



**NO
CHALLENGE
TOO
GREAT**

**Slater &
Gordon**
Lawyers

SLATER & GORDON LIMITED
ANNUAL REPORT
2010 2011



ESTABLISHED IN 1935, SLATER & GORDON HAS BUILT A POWERFUL REPUTATION AS A LAW FIRM WHICH FIGHTS FOR THE BEST OUTCOMES FOR EVERYDAY AUSTRALIANS. INNOVATION HAS BEEN A HALLMARK OF OUR LONG HISTORY, FROM THE MANY LANDMARK LEGAL CASES WE HAVE RUN AND WON TO THE CONTROVERSIAL INTRODUCTION OF NO WIN-NO FEE™ LITIGATION. IN 2007 SLATER & GORDON BECAME THE FIRST LAW FIRM IN THE WORLD TO LIST ON A STOCK EXCHANGE. TODAY WE EMPLOY MORE THAN 1000 PEOPLE AND OFFER A BROAD RANGE OF LEGAL SERVICES IN MORE THAN 50 METROPOLITAN AND REGIONAL LOCATIONS, MORE THAN ANY OTHER LAW FIRM IN THE COUNTRY.

2010
2011

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OUR YEAR IN BRIEF

FINANCIAL HIGHLIGHTS

**REVENUE UP 46%
TO \$182 MILLION**

**NPAT UP 40% TO
\$27.9 MILLION**

**TOTAL DIVIDEND
OF 5.5 CENTS PER
SHARE FOR FULL
YEAR**

**31% COMPOUND
ANNUAL REVENUE
GROWTH SINCE
2007 LISTING**

BUSINESS HIGHLIGHTS

ACQUIRED TRILBY MISSEO AND KEDDIES

Completed acquisition of personal injuries firms, Trilby Misso (Queensland) and Keddies (New South Wales) adding depth and scale in these states

STRONG ORGANIC GROWTH

Continued strong organic growth – approximately 10%

OVER 80,000 ENQUIRIES

Over 80,000 new client enquiries

MAJOR CLASS ACTIONS SETTLED

The settlement and Court approval of the Oz Minerals, Fincorp and Brookland Greens class actions.

OPENED SIX NEW OFFICES

Opened 2 new offices within Victoria, at Werribee and Warrnambool. Trilby Misso extended its reach in Queensland with new sites in Toowoomba, Loganholme and Browns Plains.



Slater &
Gordon

RESULTS SUMMARY

	2011 \$000's	2010 \$000's	Change
Total Income (\$000's)	182,309	124,730	+46.2%
Earnings Before Interest and Tax (\$000's)	45,784	30,000	+52.6%
Net Profit After Tax (\$000's)	27,908	19,800	+40.9%
Basic EPS (cents)	19.1	17.9	+6.7%
Diluted EPS (cents)	18.3	16.7	+9.6%
Total Dividend per share (cents)	5.5	5.0	+10.0%



CHAIR'S REPORT

DEAR SHAREHOLDER

On behalf of Slater & Gordon Limited, it is my pleasure to present the Annual Report for the 2011 financial year.

It has been another successful financial year for Slater & Gordon with strong increases in revenue and earnings. It is very pleasing to note that since listing on the Stock Exchange in 2007, our company has enjoyed compound annual earnings growth of around 30%.

The successful acquisition of Trilby Misso (Queensland) and Keddies (New South Wales) has strengthened our leadership position in the personal injuries market on the eastern seaboard and given us an excellent base for further organic growth. We are delighted to report that both the Trilby Misso and Keddies practices achieved the targets set at the time of acquisition, and Trilby Misso comfortably exceeded them.

Since we listed, the key elements of our strategy have been to lead the consolidation of the personal injuries litigation market, extend the geographic reach of the business, expand the range of services we

offer to clients, and to continue to build the Slater & Gordon brand. In his report, our managing director Andrew Grech outlines the excellent progress made in these areas in FY11.

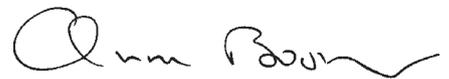
In the annual review of Slater & Gordon's business strategy, the board reinforced its commitment to continue supporting the organic growth of our expanded Personal Injuries practices and to the aggressive development of our Family Law and Private Client Services practices. Our objective is to provide a broad range of legal services to an increasing number of everyday people. The board also gave its support for Slater & Gordon to investigate opportunities in overseas consumer legal services markets.

At Slater & Gordon we are proud of our longstanding commitment to social responsibility. Doing significant amounts of pro bono work has always been fundamental to the Slater & Gordon ethos, and during the year we appointed a Pro Bono Coordinator to manage

the administration and further development of this important aspect of our culture. Our ongoing philanthropic activities include funding the Asbestos Research Fund, and the Slater & Gordon Fund which supports a range of community and social welfare initiatives. We match the contributions our employees make to both of these funds through the Slater & Gordon Staff Giving Program.

I would like to thank my fellow board members for their support and hard work over the past year. The board would also like to thank all our employees across Australia for their hard work on behalf of our clients. Our employees are the backbone of our company and it is their commitment and care for their work that underpins our success.

Yours sincerely,



Anna Booth
Chair

OUR OBJECTIVE IS TO PROVIDE A BROAD RANGE OF LEGAL SERVICES TO AN INCREASING NUMBER OF EVERYDAY PEOPLE.



MANAGING DIRECTOR'S REPORT

DEAR SHAREHOLDER

I am pleased to report that Slater & Gordon Limited has delivered strong results again in FY11.

The strategy we put in place at the time of listing in 2007 continues to serve us well. We are building and strengthening our business through acquisitions, and by developing our capacity and the capability of our organisation and people. We plan our growth and we are disciplined in delivering what we say we will deliver.

In FY11 we clearly established our leadership in Australia's personal injuries litigation market with the acquisition of law firms Trilby Misso in Queensland and Keddies in New South Wales into the Slater & Gordon organisation. Trilby Misso continues to operate essentially as a standalone business in Queensland and has retained its name. These acquisitions follow a number of smaller but important acquisitions. Our operations in New South Wales and Queensland are now approaching the scale to our Victorian operations. Over time we expect to achieve similar margins and rates of organic growth in these markets to those we enjoy in Victoria.

The depth of talent in the Slater & Gordon senior management team was again evident this year as we achieved 10% organic growth of the base business while integrating these major acquisitions.

HIGHLIGHTS

Completed acquisition of personal injuries firms, Trilby Misso (Queensland) and Keddies (New South Wales) adding depth and scale in these states.

Continued strong organic growth – approximately 10%.

Over 80,000 new client enquiries.

The settlement and Court approval of the Oz Minerals, Fincorp and Brookland Greens class actions.

Opened 2 new offices within Victoria, at Werribee and Warrnambool. Trilby Misso extended its reach in Queensland with new sites in Toowoomba, Loganholme and Browns Plains.

WE ARE BUILDING AND STRENGTHENING OUR BUSINESS THROUGH ACQUISITIONS, AND BY DEVELOPING OUR CAPACITY AND THE CAPABILITY OF OUR ORGANISATION AND PEOPLE.

MANAGING DIRECTOR'S REPORT

THE YEAR

IN REVIEW

EACH YEAR WE REVIEW AND REFINE OUR STRATEGY AND I AM PLEASED TO REPORT GOOD PROGRESS IN FY11 AGAINST EACH KEY ELEMENT OF THE STRATEGY.

Expand the Range of Services We Offer Our Clients

FY11 was largely a consolidation year for our Private Client Services practices, which includes wills, probate, estate planning and conveyancing, and also for our Family Law practice. We have invested significantly in the management capacity and systems capability of these practices to set them up for what we expect to be an aggressive growth phase over the next few years.

Lead the Consolidation of the Personal Injury Litigation Market

Our determination to lead the consolidation of the national personal injury litigation market can be seen in our acquisition of Trilby Misso in Queensland and Keddies in New South Wales. These acquisitions make us the clear market leader in Australia in this area with a particularly strong position on the eastern seaboard.

There may be some smaller acquisitions in the personal injuries sector in FY12 but most of our focus will be on efficiency improvements which will allow us to deploy the client service improvement and marketing and business development activity which will underpin ongoing organic growth from what is now a much larger base.

Build the Slater & Gordon Brand as a Driver of New Business

We received over 80,000 new enquiries from across Australia in FY11 as a result of continued strong support from our institutional clients, referrals from clients, marketing and business development activity campaigns and media coverage generated from high profile legal matters in which we are involved on behalf of our clients.

Slater & Gordon has always enjoyed high brand awareness in Victoria, but in recent years our recognition in other states and territories has grown considerably. In Trilby Misso we also have the best known personal injuries brand in Queensland.

Extend the Geographical Reach of the Business

Through our acquisitions we have extended the reach of the Slater & Gordon office network, particularly in high population density regional and suburban areas. We also opened new offices in Werribee and Warrnambool (Victoria) and Trilby Misso extended its reach into southern Queensland by opening a new office in Toowoomba and local contact centres in Loganholme and Browns Plains. In all we have 50 offices nationally, more than any other law firm in Australia.

Build Our Position in Major Litigation Cases

We continued to build our large scale litigation project work in FY11, with settlement and Court approval of the Oz Minerals, Fincorp and Brookland Greens class actions. The appeal by the defendants in the Vioxx action was heard in August 2011, and whilst we await the judgement of the Full Federal Court, we continue to conduct individual cases before the Federal Court.



OUTLOOK

With the full year effect of the Keddie and Trilby Misso businesses and continued organic growth, FY12 revenue is currently expected to be over \$200 million with a target EBIT margin of 25% to 26%.

We now have a very strong position in the personal injuries markets in all the largest states, with scope for further growth. We also have well advanced plans to exploit the growth opportunities identified in the Family Law and Private Client Services practices.

We will also continue to investigate opportunities in overseas consumer legal services markets. The United Kingdom is of particular interest because of its jurisdictional similarities to Australia and the imminent introduction of legislation allowing for listed law firms to operate there.

Our business priorities include:

- > Aggressively developing our Family Law and Private Client Services practices by introducing innovative services and potential acquisitions;
- > Accelerating the long term margin improvement trend in non-personal injury practices;
- > Completing the integration of the Keddie and Trilby Misso practices;
- > Realising more value from the 80,000-plus new client enquiries we receive each year by increasing enquiry to client conversion rates, and by increasing the take-up of other Slater & Gordon services;
- > Continuing to drive organic growth in the Personal Injuries practices;
- > Accelerating the development of our people by making the most of opportunities arising from our growth strategy; and
- > Continuing to explore opportunities in overseas markets, particularly the United Kingdom.

Finally, I would like to thank our clients from all around Australia for allowing Slater & Gordon to work on their behalf. I would also like to thank our staff for their commitment and effort in providing high quality legal services to our clients.

Yours sincerely,

Andrew Grech
Managing Director

BUSINESS OVERVIEW



SLATER & GORDON EMPLOYS OVER 1,000 PEOPLE IN MORE THAN 50 METROPOLITAN AND REGIONAL LOCATIONS ACROSS AUSTRALIA – MORE LOCATIONS THAN ANY OTHER LAW FIRM IN THE COUNTRY. WE HAVE OFFICES IN EVERY STATE AND TERRITORY EXCEPT THE NORTHERN TERRITORY.

