital 2007

	Andrew Greck Shares ^a	Peter Gordon Shares ^a	Paul Henderson Shares ^a	Ken Forde Shares	Rayden Stephens Shares ^a	Cath Evans Shares ^a	Marcus Clayton Shares ^a	Azma Booth Shares ^a	Ian Court Shares	Mike Frislan Shares ^a	Wayne Brown Shares ^a	\$
Movement in Ordinary Share Capital												
Balance at beginning of period	10,600,775	10,660,844	10,590,477	10,518,217	10,540,812	10,530,970	10,182,028	-	-	-	-	73,728,043
Restructure of share capital by share split	(469,134)	(796,176)	(1,733,220)	(2,744,679)	(2,428,611)	(2,286,499)	(7,439,001)	-	-	-	-	(17,867,350)
Share buy back	4,666,666	4,666,666	4,666,666	-	-	-	-	-	-	-	-	13,999,998
Conversion of Foundation Shares to Ordinary Shares	(4,666,666)	(4,666,666)	(4,666,666)	(953,838)	(995,188)	(1,014,086)	(336,688)	-	-	-	-	(17,299,998)
Shares sold as part of the Initial Public Offer	-	-	-	-	-	-	-	50,000	14,000	100,000	3,000	164,000
Balance at end of period	10,131,641	9,864,674	8,857,157	8,819,711	7,116,794	7,250,476	2,407,340	50,000	13,000	100,000	3,000	92,568,700

Movement in Foundation Share Capital												
Balance at beginning of period	4,666,666	4,666,666	4,666,666	-	-	-	-	-	-	-	-	13,999,998
Restructure of share capital to convert to Ordinary share capital	(4,666,666)	(4,666,666)	(4,666,666)	-	-	-	-	-	-	-	-	(13,999,998)
Balance at end of period	-	-	-	-	-	-	-	-	-	-	-	-

Movement in Income preference share capital 2007												
Balance at beginning of period	100	100	100	100	100	100	50	-	-	-	-	650
Share capital redeemed	(100)	(100)	(100)	(100)	(100)	(100)	(50)	-	-	-	-	(650)
Balance at end of period	-	-	-	-	-	-	-	-	-	-	-	-

Movement in Partnership share capital												
Balance at beginning of period	1	1	1	1	1	1	1	-	-	-	-	7
Share capital buyback	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-	-	-	-	(7)
Balance at end of period	-	-	-	-	-	-	-	-	-	-	-	-

Movement in VCR share capital												
Balance at beginning of period	-	-	-	-	-	-	-	-	-	-	-	-
Shares issued	-	-	-	-	-	-	-	-	-	-	300,000	300,000
Restructure of share capital by share split	-	-	-	-	-	-	-	-	-	-	31,429	31,429
Balance at end of period	-	-	-	-	-	-	-	-	-	-	314,429	314,429

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

SLATER & GORDON LIMITED
 ABN 93 097 297 400
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 24: KEY MANAGEMENT PERSONNEL (Continued)

Net movement in share capital 2006

	Andrew Grech Shares**	Peter Gordon Shares**	Paul Henderson Shares**	Ken Fawcett Shares	Hayden Stephens Shares**	Cath Evans Shares**	Marcus Clayton Shares**	Total Shares
Movement in Ordinary share capital								
Balance at beginning of period								
Balance at end of period	1	1	1	1	1	1	1	7
Movement in Foundation share capital								
Balance at beginning of period	4,666,666	4,666,666	4,666,666	-	-	-	-	13,999,998
Balance at end of period	4,666,666	4,666,666	4,666,666	-	-	-	-	13,999,998
Movement in Income preference share capital								
Balance at beginning of period	100	100	100	100	100	100	50	650
Balance at end of period	100	100	100	100	100	100	50	650
Movement in Partnership share capital								
Balance at beginning of period	1	1	1	1	1	1	1	7
Share capital buyback	-	-	-	-	-	-	-	-
Balance at end of period	1	1	1	1	1	1	1	7
Movement in IMTE share capital								
Balance at beginning of period	1	1	1	-	-	-	-	3
Share capital buyback	(1)	(1)	(1)	-	-	-	-	(3)
Balance at end of period	-	-	-	-	-	-	-	-

** Includes Key Management Personnel and their related entities/parties.

SLATER & GORDON LIMITED
ABN 93 097 297 400
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 24: KEY MANAGEMENT PERSONNEL (Continued)

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

(i) Details of aggregates of balances with KMP are as follows:

Negative amounts represent a payable of the company to KMP, Positive amounts represent a receivable due to the company by KMP.