Personal injury litigation represents around 82% of our revenue, with most of that work performed on a No Win - No Fee™ basis where legal fees are paid on the successful conclusion of the client's matter. We have specialist legal teams in the areas of asbestos litigation, motor vehicle accidents, workers compensation, medical law, public liability, Comcare and military compensation, and total and permanent disability insurance claims.

The acquisition of Queensland personal injury litigation firm Trilby Misso and NSW firm Keddies has further boosted our leadership position in personal injury, and has given us a scale of operations in both New South Wales and Queensland approaching what we have built in Victoria.

Most other areas of our practice operate on a fee for service basis. We have a longstanding industrial and employment law practice, and in recent years we have diversified and built our capability in other non-personal injury practices. These include commercial litigation, conveyancing, business law, family law, wills, probate and estate litigation.



In FY11, we continued to focus on developing the family law, wills, probate and estate litigation practices. Each of these practice areas has seen steady growth in the number of enquiries. During the year we progressed a number of key strategic initiatives, most notably:

- > Family law – the launch of a new service line with a comprehensive marketing and media program in place for September 2011;
- > Domestic conveyancing – a new workflow platform has been developed through to pilot stage. The business has prepared for expansion and potential acquisitions are being evaluated; and
- > Wills, estate planning and estate litigation – we are delivering direct marketing initiatives via online channels, through alliances with affinity groups and accelerating our client referral program which is being driven by the newly formed Client Experience team.

Slater & Gordon has a long and proud history of involvement in class or group legal actions on behalf of our clients. The benefits to the company of these often groundbreaking projects are in providing the opportunity to develop the law and provide access to the legal system, the potential for strong returns and the strengthening of our public profile and brand.

In FY11 the Commercial & Project Litigation practice introduced an innovative service, Slater & Gordon RECOVER™ which seeks to provide a better approach to negligence claims through three key elements – fixed fee assessment, conditional fee conduct, and access to insurance.

BUSINESS OVERVIEW

BRAND AND MARKETING

In FY11 Slater & Gordon received over 80,000 new enquiries as a result of referral from institutional clients, referrals from clients, marketing and business development campaigns and media coverage generated from the high profile legal matters we are involved in on behalf of our clients. In 2010, 41% of all new client enquiries cited reputation as the reason they contacted us.

With reputation being such a significant driver of new enquiries, we continue to invest in research to develop the marketing approach for the non-personal injury practices. Research enables us to explore attitudes towards our brand, our service offering and the likelihood of people engaging us for other legal services. The findings from this research contribute to service development and our approach to marketing.

We also conducted research jointly with Trilby Misso on brand evaluation and client profiling which has been instrumental in informing our marketing approach in Queensland.

Throughout FY11 Slater & Gordon ran a continuous advertising program across most capital cities and regional centres where we operate. An aggressive program in Western Sydney has increased enquiries by 45%.

In 2011 the marketing team realigned to suit the needs of the business by aligning resources to the key legal practice areas and by the formation of a Client Experience team. By dedicating resources to key strategic programs, the team is better placed to develop targeted plans and support the growth objectives of the business.

CLIENT EXPERIENCE

Client Experience aims to ensure that all client experiences are at a consistently high level across the firm so that our customers become true advocates of the Slater & Gordon brand.

The team is responsible for gaining a better understanding of existing customer satisfaction and experience levels to improve customer loyalty, retention and referrals. This is done through analysing, testing and researching all facets of the client experience process, beginning with initial engagement through to resolution of matters. Their work begins from the clients very first experience with the firm and encompasses all touch points throughout the client lifecycle.

Over the next twelve months, the Client Experience team aims to ensure that every Slater & Gordon client has such a positive experience with the firm that they want to use us for all their legal needs.





TRILBYMISSO

THE TRILBY MISSO BRAND

The Trilby Misso brand has an awareness level of 84% in Queensland. Working closely with Slater & Gordon, the two brands are now focused on achieving growth for the group throughout the state.

In FY11 Trilby Misso developed a free, innovative iPhone application, 'Accident Help' which allows iPhone users to gather vital information at the scene of an accident, including photos, driver details and driving conditions. To date over 1,100 units have been downloaded.

Trilby Misso was placed third in the Australian High Performing Workplace Index in FY11. Eighty one organisations participated in this research and Trilby Misso was one of only 11 organisations identified as Higher Performing Workplaces. Trilby Misso also achieved the National Customer Service Institute of Australia Excellence Award in the small business category for 2010, and most recently were winners of the Australian Marketing Institute's Brand Revitalisation Queensland award.



OUR PEOPLE

WE KNOW THAT OUR SUCCESS DEPENDS ON OUR PEOPLE. TO ENSURE THE ONGOING SUCCESS OF OUR BUSINESS WE ATTRACT TALENTED PEOPLE AND ADD VALUE TO THEIR CAREERS BY PROVIDING THEM OUTSTANDING OPPORTUNITIES TO LEARN, GROW AND CONTRIBUTE. OUR GROWTH HAS ENABLED US TO OFFER UNPARALLELED CAREER OPPORTUNITIES TO OUR EMPLOYEES.

LEARNING, DEVELOPING, GROWING

We develop our employees by giving them assignments that will stretch them professionally and provide them with the opportunity to learn from the best in the business. We offer training that addresses the technical, financial and leadership elements of their roles.

Over 220 people have participated in our Management Development Program which focuses on self-awareness, motivation, delegation and coaching. This popular program equips our managers to deal with the challenges they face in a fast-paced professional environment.

The introduction of online training has allowed us to offer high quality training efficiently, cost-effectively and consistently across the company to our geographically dispersed workforce, as well as to employees on parental leave. Employees can access these engaging programs when and where it suits them.

Our plans for learning and development activities in FY12 include the roll-out of the Financial Training for Lawyers and Managers program, which is designed to promote good financial practice throughout the company by assisting our lawyers to effectively use our financial management tools.

One of our priorities is a project to design career and learning maps to address the expressed need of our employees to be in charge of their careers and to understand what career options are available to them. The project will also allow us to offer transparent and ambitious career paths, particularly to paralegal staff.

THE RIGHT INFRASTRUCTURE

As Slater & Gordon has grown and our objectives have become more complex we recognised the need to modernise our Payroll and Human Resource Information System (HRIS). During FY11 we implemented the Affinity Payroll and HRIS to provide easier access to more reliable people data, resulting in more effective business decision making. Our annual Performance and Development Review process went online in May 2011. We will continue to build on this capability over the next financial year by replacing other manual HR processes with integrated systems, including eRecruitment and Learning & Development.



VALUING DIVERSITY AND INCLUSIVENESS

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

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

Our commitment to diversity and inclusiveness is woven into the fabric of how we operate, starting at the recruitment phase. A focus of our graduate recruitment this year was attracting candidates from rural and regional areas and those with community language skills.

At Slater & Gordon we are known for our flexible working arrangements including part-time work, compressed working weeks, job-sharing, working from home and a range of innovative leave options. We have been very successful in transitioning employees back from parental leave by offering flexible work options. This allows our staff to continue their career momentum, while the company retains valuable skills and experience, and our clients enjoy both high quality and continuity of service.

Our future plans include introducing programs to further support gender equity and to understand how we can better integrate people with disabilities into the company.



AS AN ORGANISATION WE AIM TO CREATE AN ENVIRONMENT WHERE THE DIVERSE EXPERIENCES, PERSPECTIVES AND BACKGROUNDS OF OUR PEOPLE ARE VALUED AND UTILISED.



SOCIAL RESPONSIBILITY

SLATER & GORDON IN THE COMMUNITY

OVER OUR 76-YEAR HISTORY SLATER & GORDON HAS BEEN A PASSIONATE SUPPORTER OF CAUSES AND INITIATIVES THAT BENEFIT OUR CLIENT BASE AND LOCAL COMMUNITIES. TODAY THAT SUPPORT INCLUDES EXTENSIVE PRO BONO LEGAL HELP, GRANTS FOR MEDICAL RESEARCH, FINANCIAL HELP FOR DISADVANTAGED MEMBERS OF THE COMMUNITY, SPONSORSHIP OF LOCAL SPORTING CLUBS, CONTRIBUTIONS TO COMMUNITY ARTS PROJECTS AND STAFF PARTICIPATION IN COMMUNITY FUNDRAISING EVENTS.

PRO BONO WORK

Each year Slater & Gordon undertakes thousands of hours of pro bono work and, over the past few years we have set out to strengthen and streamline the way we handle this work.

In 2008 we launched our Pro Bono and Public Interest policy to encourage our staff to perform pro bono and public interest work for which the company receives no financial benefit.

Slater & Gordon lawyers worked pro bono with the former deputy Chair Peter Gordon in the early stages of the process that resulted in an outstanding \$50 million settlement with Diageo on behalf of thalidomide victims. Pro bono work was also undertaken for a range of community groups, individuals and small businesses during the year. In all cases, the claims did not meet the company's No Win-No Fee™ criteria, and acting pro bono accorded with our strong commitment to providing access to justice.

In FY10 we developed a Pro Bono and Community Engagement policy that provides positive incentives to each Practice Group and administrative staff managers to encourage participation in pro bono and community engagement work.

During the year we appointed a Pro Bono Coordinator to manage the administration and development of our considerable pro bono practice in accordance with this policy. The coordinator is supported by the Pro Bono & Community Engagement Committee which meets regularly to discuss applications and potential projects that fit within the policy's guidelines.

PHILANTHROPY

Staff Giving Program

The Slater & Gordon Staff Giving Program provides an opportunity for our employees to contribute directly to both the Slater & Gordon Fund and the Asbestos Research Fund, the philanthropic vehicles which support causes closely linked to the work we do. Each dollar contributed by employees is matched by the company.

The Asbestos Research Fund, founded in 2004 provides funding for research into asbestos related diseases. Grants made from the Asbestos Research Fund during the year included:

- > \$50,000 to The Asbestos Diseases Research Foundation to fund research on gene expression profiling of mesothelioma;
- > A total of \$18,000 for six Vojakovic Fellowships. Under the auspices of the Slater & Gordon Asbestos Research Fund, the Vojakovic Fellowship program provides support for the continuing education of medical and allied health professionals in the prevention, treatment and palliation of asbestos-related disease.

The Slater & Gordon Fund, established in 2001, provides funding to community and social welfare initiatives that are aligned with our values. The fund provides support for people who are disadvantaged and on causes related to the welfare and education of young people. A total of \$65,465 in grants were provided under the Slater & Gordon Fund during the year, including:

- > \$25,000 to Community West Inc to fund youth legal services in Sunshine, Victoria;
- > \$5,000 to the Heal for Life Foundation in Western Australia. The Foundation provides residential programs for men and women to work on childhood issues affecting their lives and personal relationships;
- > \$5,465 to Spinal Cord Injuries Australia (SCIA), based in NSW, to fund the purchase of five iPad2's for their iPad/My World project. In addition to the funding, Slater & Gordon also presented the SCIA with three new iPad2's for the project;
- > \$5,000 to the Centre for Education and Research in Environmental Strategies (CERES) for the CERES Global project which assists poor and remote communities internationally with sustainable practices, access to clean water and the development social enterprise projects;
- > \$5,000 to OzHarvest to provide free meals for the disadvantaged.



‘WE SPEAK YOUR LANGUAGE’ CROSS CULTURAL PROGRAM

We developed ‘We Speak Your Language’ to improve Slater & Gordon’s cultural awareness and to provide better service to people from non-English speaking and culturally diverse backgrounds. The need for the program was born out of recognising the barriers faced by new migrants and non-English speaking Australians in accessing high quality legal advice.

Since launching the program in July 2010 we have undertaken a number of initiatives to improve staff skills and further support our culturally diverse clients:

- > We have increased our use of interpreters and translators by 24% in the past 12 months;
- > Over 70% of our staff have completed cross-cultural communication training;
- > 15 staff from different Victorian offices took part in comprehensive ‘working with interpreters’ training;
- > We have doubled the number of bilingual consultants who take initial calls from our Multilingual Helpline clients and assist them in their own language. At the launch of the program we had nine consultants speaking six languages – we now have 18 consultants who speak 10 languages; and
- > 110 of our people have chosen to be listed in our bilingual directory; between them they speak over 25 different languages and are available to speak with clients in their first language.



MOTHER'S DAY CLASSIC

We are proud to be the 2011 National Gold Sponsor of the annual Mother’s Day Classic fun run/walk which raises much needed funds for breast cancer research. This year more than 200 of our staff, family members and supporters took part in the event which was held on 8 May at locations across Australia. The Mother’s Day Classic this year raised a record \$3 million, bringing the total funds raised to \$10.8 million since it started in 1998. It is largely run by volunteers, especially in regional centres, who donate their time for this event. This sponsorship is important for Slater & Gordon as it is one way we can lend our time and support to a worthwhile cause. It also encourages our people to be physically active and participate in community events.

SOCIAL WORK SERVICES

We expanded and developed our Social Work Services team during the year. We now have two social workers based in our Melbourne office and one based in our Sydney office. To date we have provided social work services to more than 150 clients, many of whom are experiencing acute and chronic financial problems that lead to additional problems with housing, accessing services, at risk behaviours and emotional distress.

The Legal Education Program developed by our Social Work Services team is accredited with the Australia Association of Social Workers (AASW) for Victoria, New South Wales, Queensland, and ACT. We have provided legal education forums across these three states to clinical social workers. The quality and relevance of these sessions has been recognised by other health professionals and we have also accommodated their educational needs. More than 500 social workers and health professionals across Australia attended sessions in the past 12 months.



CASE STUDIES



CLASS ACTION SETTLEMENT FOR CRANBOURNE PROPERTY OWNERS

In May the Supreme Court of Victoria approved details of a \$23.5 million settlement we negotiated on behalf of Cranbourne property owners whose homes and lives were disrupted by high levels of methane gas leaking from a disused landfill. The gas leaks prompted an emergency response in August 2008, including some evacuations, and resulted in significant remediation works being undertaken. The settlement was against the City of Casey and the Environmental Protection Agency (EPA), and ended a two and half year legal fight. We ran the case on a No Win - No Fee™ basis. The settlement submitted to the court will see property owners sharing in at least \$17.25 million from the payout, with the remainder to cover the plaintiffs and group members' legal costs, including experts.

OZ MINERALS CLASS ACTION SETTLEMENT

We were successful in securing a class action settlement on behalf of more than 7,500 individuals who purchased shares in the minerals resources company Oz Minerals in 2008. The Federal Court of Australia approved the settlement in July 2011. The predominantly 'mum and dad' retail investors who purchased shares in the company between February and December 2008 will share in at least \$16 million in compensation, after the deduction of legal and funding costs. Approximately 80 per cent of class members who suffered a loss are expected to receive between \$100 and \$5,000 depending on when and the number of shares they purchased. This case was a great example of how a class action can resolve major legal matters quickly and cheaply on behalf of small investors with limited resources. It was the first settlement of a shareholder class action where multiple shareholder actions were issued, demonstrating that multiplicity of actions is no barrier to resolving such claims efficiently.

COURT APPROVES \$29 MILLION FINCORP CLASS ACTION

We successfully negotiated a \$29 million class action settlement on behalf of more than 5,000 investors who lost money when Fincorp Investments Limited collapsed in 2007. The settlement was approved by the Federal Court of Australia on 20 May 2011. We pursued compensation for investors from Sandhurst Trustees Limited, the appointed trustees of Fincorp, alleging Sandhurst had breached its duties as trustee for investors under the *Corporations Act*.

The collapse of Fincorp in 2007 came as a horrific shock to the many, mainly older investors who thought they had invested in a low-risk company. The class action settlement covers investors who had purchased secured and/or unsecured notes issued by Fincorp on or after 7 December 2004 and held those notes as at 23 March 2007, or who purchased secured and/or unsecured notes prior to 7 December 2004 and rolled the investment over after that date. It was significant that unsecured noteholders were included in the class action settlement as these individuals did not receive any funds from the liquidation of Fincorp. People who thought they had no chance of recovering any part of their investment will receive a return of some of their lost capital. This is one of the first times these provisions of the legislation have been used to recover compensation from a trustee. Their use by private litigants was a legal milestone. These laws mean that when a company like Sandhurst acts as trustee for a company that raises money from the public, and when the fund raising company involved folds, there might still be an avenue to compensation for investors. Class actions are by far the most affordable, effective and transparent way of achieving justice when big business fails its customers.

FORMER CHILD MIGRANTS BRING FIRST CLASS ACTION AGAINST FAIRBRIDGE AND GOVERNMENT

In June 2011 a class action on behalf of former child migrants against the Fairbridge Foundation, the State of NSW and the Commonwealth of Australia in the Supreme Court of NSW, seeking compensation for injuries suffered at the notorious Fairbridge Farm School at Molong in the central west of NSW, had its first significant court date. This is the first class action against the local arm of the Fairbridge Foundation and is believed to be the first class action against an Australian government connected with the practice of child migration. The former Molong residents are claiming the Foundation and the two governments allowed a system of institutional abuse to develop and persist at the Molong Farm School over many decades.

It is alleged many children suffered terrible physical and sexual abuse at the hands of staff and have suffered lifelong psychiatric and physical injuries as a result. More than 65 former residents are already supporting the class action and seeking compensation as part of the claim. For much of the 1900's the British-based Fairbridge Foundation sent children from the United Kingdom to Australia, Canada and Rhodesia for resettlement, mostly without their parents. Between 1938 and 1974, hundreds of children, some as young as four, were sent from England to Fairbridge Farm School in Molong. Customarily the children became guardians of the Commonwealth and then the State and often never saw their parents again. The class action covers all residents at the Molong Fairbridge Farm School between 1938 and 1974 who were physically or sexually assaulted and who have suffered a relevant injury including post traumatic stress disorder, anxiety or some other form of psychiatric or physical injury in 1900's.



THALIDOMIDE CLASS ACTION

In October 2010 we launched a class action against the German company Grunenthal for Australian and New Zealand survivors of the drug thalidomide in cooperation with Peter Gordon's firm Gordon Legal. The class action follows the recent successful settlement with the British group Diageo for 45 Australian and New Zealand thalidomiders by Ken Youdale with the pro bono assistance of both Gordon Legal and Slater & Gordon.



OUR HISTORY

1935

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

1960-70s

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

1984

Conducted the first successful asbestos related cancer claim in Australia.

Opened a major branch office in the Melbourne suburb of Footscray.

1985

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

1986

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

1988

Won the Wittenoom asbestos case.

1989

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

1990

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

1994

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

1997

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

1999

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

2001

Became an incorporated legal practice.

2002

Achieved first mass breast implant settlement against Dow Corning worldwide.

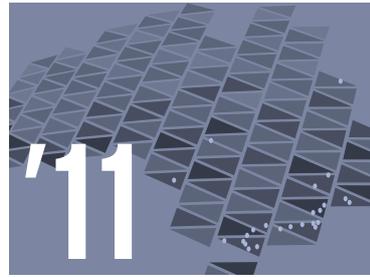
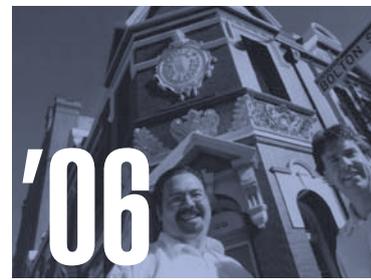
2004

Represented the ACTU and asbestos victim support groups in the James Hardie Inquiry, resulting in the establishment of a \$1.5 billion settlement fund in 2006.

Launched the Slater & Gordon Asbestos Research Fund with an initial commitment of \$500,000.

2005

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



2006

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

2007

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

2008

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

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

2009

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

2010

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

Opened new offices in Joondalup (WA), Frankston (Vic), Ipswich and Townsville (Qld)

Obtained a Federal Court judgement in favour of the lead plaintiff in the Vioxx class action.

Implemented an innovative resolution scheme for clients impacted by the failure of Queensland financial advisers, Storm Financial.

Celebrated the 75th anniversary of Slater & Gordon.

2011

Announced the acquisition of NSW personal injury firm, Keddies.

Opened new offices in Werribee and Warrnambool (Vic).

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

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



SLATER & GORDON CORPORATE GOVERNANCE STATEMENT



THE BOARD OF THE COMPANY RECOGNISES THAT A GENUINE COMMITMENT TO SOUND PRINCIPLES OF CORPORATE GOVERNANCE IS FUNDAMENTAL TO THE SUSTAINABILITY OF THE COMPANY AND ITS PERFORMANCE.

CORPORATE GOVERNANCE STATEMENT

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ACCESSING SLATER & GORDON'S CORPORATE GOVERNANCE POLICIES

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



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

BOARD RESPONSIBILITY

The Board has the following responsibilities:

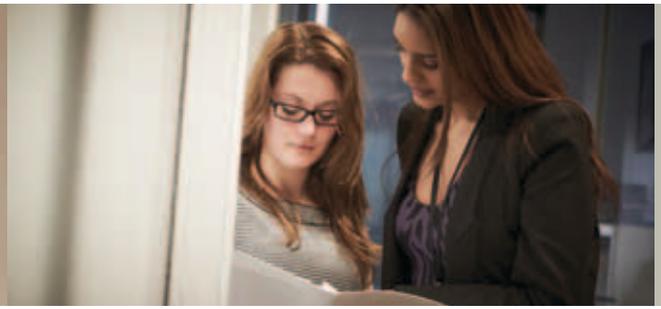
- > reviewing and approving the strategic direction of the Company, management's implementation of strategy and the allocation of appropriate resources to achieve strategic objectives;
- > selection, monitoring and evaluation of the Managing Director and overseeing and monitoring the performance and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

The responsibilities of the Board are set out in further detail in the Director's Protocol, published at www.slatergordon.com.au.