	Balance at beginning of period \$	Balance at end of period \$	Number in Group
2007	(3,159,364)	(495,376)	9
2006	1,817,285	(3,159,364)	3

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

30 June 2007	Balance at beginning of period	Balance at end of period	Highest balance during the period
Ken Fowle ^{**}	(7,878)	-	340,385
Hayden Stephens ^{**}	(931)	-	340,385
Cath Evans ^{**}	(5,712)	-	930,770
Marcus Clayton ^{**}	(1,645)	-	192,690
Wayne Brown	-	138,037	138,037

^{**} Individual and/or related party entities

30 June 2006	Balance at beginning of period	Balance at end of period	Highest balance during the period
Andrew Groch ^{**}	(86,380)	(1,427,856)	2,709,164
Peter Gordon ^{**}	1,986,543	(279,605)	3,509,884
Paul Henderson ^{**}	(82,876)	(1,427,856)	2,712,668

^{**} Individual and/or related party entities

(iii) Terms and Conditions of balances to Key Management Personnel:

The balances with Ken Fowle, Hayden Stephens, Cath Evans, Marcus Clayton, Andrew Groch, Peter Gordon and Paul Henderson were an advance on dividend entitlements due relating to the operations of the Company prior to the issue of the Prospectus. At 30 June 2007 the Company is not owed any monies by these Key Management Personnel.

The balance with Wayne Brown is due to the Company under the EOP at the end of the period. The terms and conditions of which are disclosed in Noted 23. Notional interest of \$5,237 was not charged on this loan balance.

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 25: AUDITOR'S REMUNERATION

	2007	2006
	\$'000	\$'000
Amounts received or due and receivable by Pitcher Partners and related entities for:		
An audit of the financial report of the Company	60	37
The half year review of the financial report of the Company	40	-
Review of statutory accounts	15	12
The preparation of the Independent Accountants Report contained in the Prospectus	82	-
	197	49

NOTE 26: RELATED PARTY DISCLOSURES

(a) The Company does not have any subsidiaries or controlled entities.

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

Transactions with key management personnel of the entity or its parent and their personally-related entities

- As outlined in the Prospectus the following operating structure operated in respect to the practices operated in the Australian Capital Territory ("ACT"), Queensland and South Australia ("SA") during the years ending 30 June 2006 and 2007:
 - The ACT practice was operated as a partnership between Andrew Grech, Peter Gordon and Paul Henderson ("the ACT Partnership") until the business operations, assets and liabilities were acquired by the Company on 6 July 2006. As per the agreement with the ACT Partnership each financial year the ACT Partnership would distribute its profits to the Company. In 2007 there was no distribution (2006 - \$1,209,820).
 - The Queensland practice was operated as a partnership between Andrew Grech, Peter Gordon and Paul Henderson ("the Queensland Partnership") until 28 February 2006. As per the agreement with the Queensland Partnership each financial year the Queensland Partnership would distribute its profits to the Company. In 2007 there was no distribution (2006 - \$851,258).
 - The Adelaide practice was operated as a partnership between Andrew Grech and Peter Gordon ("the SA Partnership") until 28 February 2006. As per the agreement with the SA Partnership each financial year the SA Partnership would distribute its profits to the Company. In 2007 there was no distribution (2006 - \$42,945).
 - With effect from 1 March 2007 the Queensland and SA practices were operated by Andrew Grech as a sole practitioner trading as Slater & Gordon Lawyers in each state under Service and Licence Agreements between Andrew Grech and the Company. In 2007 the Service and Licence Fee totalled \$1,770,656 (2006 - \$500,000).
- Andrew Grech, Peter Gordon and Paul Henderson are directors of Slatergordon Services Pty Ltd ("SGS"). SGS is the trustee of the Esange Holdings Trust which provided services to the Company up to 30 June 2004. During the year ending 30 June 2007 SGS forgave a debt of \$172,011 which was due to it by the Company.
- Anna Booth is a director of Members Equity Bank for which the Company provides legal services in the ordinary course of business.