BOARD COMPOSITION

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

The Nomination and Remuneration Committee of the Board ensures that the Board consists of an appropriate number of directors and that the Directors have an appropriate mix of business skills and industry experience



to meet the Board's responsibilities and objectives. The Nomination and Remuneration Committee reviews the Board's composition and succession planning formally on an annual basis and otherwise as Board vacancies arise.

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

The Nomination and Remuneration Committee of the Board is also responsible for ensuring through its selection and succession planning processes that, having regard to the need to maintain the mix of business skills and industry experience described above, the Directors are also drawn from diverse backgrounds. On recommendation from the Nomination and Remuneration Committee, the Board has adopted a target that 50% of the Directors are women. Currently 30% of directors are women and 50% of independent directors are women. The Nomination and Remuneration Committee reviews performance against this target annually.

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

BOARD INDEPENDENCE

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

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

Directors are considered independent if they:

- > Have not been employed in an executive capacity by Slater & Gordon for the last 3 years;

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

It is the Board's view its non-executive Directors, Anna Booth, Ian Court, Erica Lane and John Skippen, are independent.

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

The Board currently consists of a majority of independent Directors.

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

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

CORPORATE GOVERNANCE STATEMENT

BOARD TENURE

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

Director	Independent	Date of appointment	Term
Andrew Grech	No- executive director	June 2001	10 years
Ken Fowlie	No- executive director	July 2003	8 years
Anna Booth	Yes	March 2007	4 years
Ian Court	Yes	March 2007	4 years
Erica Lane	Yes	December 2008	2 years
John Skippen	Yes	May 2010	1 year

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.

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.

1. Nomination and Remuneration Committee

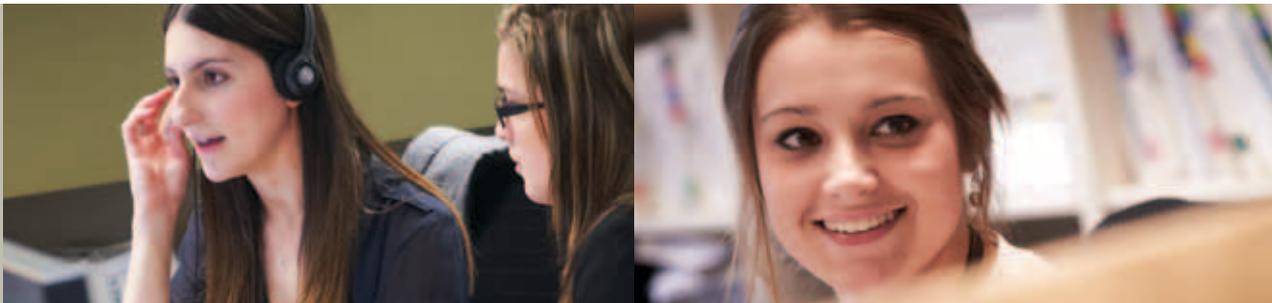
The Nomination and Remuneration Committee has delegated responsibility from the Board for:

- > evaluating the performance of the Board and the Directors against agreed performance standards;
- > developing the selection and appointment process for directors and recommending the appointment or removal of directors;
- > making recommendations on Board composition and succession planning;

- > developing induction and continuing education programs for directors;
- > recommending the structure and quantum of director remuneration and senior executive remuneration and ensuring that there is a separate structure for non-executive and executive remuneration;
- > reviewing the performance of senior executives and ensuring that performance review and remuneration policies link performance to remuneration within the Company;
- > making recommendations on succession planning for senior executives and resourcing the achievement of the Strategic Plan;
- > reviewing and making recommendations on the Company's recruitment, development and retention policies;
- > overseeing the implementation of the Employee Ownership Plan and recommending employees for participation in the Plan;
- > reviewing and making recommendations on other forms of employee incentives;
- > making recommendations on superannuation arrangements; and
- > reviewing and making recommendations on the Company's Diversity Policy and reporting to the Board under that policy on the proportion of women on the Board, in senior executive positions and across the whole Company.

The current members of the Nomination and Remuneration Committee are Erica Lane (independent Director- Chair) and Anna Booth (independent Director). Anna Booth was the Chair of this committee from 1 July 2010 until 30 June 2011 and Erica Lane commenced as Chair 1 July 2011. This came out of the Board evaluation process and was in recognition that as the Company has expanded so have these roles and this change will allow Anna Booth to focus exclusively on her role as Chair of the Board.

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



2. Audit, Compliance and Risk Management Committee

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

- > legal compliance;
- > implementation of effective legal professional management systems required by an incorporated legal practice;
- > financial reporting;
- > internal control structure;
- > external audit functions;
- > trust accounting audit functions; and
- > risk management.

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

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

NOMINATION AND APPOINTMENT OF NEW DIRECTORS

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

More information is provided in the Board Composition Policy published on the website at www.slatergordon.com.au.

REMOVAL AND ROTATION OF DIRECTORS

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

REVIEW OF BOARD PERFORMANCE

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

In late 2010 the Board engaged the Boardroom Consulting Group to facilitate an independent evaluation process. The evaluation process was based on questionnaires and facilitated interviews with directors and key management personnel conducted in February 2011. In April 2011, the Boardroom Consulting Group presented the Board with an analysis of its strengths and weaknesses, overall performance and a process and agenda for improvement and continuing reflection.

Specific reforms coming out of this evaluation included:

- > the need for the Chair, in consultation with the Managing Director, to provide individual directors with feedback on their contribution to the Board and an individual development plan; and
- > the need for the Company to facilitate more interaction between the Board and senior executives, including more informal interaction and collaboration on specific elements of the Strategic Plan or business as well as structured reporting.

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

CORPORATE GOVERNANCE STATEMENT

In February 2011, each of the Board Committees conducted an annual performance evaluation based on a questionnaire developed by the Chair and the Company Secretary and implemented improvements arising out of this process. The Board intends to continue with this style of in-house review of the performance of the Board Committees annually. Results are reported by the Chair to the first Committee meeting of each year which provides a convenient opportunity for reflection as the Committee plans its program for the year. A specific change arising from the 2010 evaluation process is the change in the composition of the Nomination and Remuneration Committee from 1 July 2011 with independent director Erica Lane assuming the role of Chair of that Committee. This is in recognition of the expansion of the Company and will allow Anna Booth to focus on her role as Chair of the Board.

REVIEW OF KEY MANAGEMENT PERSONNEL PERFORMANCE

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

The performance of the Managing Director is reviewed annually by the Nomination and Remuneration Committee. 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 regarding executive and non executive remuneration are provided in the Remuneration Report.

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

REMUNERATION

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

1. Fixed remuneration is based on what is considered by the Board to be reasonable and fair compensation taking into account the core performance requirements of the role and business and market conditions;
2. Performance based remuneration is linked to clear performance targets that are a balance of individual and company performance targets linked to achievement of the Strategic Plan and budget;
3. Equity based remuneration is considered for key management personnel under the Employee Ownership Plan. Allocations of shares vest and convert to ordinary shares over a 3 year vesting period and full capital rights are achieved over a 6 year period upon the repayment of loans provided by the Company to fund the initial issue. New allocations and vesting and conversion to ordinary shares of existing allocations is linked to clear performance targets that are a balance of individual and company performance targets. Targets are linked to individual and practice area contribution to the achievement of the Strategic Plan and budget. Directors and key management personnel are also prohibited under an internal policy from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.
4. Executives are not provided with any contractual termination payments other than reasonable notice periods for termination, recognising seniority and length of tenure.

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

More detail is provided in the Remuneration Report.



SUCCESSION PLANNING

The Board plans succession of its own members in conjunction with the Nomination and Remuneration Committee. The Board retains overall responsibility for succession planning of the Managing Director, via the Nomination and Remuneration Committee. The Nomination and Remuneration Committee and Managing Director are responsible for the succession planning of other senior executives. Succession planning for the Managing Director and senior executives was reviewed by the Nomination and Remuneration Committee and the Board during the reporting period. Human resourcing for the achievement of the Strategic Plan was also considered during the reporting period as part of the succession planning process and also as part of the review of the Strategic Plan at the Board's annual retreat held in March 2011.

RELATIONSHIP WITH MANAGEMENT

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

Broadly, the Board reserves to itself the following decisions:

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

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

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

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 a half-yearly declaration of independence for review by the Audit, Compliance and Risk Management Committee.
- > The PP independence letter outlines the services to be performed. This enables the Audit, Compliance and Risk Management Committee to provide written approval for non-audit services to the Board.
- > the Audit, Compliance and Risk Management Committee obtains details from management annually on how management has satisfied itself that significant assignments have been undertaken by the best provider.
- > the Audit, Compliance and Risk Management Committee regularly reports to the Board on these matters.

CORPORATE GOVERNANCE STATEMENT

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

The external Auditor attends and will be available 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 within closed and prohibited periods and only permit trade within the following windows:
 - > within the 6 week periods commencing 24 hours after the Company has released its half year and full year results.
 - > within the period commencing 24 hours after the Company lodges its annual report with the ASX through to one month after the Company's AGM.

A copy of the Share Trading Policy is available on the Company's website at www.slatergordon.com.au.

CONTINUOUS DISCLOSURE

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

SHAREHOLDER COMMUNICATION

The Company is committed to providing effective communication to its shareholders. The Company rotates the location of its Annual General Meeting between eastern capital cities to allow a range of shareholders to attend. The Company publishes presentations by the Managing Director to institutional investors and market analysts, contemporaneously with the scheduled presentation through the ASX Company Announcements Platform. These presentations to institutional investors and market analysts are routinely held immediately after the release of the Company's half and full year financial results. Investor relations days were held in October 2010 and June 2011. The Company's Shareholder Communication Policy is available on the Company's website at www.slatergordon.com.au.

ETHICAL STANDARDS AND SOCIAL RESPONSIBILITY

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

WHISTLE BLOWING

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



DIVERSITY

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

Category	Target	Performance 30 June 2011
% women on the Board	50%	30%
% women on the National Executive (key management personnel decision-making group)	40%	35%
% women employees	Nil target set	70%

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

BOARD EDUCATION

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

Under the Director's continuing education policy, directors are expected to continuously update and develop their knowledge and skills in relation to the industry context, financial management and corporate governance and are encouraged to undertake up to ten hours of continuing professional development at the Company's expense, with the prior approval of the Chair. An annual internal continuing professional development day is held by the Company to assist Directors to meet their educational requirements. This was first held in December 2010 and focussed on the role of the board and effectiveness of board process, legislative changes in occupational health & safety, social media risks and opportunities and an intensive on the personal injury compensation schemes nationally. A range of topics will be selected each year covering corporate governance, compliance and business and industry knowledge.

RISK MANAGEMENT

The Company has established a process for the identification and management of material business risks. The Enterprise Risk Management Framework ("the ERM Framework") was developed and adopted in 2008.

Under the ERM Framework, responsibility is allocated to the Board, the Audit, Compliance and Risk Management Committee and the Managing Director to monitor the key business risks and implement agreed risk management controls and strategies.