The shareholdings are disclosed in Note 24 and remuneration of key management personnel are disclosed in the Directors Report and Note 22.

Outstanding balances between related parties outstanding receivables are disclosed in Note 8. Outstanding payables are disclosed in Note 14.

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 27: BUSINESS COMBINATIONS

2007

On 29 September 2006 the Company acquired Gary Robb & Co. and on 6 November 2006 the Company acquired Paul J Keady & Associates:

	\$'000	
Consideration		
- Cash		2,317
- Costs associated with acquisition		40
Total cash consideration		<u>2,357</u>
Shares issued as consideration		550
Total acquisition cost		<u>2,907</u>
Net assets acquired	Fair Value	Carrying Amount
Assets		
- Cash	-	-
- Trade and other receivables	622	622
- Work in progress	2,185	2,185
- Plant and equipment	72	72
Total assets acquired	<u>2,879</u>	<u>2,879</u>
Liabilities	Fair Value	Carrying Amount
- Borrowings	300	300
- Provisions	83	83
Total liabilities acquired	<u>383</u>	<u>383</u>
Net assets acquired	<u>2,496</u>	<u>2,496</u>
Goodwill on acquisition	<u>411</u>	

It is not practicable to disclose the profit and loss results of the acquired businesses from the date of acquisition as they have been integrated into the existing operations and reporting structure of the Company.

It is not practicable to disclose the revenue and profit and loss of the combined entity as if the acquisitions took place at 1 July 2006, as the Company does not have access to appropriate financial information to reliably determine the revenue and profit of the acquired businesses from 1 July 2006 to the date of acquisition.

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

- Synergies expected to be achieved as a result of combining the acquired businesses with the rest of the group.
- Access to geographic locations not previously served by the Company.
- Access to areas of practice not previously offered by the Company.
- Access to referral networks not previously available to the Company.

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 27: BUSINESS COMBINATIONS (continued)

2006

On 31 March 2006 the Company acquired Maurice May & Co, and on 31 May 2006 the Company acquired Reid & Reid:

	\$'000	
Consideration		
- Cash		4,487
Total cash consideration		4,487
Shares issued at consideration		1,925
Total acquisition cost		<u>6,412</u>
Net assets acquired	Fair Value	Carrying Amount
Assets		
- Cash	-	-
- Trade and other receivables	1,375	1,375
- Work in progress	2,016	2,016
- Plant and equipment	58	58
Total assets acquired	<u>3,449</u>	<u>3,449</u>
Liabilities		
- Trade and other payables	7	7
- Borrowings	-	-
- Provisions	79	79
Total liabilities acquired	<u>86</u>	<u>86</u>
Net assets acquired	<u>3,363</u>	<u>3,363</u>
Goodwill on acquisition	<u>3,049</u>	

It is not practicable to disclose the profit and loss results of the acquired businesses as they have been integrated into the existing operations and reporting structure of the Company.

It is not practicable to disclose the revenue and profit and loss of the combined entity as if the acquisitions took place at 1 July 2005, as the Company does not have access to appropriate financial information to reliably determine the revenue and profit of the acquired businesses from 1 July 2005 to the date of acquisition.

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

- Synergies expected to be achieved as a result of combining the acquired businesses with the rest of the group.
- Access to geographic locations not previously served by the Company.
- Access to areas of practice not previously offered by the Company.
- Access to referral networks not previously available to the Company

NOTE 28: SEGMENT INFORMATION

The Company conducts legal services within the geographical area of Australia.

SLATER & GORDON LIMITED
ABN 93 097 297 400
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 29: FINANCIAL INSTRUMENTS