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

The reporting and review under this framework is as follows:

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

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

The Board reports that the Managing Director has reported to it as to the effectiveness of the Company's management of its material business risks during the period 1 July 2010 to 30 June 2011.

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

ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS

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

	ASX Principle	Compliance / Comment
Principle 1	Lay solid foundations for management and oversight	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Complies
1.2	Companies should disclose the process of evaluating the performance of senior executives.	Complies
1.3	Companies should provide the information indicated in Guide to reporting on Principle 1.	Complies
Principle 2	Structure to the board to add value	
2.1	A majority of the board should be independent directors.	Complies
2.2	The Chair should be an independent director.	Complies
2.3	The roles of Chair and executive officer should not be exercised by the same individual.	Complies
2.4	The Board should establish a nomination committee.	Complies
2.5	Companies should disclose the process for evaluating the performance of the Board, its Committees and individual directors.	Complies
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies
Principle 3	Promote ethical and responsible decision-making	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to:	
3.1.1	the practices necessary to maintain confidence in the Company's integrity.	Complies
3.1.2	the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.	Complies
3.1.3	the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Complies
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Complies
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Complies
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Complies
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Complies
Principle 4	Safeguard integrity in financial reporting	
4.1	The Board should establish an audit committee.	Complies
4.2	Structure the audit committee should be structured so that it: <ul style="list-style-type: none"> > consists only of non-executive directors > consists of a majority of independent directors > is chaired by an independent chair who is not chair of the board > has at least three members 	Complies

	ASX Principle	Compliance / Comment
4.3	The audit committee should have a formal charter.	Complies
4.4	Companies should provide the information indicated in Guide to reporting on Principle 4.	Complies
Principle 5	Make timely and balanced disclosure	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Complies
5.2	Companies should provide the information indicated in Guide to reporting on Principle 5.	Complies
Principle 6	Respect the rights of shareholders	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complies
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies
Principle 7	Recognise and manage risk	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complies
Principle 8	Remunerate fairly and responsibly	
8.1	The Board should establish a remuneration committee.	Complies
8.2	The remuneration committee should be structured so that it: > consists of a majority of independent directors; > is chaired by an independent chair; > has at least three members.	Complies
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies
8.4	Companies should provide the information indicated in Guide to reporting on Principle 8.	Complies

BOARD OF DIRECTORS AND COMPANY SECRETARY



THE SKILLS, EXPERIENCE, EXPERTISE AND SPECIAL RESPONSIBILITIES OF EACH PERSON WHO HAS BEEN A DIRECTOR OF THE COMPANY AT ANY TIME DURING OR SINCE THE END OF THE FINANCIAL YEAR IS PROVIDED BELOW, TOGETHER WITH DETAILS OF THE COMPANY SECRETARIES AS AT THE YEAR END.

ANNA BOOTH

B Ec Hons
FAICD
Non-executive Chair

In 1987 Anna became the first woman National Secretary of the Clothing and Allied Trades Union of Australia and upon amalgamation, the Textiles, Clothing and Footwear 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 Industry Super Holdings Pty Ltd, along with subsidiary Industry Funds Management and now de-merged ME Bank. She is also an executive director of CoSolve Pty Ltd where she consults in workplace relations. She is a qualified Leader with Girl Guides NSW and Chair of Workplace Australia.

Anna is the Chair of the Board and a member of the Nomination and Remuneration Committee. Anna brings to the Board a broad knowledge of government and corporate environments, in particular banking and financial services. She is a specialist in workplace relations and is highly skilled in facilitation, collective decision-making and mediation. Anna has developed a strong capability in corporate governance including financial performance and has a strong commitment to corporate responsibility.



ANDREW GRECH

LLB MAICD
Managing Director

Andrew joined Slater & Gordon in 1994 and has worked as a litigator in most areas of the Company's litigation practice. Andrew also spent three years in the then fledgling Sydney office between 1997 and 2000. Since he became Managing Director in 2000, the Group has enjoyed substantial growth, expanding from seven offices in 2002 to a network of over 50 offices across Australia in 2011. Andrew has also successfully managed the acquisition and integration of 25 firms since 2006.

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

Andrew served as the founding chair of the Youth Junction Inc., a not for profit youth charity operating in Sunshine, Victoria and remains a member of its voluntary board.



KEN FOWLIE

LLB BCom MAICD
Executive Director

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

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

More recently, as General Manager of the Commercial and Project Litigation practice, Ken has had stewardship of the Group's portfolio of high profile project litigation cases.

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



IAN COURT

FAICD
Non-executive Director

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

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

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



ERICA LANE

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

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

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

Erica currently runs her own business advisory and interim management firm and has consulted extensively on strategic realignment, re-organisation and restructuring and performance improvement across a broad range of industries. She is a Director of the Ilhan Food Allergy Foundation and Founder of AnaphylaxiSTOP, philanthropic organisations which support medical research into life threatening food allergies.

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



JOHN SKIPPEN

ACA
Non-executive Director

John has over 30 years experience as a chartered accountant and was the former Finance Director of Harvey Norman Holdings Ltd. John has also served as a Director of Mint Wireless Limited.

John is currently a Non Executive Director of Flexigroup Limited, Super Retail Group Ltd, Briscoe Group Limited (NZ) and Emerging Leaders Investment Ltd.

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



WAYNE BROWN

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

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



KIRSTEN MORRISON

BA/LLB (Hons)
General Counsel and Joint Company
Secretary

Kirsten completed articles at Allens Arthur Robinson in 2003 and obtained experience in property, planning and commercial litigation before completing an Associateship to the Hon. Justice Hargrave in the Commercial List of the Victorian Supreme Court in 2005. Kirsten commenced as a commercial litigator with Slater & Gordon in 2006 and then as General Counsel and joint Company Secretary in 2008. Kirsten contributes skills in legal compliance, corporate governance and commercial litigation.



**SLATER & GORDON LIMITED
AND CONTROLLED ENTITIES
FINANCIAL
STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2011**



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

DIRECTORS' REPORT

The directors present their report together with the financial report of the consolidated entity consisting of Slater & Gordon Limited ("the Company") and its subsidiaries, Trilby Misso Lawyers Limited (acquired on 13 August 2010) and Keddies The Insurance Law Specialists Pty Limited (acquired on 11 January 2011), (jointly referred to as "the Group"), for the financial year ended 30 June 2011 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards ("IFRS").

Directors

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

- Anna Booth – Chair
- Andrew Grech – Managing Director
- Ian Court
- Ken Fowlie
- Erica Lane
- John Skippen

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

Principal activities

The principal activity of the Group during the financial year was the operation of legal practices throughout Victoria, New South Wales, Queensland, Western Australia, the Australian Capital Territory and Tasmania.

Results

The profit after income tax of the Group was \$27,908,000 (2010: \$19,800,000).

Review of operations

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

Significant changes in the state of affairs

Significant changes in the Group's state of affairs during the year ending 30 June 2011 were as follows:

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

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

The strategic rationale for this business combination is to:

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

Acquisition of subsidiary – Keddies The Insurance Law Specialists Pty Limited ("Keddies")

On 11 January 2011, the Group acquired a 100% shareholding in Keddies, a leading New South Wales personal injury law firm, for a total consideration of \$30,991,000.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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The strategic rationale for this business combination is to:

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

Share issue

The Company completed a capital raising totalling \$39,406,000 at \$1.40 per share to fund the acquisition of TML by way of:

- a share placement to sophisticated and professional investors (“Placement”) for a total value of \$38,000,000; and
- a share purchase plan (“SPP”) to existing, eligible shareholders for a total value of \$1,406,000 at \$1.40 per share.

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

The Placement was conducted in two parts:

- the first tranche (“Tranche 1”), which was fully underwritten and was completed on 1 July 2010, involving the issue of 16,806,116 ordinary shares at \$1.40 per share to professional and sophisticated investors to raise \$23,529,000. The funds were received on 30 June 2010 and the shares were allotted on 1 July 2010; and
- the second tranche (“Tranche 2”), which was conducted together with Tranche 1 of the Placement, was completed following the approval of shareholders at the Extraordinary General Meeting (“EGM”) held on 9 August 2010. Tranche 2 was also underwritten and involved the issue of a further 10,336,741 ordinary shares at \$1.40 per share to raise a further \$14,471,000.

The SPP which opened on 5 July 2010 and closed on 31 July 2010 raised the total sum of \$1,406,000 with 1,004,204 ordinary shares being issued on 13 August 2010 at \$1.40 per share.

During the year ending 30 June 2011, the Company issued a total of 37,298,544 ordinary shares representing:

- On 1 July 2010: 16,806,116 ordinary shares as Tranche 1 of the Placement and ratified at the Company’s EGM held on 9 August 2010;
- On 13 August 2010: 3,403,927 ordinary shares to the vendors of TML as approved at the Company’s EGM held on 9 August 2010.
- On 13 August 2010: 10,336,741 ordinary shares as Tranche 2 of the Placement and approved at the Company’s EGM held on 9 August 2010;
- On 13 August 2010: 1,004,204 ordinary shares pursuant to the SPP;
- On 3 September 2010 the Company issued 2,560,834 ordinary shares as a result of the conversion of Vesting Convertible Redeemable (“VCR”) ordinary shares pursuant to the terms of the Employee Ownership Plan (“EOP”) and as approved at the AGM on 12 November 2009. For further details on the terms of EOP, please refer to Note 25 of the financial report for the year ended 30 June 2011.
- On 3 September 2010 the Company issued a total of 912,714 ordinary shares as part of the deferred consideration for certain acquisitions that occurred during prior years, consisting of the following:
 - 508,986 ordinary shares issued to the vendors of Kenyons Lawyers, representing \$800,000 in the Company’s ordinary shares at the volume weighted average price at which shares traded during the period from 30 November 2009 to 4 December 2009.
 - 403,728 ordinary shares issued to the vendors of Adams Leyland, representing \$650,000 in the Company’s ordinary shares at the volume weighted average price at which shares traded during the period from 5 April 2010 to 9 April 2010.
- On 11 January 2011 the Company issued 2,083,340 ordinary shares for partial consideration for the acquisition of Keddiess, representing \$3,700,000 in the Company’s ordinary shares at the volume weighted average price at which shares traded during the period from 1 October 2010 to 28 October 2010.
- On 12 January 2011 the Company issued 53,572 ordinary shares as the result of the conversion of VCR shares pursuant to the terms of the EOP and as approved at the AGM on 12 November 2009.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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- On 7 March 2011 the Company issued a total of 117,944 ordinary shares as part of the deferred consideration for the purchase of Crane Butcher McKinnon, representing \$183,000 in the Company's ordinary shares at the volume weighted average price at which shares traded during the period from 22 February 2008 to 28 February 2008 and approved at an AGM held on 14 November 2008.
- On 30 June 2011 the Company issued a total of 19,152 ordinary shares as part of the deferred consideration for the purchase of Crane Butcher McKinnon, representing \$30,000 in the Company's ordinary shares at the volume weighted average price at which shares traded during the period from 22 February 2008 to 28 February 2008 and approved at an AGM held on 14 November 2008.
- Pursuant to the terms of the EOP, the Company issued an Offer Document on 22 December 2010 for the issue of up to 2,040,000 VCR shares at a price of \$2.05 per share to the employees of the Group. On 22 February 2011, 1,830,000 VCR shares were issued to employees of the Group.

Share buy-back

On 17 May 2011 the Company announced an employee share scheme buy-back, pursuant to the terms of the EOP. The share buy-back was completed on 31 May 2011 and the Company cancelled 160,715 ordinary shares and 1,878,572 VCR shares by off-setting the loans due from the relevant EOP participants for the face value of \$102,000 and \$1,632,000 respectively.

McCabe Proceedings

All proceedings relating to the estate of the late Rolah McCabe, British American Tobacco Australia Services Limited, Slater & Gordon and Peter Gordon were concluded during the financial year, with no orders as to the costs being made.

The conclusion of the proceedings resulted in the write off of work in progress and previously incurred and paid disbursements of \$611,000 which have been included in the Consolidated Statement of Comprehensive Income.

Subsequent events

On 31 August 2011 the Company issued 2,129,046 ordinary shares as a result of the conversion of VCR shares pursuant to the terms of the Employee Ownership Plan and as approved at the AGM on 26 October 2011. These ordinary shares issued subsequent to 30 June 2011 will also participate in the final dividend declared for the year ending 30 June 2011 of 3.3 cents, fully franked, equating to the sum of \$70,000.

Dividends paid, recommended and declared

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

- A final dividend for the year ending 30 June 2010 was declared on 19 August 2010 to pay a fully franked dividend of 3.0 cents per share to ordinary shareholders. This dividend was paid on 28 October 2010.
- An interim dividend was declared on 24 February 2011 to pay a fully franked dividend of 2.2 cent per share to ordinary shareholders. This dividend was paid on 27 April 2011.
- A final dividend was declared on 16 August 2011 to pay a fully franked dividend of 3.3 cents per share to ordinary shareholders with a record date of 6 September 2011. This dividend is to be paid on 26 October 2011. This dividend was not provided for in the accounts as at 30 June 2011.

Share options

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

Indemnification and insurance of directors and officers

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

A premium of \$32,000 (2010: \$53,887) for a twelve month period was incurred in respect of directors, officers and the Company Secretary of the Company against a liability brought upon such an officer.

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Information on directors and company secretaries

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

Anna Booth
B Ec Hons
FAICD
Non-executive Chair

In 1987 Anna became the first woman National Secretary of the Clothing and Allied Trades Union of Australia and upon amalgamation, the Textiles, Clothing and Footwear 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 Industry Super Holdings Pty Ltd, along with subsidiary Industry Funds Management and now de-merged ME Bank. She is also an executive director of CoSolve Pty Ltd where she consults in workplace relations. She is a qualified Leader with Girl Guides NSW and Chair of Workplace Australia.

Anna is the Chair of the Board and a member of the Nomination and Remuneration Committee. Anna brings to the Board a broad knowledge of government and corporate environments, in particular banking and financial services. She is a specialist in workplace relations and is highly skilled in facilitation, collective decision-making and mediation. Anna has developed a strong capability in corporate governance including financial performance and has a strong commitment to corporate responsibility.

Andrew Grech
LLB MAICD
Managing Director

Andrew joined Slater & Gordon in 1994 and has worked as a litigator in most areas of the Company’s litigation practice. Andrew also spent three years in the then fledgling Sydney office between 1997 and 2000. Since he became Managing Director in 2000, the Group has enjoyed substantial growth, expanding from seven offices in 2002 to a network of over 50 offices across Australia in 2011. Andrew has also successfully managed the acquisition and integration of 25 firms since 2006.

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

Andrew served as the founding chair of the Youth Junction Inc., a not for profit youth charity operating in Sunshine, Victoria and remains a member of its voluntary board.

Ken Fowle
LLB BCom MAICD
Executive Director

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

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

More recently, as General Manager of the Commercial and Project Litigation practice, Ken has had stewardship of the Group’s portfolio of high profile project litigation cases.

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Ian Court
FAICD
Non-executive Director

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

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

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

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

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

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

Erica currently runs her own business advisory and interim management firm and has consulted extensively on strategic realignment, re-organisation and restructuring and performance improvement across a broad range of industries. She is a Director of the Ilhan Food Allergy Foundation and Founder of AnaphylaxiSTOP, philanthropic organisations which support medical research into life threatening food allergies.

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

John Skippen
ACA
Non-executive Director

John has over 30 years' experience as a chartered accountant and was the former Finance Director of Harvey Norman Holdings Ltd. John has also served as a Director of Mint Wireless Limited (resigned September 2008).

John is currently a Non Executive Director of Flexigroup Limited (appointed November 2006), Super Retail Group Ltd (appointed September 2008), Briscoe Group Limited (NZ) (appointed March 2004) and Emerging Leaders Investment Ltd (appointed October 2010).

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

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

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

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

Kirsten Morrison
BA/LLB (Hons)
General Counsel and Joint
Company Secretary

Kirsten completed articles at Allens Arthur Robinson in 2003 and obtained experience in property, planning and commercial litigation before completing an Associateship to the Hon. Justice Hargrave in the Commercial List of the Victorian Supreme Court in 2005. Kirsten commenced as a commercial litigator with Slater & Gordon in 2006 and then as General Counsel and joint Company Secretary in 2008. Kirsten contributes skills in legal compliance, corporate governance and commercial litigation.

Directors' meetings

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

	Board of Directors		Audit, Compliance & Risk Management Committee		Nomination & Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
A Booth	6	6	-	-	4	4
A Grech	6	6	-	-	-	-
I Court	6	6	4	4	-	-
K Fowlie	6	6	-	-	-	-
E Lane	6	6	4	4	4	4
J Skippen	6	6	4	4	-	-

Directors' interests in shares

Directors' relevant interests in shares of the Company as at the date of this report are detailed below.

	Ordinary shares of the Company
A Booth	60,714
A Grech	22,202,902
I Court	35,000
K Fowlie	20,423,536
E Lane	150,000
J Skippen	-

The shares held directly by A Grech and K Fowlie are 8,022,356 ordinary shares and 6,086,221 ordinary shares respectively.

In addition, A Grech and K Fowlie have a relevant interest in each other's, and the other Vendor Shareholders being P Gordon, P Henderson, C Evans, H Stephens and M Clayton, shares under section 608(1) of the Corporations Act due to restrictions on disposal set out in a Shareholders Agreement to which they are each a party.

Under the Shareholders Agreement each of the Vendor Shareholders agree with each other not to dispose of their shares in certain circumstances, so that each Vendor Shareholder can hold the other Vendor Shareholders to account in relation to their ongoing ownership interest in the Company. The disposal restrictions contained in the Shareholders Agreement are intended to provide incentives to A Grech, K Fowlie and the other Vendor Shareholders, who are key people to the business of the Group, to remain employed by the Group in the short and longer term and to retain a significant ownership interest in the Company.

As the Shareholders Agreement is enforceable by each of the Vendor Shareholders, they each have a relevant interest in each other's share, which, in aggregate, comprise 5.8% of all of the shares on issue at 30 June 2011.

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

Directors' interests in contracts

Directors' interests in contracts are disclosed in Note 27 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 notified to the Board of Directors. Non-audit services provided by Pitcher Partners, the auditors of the Group, during the year are detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

	2011	2010
	\$'000	\$'000
Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to the Group:		
- Due diligence investigations	232	152
- General controls and IT conversion review	7	11
	<u>239</u>	<u>163</u>

Remuneration report

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

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

Nomination and Remuneration Committee

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

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

Remuneration philosophy

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

The Group embodies the following principles in its remuneration framework:

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

Remuneration structure

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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Non-executive director remuneration

Objective

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

Structure

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

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

The remuneration of non-executive directors is set for the position of Chair of the Board at \$114,400 and for a director at \$57,200. An additional fee of \$15,000 is paid for any director who acts as a Chair of a Board sub-committee. An additional fee of \$7,500 per sub-committee is paid for any director who acts a member of a Board sub-committee. The payment of the additional fees for being the Chair or a member 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 Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

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

Structure

It is the Board's policy that directors' fees are not paid to executive directors. The adequacy and form of remuneration of the Managing Director, and senior Group executives are reviewed by the Nomination and Remuneration Committee. The remuneration policy for these executives takes into account personal competence, experience and the achievement of key performance indicators ("KPI's"), - (financial KPI's include achievement of budgets for profitability, working capital management; non-financial KPI's include practice and staff management and business development).

The Nomination and Remuneration Committee is responsible for ensuring that senior executive remuneration is reasonable in comparison with industry and other relevant measures including promoting the long term growth of shareholder value. The Managing Director, in conjunction with the Nomination and Remuneration Committee (where appropriate), annually reviews senior executives' KPI's for their 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 Group executives/employees. Remuneration levels vary across the Group and have regard to geographical and local circumstances and the need to maintain attractive and competitive income levels.

Executive remuneration is made up from the following components:

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

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Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee. The process consists of a review of the Group, 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 Group.

Variable remuneration – short term incentives (“STI”)

Objective

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

Structure

Cash bonuses to executives/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 Group. Discretionary components are assessed or approved by the Company’s Nomination and Remuneration Committee.

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

Key Management Personnel (“KMP”)

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

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

The KMP who may be eligible to a cash performance bonus with a combined total of up to \$574,100 (2010: \$552,500) in respect of the year ended 30 June 2011 are Andrew Grech, Wayne Brown, Cath Evans, Ken Fowlie, Hayden Stephens, Chris Prast and Rod Cunich.

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

The estimated bonuses due to KMP for FY11 is \$336,000 (2010: \$160,377). The entitlement to these bonuses has been based on the assessment of the KMP achievement or otherwise of the performance criteria (KPI’s) for the financial year.

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

Variable remuneration – long term incentives (“LTI”)

Objective

In the financial year ending 30 June 2007 (prior to listing on the ASX) 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.

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Structure

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

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

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

The EOP provides for a full recourse interest free loan from the Company to the employee to facilitate the employee's subscription for VCR shares. The loan is secured by the VCR shares or the converted VCR shares. The offer made by the Board must specify the date by which the loan must be repaid. This date may not be later than 5 years after vesting (refer to Note 25).

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

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

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

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

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

The KMP who have shares under the EOP (refer Note 25) subject to performance criteria in respect of the year ended 30 June 2011 are the Chief Financial Officer, Wayne Brown, the General Manager – Western Australia, Chris Prast, and the General Manager – Business and Private Clients, Rod Cunich.