(i) Interest rate risk

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

Financial Instruments	Fixed interest rate maturing in:													
	Weighted average interest rate		Non interest bearing		Variable interest rate		1 year or less		1 to 5 years		More than 5 years		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<i>(i) Financial assets</i>														
Cash	4.01%	4.17%	-	-	-	-	5,190	1,294	-	-	-	-	5,190	1,294
Trade debtors	-	-	16,088	12,478	-	-	-	-	-	-	-	-	16,088	12,478
Disbursements	-	-	18,413	16,857	-	-	-	-	-	-	-	-	18,413	16,857
Related Parties	-	-	2,552	3,987	-	-	-	-	-	-	-	-	2,552	3,987
Other receivables	-	-	100	-	-	-	-	-	-	-	-	-	100	-
MCR share loans receivable	-	-	7,373	-	-	-	-	-	-	-	-	-	7,373	-
Total financial assets			44,526	33,322	-	-	5,190	1,294	-	-	-	-	49,716	34,716
<i>(ii) Financial liabilities</i>														
Bank overdraft	9.35%	8.85%	-	-	447	5,846	-	-	-	-	-	-	447	5,846
Trade creditors	-	-	618	104	-	-	-	-	-	-	-	-	618	104
Legal creditors and accruals	-	-	15,841	16,278	-	-	-	-	-	-	-	-	15,841	16,278
Payables to related parties	-	-	609	3,821	-	-	-	-	-	-	-	-	609	3,821
Provision for employee entitlements	-	-	5,166	4,452	-	-	-	-	-	-	-	-	5,166	4,452
Bank Loan	-	6.20%	-	-	-	-	-	161	-	-	-	-	-	161
Commercial bills	7.13%	6.91%	-	-	-	-	1,000	3,568	8,350	8,150	-	-	9,350	11,510
Total financial liabilities			22,314	24,652	447	5,846	1,000	3,521	8,350	8,150	-	-	32,311	42,169

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 29: FINANCIAL INSTRUMENTS (Continued)

(ii) **Credit risk exposures**

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

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

Concentrations of credit risk

The Company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers.

(iii) **Fair values**

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in Balance Sheet and Notes to the financial statements.

NOTE 30: SUBSEQUENT EVENTS

The following subsequent events have occurred:

- (a) During May 2007 the Company agreed to acquire D'Arcys', a firm of Lawyers in Queensland. This acquisition had an effective date of 1 July 2007 and was dependent upon the implementation of the Legal Profession Act in Queensland with an effective date of 1 July 2007 ("the legislation"). The legislation became effective from 1 July 2007 and the acquisition of D'Arcys' was completed.
- (b) With effect from 31 August 2007 the Company acquired McClellands Lawyers based in Sydney.

The following constitutes the calculation of the consideration given and the provisional fair value of net assets acquired in D'Arcys' and McClellands as at the date of the report. As the integration of the businesses is still occurring it is anticipated that there will be some movement in the provisional calculation.

	\$'000	
Consideration		
- Cash		3,500
- Deferred cash consideration		2,800
- Costs associated with acquisition		314
Total cash consideration		<u>6,614</u>
Shares issued as consideration		<u>2,475</u>
Total acquisition cost		<u>9,089</u>
Net assets acquired	Fair Value	Carrying Amount
Assets		
- Debtors	955	955
- Disbursements	1,078	1,078
- Prepayments	44	44
- Work in progress	5,443	5,443
- Plant and equipment	69	69
- Tax benefit on acquired assets	636	636
Total assets acquired	<u>8,225</u>	<u>8,225</u>
Liabilities		
- Debt facilities	1,498	1,498
- Trade Creditors	103	103
- Provisions	125	125
Total liabilities acquired	<u>1,726</u>	<u>1,726</u>
Net assets acquired	<u>6,499</u>	<u>6,499</u>
Goodwill on acquisition	<u>2,590</u>	

SLATER & GORDON LIMITED
ABN 93 097 297 400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 30: SUBSEQUENT EVENTS (continued)

- (c) The enactment of the legislation in Queensland allowed the Queensland practice, operated by Andrew Grech trading as Slater & Gordon Lawyers, to be transferred to the Company at the value of the practice's net assets which was to be fully offset by amounts owed to the Company from the service and license agreement.

SLATER & GORDON LIMITED
ABN 93 097 297 400

SLATER & GORDON LIMITED
DIRECTORS DECLARATION

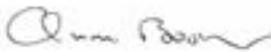
The directors declare that the financial statements and notes set out on pages 46 to 77 and the additional disclosures in the directors' report designated as audited are in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards 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 Company as at 30 June 2007 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

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

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2007.