Employment contracts

Executive Directors

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

- Mr Grech receives fixed remuneration of \$405,600 per annum (inclusive of superannuation);
- Mr Grech is also eligible to receive a bonus of up to \$121,600 for the year ended 30 June 2011 (2010: \$75,000) (inclusive of superannuation) at the discretion of the board, based on the achievement of certain key performance indicators. A cash bonus of \$68,000 is payable in respect to the year ended 30 June 2010. For the year 30 June 2011 a cash bonus of \$121,600 has been provisionally determined. Key performance indicators include financial and non-financial KPI's and are aligned to the performance measures set in the STI's (refer above);

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

- Mr Fowlie receives fixed remuneration of \$350,000 per annum (inclusive of superannuation);
- Mr Fowlie is also eligible to receive a bonus of up to \$100,000 for the year ended 30 June 2011 (2010: \$75,000) (inclusive of superannuation) at the discretion of the board, based on the achievement of certain key performance indicators. No cash bonus was paid in respect to the year ended 30 June 2010. For the year 30 June 2011 a cash bonus of \$100,000 has been provisionally determined. Key performance indicators include financial and non-financial KPI's and are aligned to the performance measures set in the STI's (refer above);

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

- The director may resign from their position and thus terminate their employment contract by giving three months written notice;
- The Company may terminate their employment agreement by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of the director's remuneration);
- The Company may terminate their employment contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination;
- Their employment agreement contains a restraint of trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company, 24 months);
- The performance of the director is reviewed annually by the Nomination and Remuneration Committee and/or the Board. The director is assessed on achievement of the Group's goals and budgets applicable to the year in review. The committee also reviews the remuneration of the director on an annual basis. The findings are reported to, and approved by, the Board; and,

In addition, both executive directors are Vendor Shareholders and are subject to a Shareholders Agreement which has been entered into by all seven Vendor Shareholders. This agreement places restrictions on the ability of the directors 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 Group may terminate the executive's employment agreement by providing one to three months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration).
- Any executive who is an EOP Participant is subject to consequences which flow from the cessation of their employment as discussed above 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 Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- The employment agreement contains a restraint of trade provision which applies for a period of 12 months (or, in the case of a direct competitor of the Company, 24 months).

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

Further details regarding components of KMP remuneration are detailed below.

Directors' remuneration:

2011	Short term			Post employment		Equity	Other benefits	Total
	Salary/ Fees \$	Cash Bonus \$	Non- monetary \$	Super \$	Retirement benefits \$	\$	\$	\$
A Booth	118,716	-	-	10,684	-	-	-	129,400
A Grech ⁽¹⁾	381,615	-(⁴)	8,786	15,199	-	-	-	405,600
I Court	51,265	-	-	20,935	-	-	-	72,200
K Fowlie ⁽¹⁾	326,354	-	8,447	15,199	-	-	-	350,000
E Lane	47,211	-	-	24,989	-	-	-	72,200
J Skippen ⁽²⁾	58,680	-	-	6,020	-	-	-	64,700
	<u>983,841</u>	<u>-</u>	<u>17,233</u>	<u>93,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,094,100</u>
2010								
A Booth	118,716	-	-	10,684	-	-	-	129,400
P Gordon ⁽³⁾	90,729	-	1,261	5,275	-	-	126,301 ⁽⁵⁾	223,566
A Grech ⁽¹⁾	335,913	-	8,786	45,301	-	-	-	390,000
I Court	66,239	-	-	5,961	-	-	-	72,200
K Fowlie ⁽¹⁾	327,092	-	8,447	14,461	-	-	-	350,000
E Lane	66,239	-	-	5,961	-	-	-	72,200
J Skippen ⁽²⁾	5,646	-	-	558	-	-	-	6,204
	<u>1,010,574</u>	<u>-</u>	<u>18,494</u>	<u>88,201</u>	<u>-</u>	<u>-</u>	<u>126,301</u>	<u>1,243,570</u>

⁽¹⁾ These are also executives and would be included for the purposes of the Executives' Remuneration.

⁽²⁾ Appointed as a director on 26 May 2010.

⁽³⁾ Resigned as a director on 15 April 2010.

⁽⁴⁾ A Grech is entitled to a bonus of \$68,000 in respect to the 2010 financial year. This remains unpaid as at 30 June 2011.

⁽⁵⁾ A termination payment was paid to P Gordon upon his resignation as a director.

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Executives' remuneration:

2011

Position	Short term		Post employment		Share based payments	Other benefit	Total			Total performance related			
	Salary / Fees	Cash Bonus	Non-monetary	Super			Retirement benefits	Cash Bonus	Non-Monetary	Share based payments	Cash Bonus	Non-Monetary	Share based payments
H Stephens General Manager – Personal Injuries North	\$ 364,561	-	-	\$ 15,199	-	\$ -	\$ 107,500 ⁽⁸⁾	\$ 487,260	-	-	-	-	-
C Evans General Manager – Personal Injuries South	367,121	49,377	7,680	15,199	-	-	-	439,377	49,377	-	-	11.2%	-
W Brown Chief Financial Officer	243,769	27,000	23,532	15,199	-	47,033	38,523 ⁽⁷⁾	395,056	27,000	-	47,033	6.8%	11.9%
C Prast General Manager – Western Australia	230,354	-	31,111	15,199	-	27,571	42,185 ⁽⁷⁾	346,420	-	-	27,571	-	8.0%
R Cunich General Manager – Business and Private Clients	191,803	-	-	31,181	-	28,163	18,917 ⁽⁷⁾	270,064	-	-	28,163	-	10.4%
	1,397,608	76,377	62,323	91,977	-	102,767	207,125	1,938,177	76,377	-	102,767	3.9%	5.3%

2010

H Stephens General Manager – Personal Injuries North	349,149	-	-	15,851	-	-	62,500 ⁽⁸⁾	427,500	-	-	-	-	-
C Evans General Manager – Personal Injuries South	335,189	-	8,786	20,025	-	-	-	364,000	-	-	-	-	-
M Feehan ⁽⁶⁾ Chief Operating Officer	309,645	37,500	15,954	14,461	-	60,229	104,859 ⁽⁷⁾	542,648	37,500	-	60,229	6.9%	11.1%
W Brown Chief Financial Officer	234,046	-	19,412	16,542	-	45,690	29,416 ⁽⁷⁾	345,106	-	-	45,690	-	13.2%
C Prast General Manager – Western Australia	233,453	-	17,086	14,461	-	31,015	31,518 ⁽⁷⁾	327,533	-	-	31,015	-	9.5%
R Cunich General Manager – Business and Private Clients	184,418	-	-	30,043	-	16,431	9,093 ⁽⁷⁾	239,985	-	-	16,431	-	6.8%
	1,645,900	37,500	61,238	111,383	-	153,365	237,386	2,246,772	37,500	-	153,365	1.7%	6.8%

⁽⁶⁾ M Feehan resigned as Chief Operating Officer on 30 June 2010. He has continued his involvement within the Group as an employee and as a consultant in other roles.

⁽⁷⁾ Includes notional benefit on interest-free VCR Share loan calculated at a commercial interest rate.

⁽⁸⁾ Includes living away from home allowance.

There are no other non-director executives.

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Rounding of amounts

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

Signed in accordance with a resolution of the directors.



Anna Booth
Chair
Melbourne
7 September 2011



Andrew Grech
Managing Director



An independent Victorian Partnership
ABN 27 975 255 196

Auditor's Independence Declaration

To the Directors of Slater & Gordon Limited

In relation to the independent audit for the year ended 30 June 2011, 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, appearing to read 'M W Pringle', written over a light red rectangular stamp.

M W PRINGLE
Partner
7 September 2011

A handwritten signature in black ink, appearing to read 'Pitcher Partners', written over a light red rectangular stamp.

PITCHER PARTNERS
Melbourne

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
Revenue			
Fee revenue	4	178,046	122,171
Other revenue	4	4,263	2,559
		182,309	124,730
Less: Expenses			
Salaries and employee benefit expenses		(88,007)	(61,121)
Rental expenses		(8,693)	(7,022)
Advertising and marketing expenses		(9,430)	(5,873)
Administration and office expenses		(14,355)	(9,935)
Consultant fees		(935)	(566)
Finance costs	5	(6,066)	(2,570)
Bad and doubtful debts	5	(3,967)	(2,534)
Depreciation and amortisation expenses	5	(2,743)	(1,480)
Costs associated with acquisitions		(1,444)	(792)
Other expenses		(5,126)	(3,983)
Profit before income tax expense		41,543	28,854
Income tax expense	6	(13,635)	(9,054)
Profit for the year attributable to members	20	27,908	19,800
Other comprehensive income			
Movement in the fair value of cash flow hedges, net of tax	19	86	(331)
Other comprehensive income for the year, net of tax		86	(331)
Total comprehensive income for the year attributable to members		27,994	19,469
Basic earnings per share (cents)			
	23	19.1 cents	17.9 cents
Diluted earnings per share (cents)			
	23	18.3 cents	16.7 cents

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
Current assets			
Cash and cash equivalents	8	4,032	30,110
Receivables	9	95,804	66,719
Work in progress	10	179,606	111,869
Current tax asset	6	391	-
Other current assets	11	4,836	4,124
Total current assets		284,669	212,822
Non-current assets			
Plant and equipment	12	9,943	6,943
Work in progress	10	7,045	7,245
Intangible assets	13	58,352	25,966
Other non-current assets	14	18,401	17,346
Total non-current assets		93,741	57,500
Total assets		378,410	270,322
Current liabilities			
Payables	15	61,426	33,222
Short term borrowings	16	7,165	7,136
Current tax liabilities	6	-	2,154
Provisions	17	11,464	8,239
Total current liabilities		80,055	50,751
Non-current liabilities			
Payables	15	8,576	1,736
Long term borrowings	16	40,554	28,067
Deferred tax liabilities	6	51,826	41,325
Derivative financial instruments		349	472
Provisions	17	1,633	1,478
Total non-current liabilities		102,938	73,078
Total liabilities		182,993	123,829
Net assets		195,417	146,493
Equity			
Contributed equity	18	109,809	81,182
Reserves	19	(245)	(331)
Retained profits	20	85,853	65,642
Total equity		195,417	146,493

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Contributed Equity \$'000	Retained Earnings \$'000	Reserves \$'000	Total Equity \$'000
Balance as at 30 June 2009		53,784	51,620	-	105,404
Net Profit after tax for the year		-	19,800	-	19,800
Cash flow hedge (net of tax)	19	-	-	(331)	(331)
Total comprehensive income for the year		-	19,800	(331)	19,469
Transactions with owners in their capacity as equity holders					
Ordinary and VCR shares issued (net)	18	5,028	-	-	5,028
Dividends paid	7	-	(5,778)	-	(5,778)
Unallotted share capital	18(c)	23,529	-	-	23,529
Costs of equity raising	18	(1,159)	-	-	(1,159)
Total transactions with owners in their capacity as equity holders		27,398	(5,778)	-	21,620
Balance as at 30 June 2010		81,182	65,642	(331)	146,493
Net Profit after tax for the year		-	27,908	-	27,908
Cash flow hedge (net of tax)	19	-	-	86	86
Total comprehensive income for the year		-	27,908	86	27,994
Transactions with owners in their capacity as equity holders					
Ordinary and VCR shares issued (net)	18	30,026	-	-	30,026
Share buy-back	18	(1,111)	-	-	(1,111)
Dividends paid	7	-	(7,697)	-	(7,697)
Costs of equity raising	18	(288)	-	-	(288)
Total transactions with owners in their capacity as equity holders		28,627	(7,697)	-	20,930
Balance as at 30 June 2011		109,809	85,853	(245)	195,417