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



Anna Booth
Chair



Andrew Grech
Managing Director

Melbourne
Date 21 September 2007



SLATER & GORDON LIMITED
ABN 93 097 297 400

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

INDEPENDENT AUDITOR'S REPORT

To the members of Slater & Gordon Limited

We have audited the accompanying financial report of Slater & Gordon Limited. The financial report comprises the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Company.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in paragraphs "Directors' Remuneration" and "Executives' Remuneration" on page 44 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

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



SLATER & GORDON LIMITED
ABN 93 097 297 400

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

to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

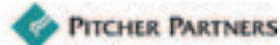
Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Slater & Gordon Limited on 6 June 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion on the Financial Report

In our opinion:

- (a) the financial report of Slater & Gordon Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



SLATER & GORDON LIMITED
ABN 93 097 297 400

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

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in paragraphs "Directors' Remuneration" and "Executives' Remuneration" on page 44 of the directors' report comply with Accounting Standard AASB 124.

Handwritten signature of P A JOSE in black ink.

P A JOSE

21 September 2007

Handwritten signature of Pitcher Partners in black ink.

PITCHER PARTNERS

Melbourne

SLATER & GORDON LIMITED
ABN 93 097 297 400

In accordance with the Australian Stock Exchange Limited Listing Rules, the Directors provide the following information as at 13 September 2007.

(a) Distribution of shareholders and option holders.

Holding	Number of Ordinary Shareholders
1 - 1,000	370
1,001 - 5,000	668
5,001 - 10,000	250
10,001 - 100,000	124
100,001 - Over	39
	1,451

There are 12 shareholders holding less than a marketable parcel (i.e. less than 5500 per parcel of shares).

(b) Twenty largest shareholders

Shareholder	Number of Shares Held	% Held
1 Andrew Grech	10,211,642	10.72%
2 Peter Gordon	9,957,675	10.45%
3 Paul Henderson	8,857,152	9.30%
4 National Nominees Limited	8,169,035	8.58%
5 Cath Evans	7,250,476	7.61%
6 Hayden Stephens	7,116,794	7.47%
7 Ken Fowle	6,819,721	7.16%
8 Citicorp Nominees Pty Limited	4,259,000	4.47%
9 RBC Dexia Investor Services Australia Nominees Pty Limited	4,127,676	4.33%
10 JP Morgan Nominees Australia Limited	2,953,685	3.10%
11 RBC Dexia Investor Services Australia Nominees Pty Limited	2,785,217	2.92%
12 Marcus Clayton	2,407,240	2.53%
13 HSBC Custody Nominees (Australia) Limited	1,676,868	1.78%
14 James Higgins	1,125,000	1.18%
15 ANZ Nominees Limited	1,009,161	1.06%
16 Tim Hammond	892,858	0.94%
17 Gerard Rees	866,786	0.91%
18 Craig Lee (Lee Super Fund)	866,608	0.91%
19 Stuart Barnett	866,607	0.91%
20 Damien Brown	866,607	0.91%
	83,085,808	87.22%

(c) Substantial Shareholders

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

Shareholder	Ordinary Shares	
	Number	% *
Andrew Grech	60,252,848	63.26%
Peter Gordon	60,252,848	63.26%
Paul Henderson	60,252,848	63.26%
Cath Evans	60,252,848	63.26%
Hayden Stephens	60,252,848	63.26%
Ken Fowle	60,252,848	63.26%
Marcus Clayton	60,252,848	63.26%
Perpetual Limited and Subsidiaries	6,930,548	7.28%

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

(d) VCR Shares

Total number of VCR Shares on issue at 13 September 2007 are 12,205,372 held by 31 employee shareholders.



Corporate Directory

Slater & Gordon Limited
ABN 93 097 297 400

Directors

Anna Booth, Chair
Peter Gordon, Deputy Chair
Andrew Grech, Managing Director
Ian Court
Ken Fowlie

Company Secretary
Wayne Brown

**Registered Office and
Corporate Office**
Level 9
533 Little Lonsdale Street
Melbourne Victoria 3000
Telephone: (03) 9602 6888
Facsimile: (03) 9600 0290

Company Website
www.slatergordon.com.au

Company Numbers
ACN 097 297 400

Auditors
Pitcher Partners
Level 19
15 William Street
Melbourne Victoria 3000

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

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

Stock Exchange Listing

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

ASX Code
SGH

Share/Security Registers

The Registrar
Computershare Investor Services
Pty Ltd
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

**Slater &
Gordon**
Lawyers



Slater &
Gordon
Lawyers

www.slatergordon.com.au