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	2010
		\$'000	\$'000
Cash flow from operating activities			
Receipts from customers		166,702	120,303
Payments to suppliers and employees		(140,633)	(94,617)
Interest received	4(a)	500	76
Borrowing costs		(3,991)	(2,675)
Income tax (paid)/refunded		(2,539)	1,642
Net cash provided by operating activities	21 (b)	20,039	24,729
Cash flow from investing activities			
Payment for software development		(1,026)	(1,758)
Payment for plant and equipment		(1,815)	(1,001)
Costs associated with acquisition of businesses		(1,677)	-
Payment for acquisition of businesses, net of cash in subsidiaries		(59,839)	(8,188)
Payment for acquisition of businesses - deferred consideration		(2,032)	(4,545)
Net cash used in investing activities		(66,389)	(15,492)
Cash flow from financing activities			
Proceeds from share issue	18	15,877	23,529
Costs of raising equity	18	(837)	(1,159)
Proceeds from related parties and employees		1,589	2,020
Proceeds from borrowings		34,491	8,455
Repayment of borrowings		(23,132)	(3,670)
Dividends paid	7	(7,697)	(5,778)
Net cash provided by financing activities		20,291	23,397
Net increase/(decrease) in cash held		(26,059)	32,634
Cash at beginning of financial year		30,091	(2,543)
Cash at end of financial year	21 (a)	4,032	30,091

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION

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

The financial report covers Slater & Gordon Limited (“the Company”) which is a company limited by shares, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as (“the Group”) and individually as (“Group entities”)). The financial report was authorised for issue by the directors as at the date of the Directors’ Report.

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

(a) Basis of preparation of the financial report

Compliance with IFRS

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

Historical cost convention

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

(b) Principles of consolidation

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are fully consolidated from the date on which control is established. They are de-consolidated from the date that control ceases.

(c) Segment reporting

Determination and presentation of operating segments

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments operating results are regularly reviewed by the Group’s Managing Director to make decisions about resources to be allocated to the segment and to assess its performance, and for which financial information is available.

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

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION (Continued)

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

Interest revenue

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

Other revenue

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

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

(e) Income tax

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

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

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

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

Tax consolidation

The Company and its controlled entities have formed a tax consolidated group under the tax consolidation legislation. Trilby Misso Lawyers Limited ("TML") form part of the consolidated tax group from acquisition 13 August 2010 and Keddies The Insurance Law Specialists Pty Limited ("Keddies") form part of the consolidated tax group from acquisition on 11 January 2011. As a consequence, the Company and its controlled entities which comprise the tax-consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Slater & Gordon Limited.

(f) Cash and cash equivalents

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION (Continued)

(g) 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.

(h) Work in progress

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

Non-personal injury

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

Personal injury

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

Project litigation

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

(i) Plant and equipment

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

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

Depreciation

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

The depreciation rates used for each class of assets are:

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

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION (Continued)

(j) Leases

Operating leases

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

(k) Intangibles

Goodwill

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

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

Software development costs

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

Trademarks

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

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

Customer relationships

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

(l) 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 indicate that the carrying amount of the asset may be impaired.

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

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

(m) 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.

(n) Borrowing costs

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

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
ABN 93 097 297 400**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****NOTE 1: BASIS OF PREPARATION (Continued)****(o) Provisions**

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

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

(p) Employee benefits*Service benefits*

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

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

Share-based payment transactions

The Group operates an Employee Ownership Plan ("EOP"). The EOP allows employees to purchase Vesting Convertible Redeemable ("VCR") shares in the Company by way of an interest-free loan. The loan has been recorded as a financial instrument as described in section (r) 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 25.

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.

(q) Solicitor liability claims

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

(r) Financial instruments*Loans and receivables*

VCR share loans receivable are non-interest bearing, non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The loans are initially recognised based on fair value and are subsequently stated at amortised cost using the effective interest rate method. Refer to Note 25 for further details.

Financial liabilities

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

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

Non-interest bearing financial liabilities for deferred cash consideration on the acquisition of acquired firms are measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in the profit and loss.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION (Continued)

Derivative financial instruments

The Group designates certain derivatives as either:

- hedges of fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of highly probable forecast transactions (cash flow hedges)

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

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

Fair value hedge

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Comprehensive Income.

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

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

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

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

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

(t) 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.

(u) 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.

(v) Comparative

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

(w) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 31.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION (Continued)

(x) New accounting standards and interpretations

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

- AASB 2011-14 Related party disclosures
- AASB 9 Financial instruments
- AASB 124 Related party disclosures

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

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Estimated impairment of goodwill

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

(b) Income taxes

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

(c) Work in progress

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

Non-personal injury

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

Personal injury

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

Project Litigation

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

(d) Financial instruments at fair value

The Group measures its interest rate swaps at fair value. These fair values are based on level 2 fair value measurements, as defined in the fair value hierarchy in AASB 7, with reference to market data which can be used to estimate future cash flows and discount them to present value. Management's aim is to use and source this data consistently from period to period. Whilst management believes the assumptions used are appropriate, a change of assumptions would impact the fair value calculations.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3: SEGMENT REPORTING

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

- **Slater & Gordon** – This segment includes the parent company Slater & Gordon Limited and its subsidiary Keddies (from acquisition on 11 January 2011). This segment conducts a range of legal services, including personal injury law, within the geographical area of Australia (including Queensland).
- **TML** – This segment includes subsidiary company TML (from acquisition date on 13 August 2010). This segment conducts legal services in the field of personal injury law within the geographical area of Queensland.

In 2010, the Group (being Slater & Gordon Limited), was a single operating segment.

	2011	2011	2011	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000
	Slater & Gordon	TML (11 months)	Inter segment elimination	Total from external source	Total
Total revenue	151,746	32,213	(1,650)	182,309	124,730
Interest revenue	1,593	231	-	1,824	1,423
Interest expense	6,053	13	-	6,066	2,570
Depreciation and amortisation	2,036	707	-	2,743	1,480
Total profit before income tax	31,082	10,461	-	41,543	28,854
Segment assets					
Receivables	81,899	15,394	(1,489)	95,804	66,719
Work in progress	155,903	30,748	-	186,651	119,114
Intangible assets	39,225	19,127	-	58,352	25,966
Other assets	31,195	6,408	-	37,603	58,523
Total segments assets	308,222	71,677	(1,489)	378,410	270,322
Segment liabilities					
Payables	67,229	4,262	(1,489)	70,002	34,958
Borrowings	47,443	276	-	47,719	35,203
Other liabilities	53,543	11,729	-	65,272	53,668
Total segments liabilities	168,215	16,267	(1,489)	182,993	123,829

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: REVENUE	Note	2011 \$'000	2010 \$'000
Fee revenue			
Rendering of services		178,046	122,171
Other revenue			
Service and licence fee		800	400
Interest	4(a)	1,824	1,423
Other		1,639	736
		<u>4,263</u>	<u>2,559</u>
<i>(a) Interest from</i>			
Other persons		500	76
VCR share loans to employees	25	1,324	1,347
		<u>1,824</u>	<u>1,423</u>

NOTE 5: PROFIT FROM CONTINUING ACTIVITIES

Finance costs expense

Interest on bank overdraft and loans		3,657	1,997
Interest on deferred consideration payable to vendors on acquisitions		1,972	314
Interest on obligations under hire purchases		437	259
		<u>6,066</u>	<u>2,570</u>

Depreciation and amortisation of non-current assets

Plant and equipment		1,748	1,068
Software development		587	412
Client lists		408	-
		<u>2,743</u>	<u>1,480</u>

Bad and doubtful debts		3,967	2,534
Share based payments expense	25	1,131	1,467
Onerous lease		-	881
Write off of work in progress and disbursements on Rolah McCabe proceedings		611	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6: INCOME TAX	Note	2011	2010
		\$'000	\$'000
Income tax expense			
Current tax		-	2,227
Deferred tax		13,386	6,840
Adjustment for current tax of prior periods		249	(13)
		<u>13,635</u>	<u>9,054</u>
Income tax recognised in other comprehensive income			
Deferred tax credit arising on revaluation of financial instruments		(37)	141
		<u>(37)</u>	<u>141</u>
Income tax recognised directly in equity			
Deferred tax credit recognised directly in equity		548	-
Current tax credit on share issue costs		-	7
		<u>548</u>	<u>7</u>
Deferred income tax expense included in income tax expense			
(Increase)/decrease in deferred tax assets		(13,686)	(778)
Deferred income tax relating to items charged or credited to other comprehensive income		(37)	141
Deferred income tax relating to items charged or credited directly to equity		548	-
Increase/(decrease) in deferred tax liabilities		24,187	7,434
Net deferred taxes arising from business combinations		2,374	40
		<u>13,386</u>	<u>6,840</u>
The prima facie tax payable on profit differs from the income tax			
Total profit before income tax expense		41,543	28,854
At the statutory income tax rate of 30% (2010 - 30%)		12,463	8,656
Add:			
Tax effect of:			
- other non-allowable items		1,421	400
		<u>13,884</u>	<u>9,056</u>
Tax effect of:			
- other non-assessable items		-	-
- adjustments in respect to prior periods		(249)	(2)
Income tax expense attributable to profit		<u>13,635</u>	<u>9,054</u>
Current tax asset/(liability):			
Balance at the beginning of the year		(2,154)	1,695
Current income tax (expense)/credit		-	(2,227)
Income tax recognised directly in equity		-	7
Tax paid/(refunded)		2,539	(1,642)
Current tax asset arising from business combinations		255	-
Adjustments in respect to prior periods		(249)	13
Balance at the end of the year		<u>391</u>	<u>(2,154)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6: INCOME TAX (Continued)	2011	2010
	\$'000	\$'000
Deferred tax assets		
Provision for doubtful debts and non-recoverable disbursements	1,677	672
Employee benefits	3,719	2,819
Provision for legal costs	210	96
Accruals	1,730	811
Undeducted business related costs	9	121
Acquisition related costs	529	138
Fair value of cash flow hedges	105	141
Unbilled acquired WIP and disbursements	5,243	-
Other	109	-
Revenue losses carried forward	5,153	-
	<u>18,484</u>	<u>4,798</u>
Deferred tax liabilities		
Prepayments	713	509
Work in Progress	55,995	35,734
Unrendered disbursements	13,470	11,019
Unrendered WIP and disbursements not yet deducted	(304)	(1,710)
Plant and equipment	448	571
Other	(12)	-
	<u>70,310</u>	<u>46,123</u>
Balance after set off of deferred tax assets and (liabilities)	<u>(51,826)</u>	<u>(41,325)</u>

NOTE 7: DIVIDENDS

Dividends paid during the year

Dividends on ordinary shares

Interim franked dividend at the tax rate of 30% for 2011: 2.2 cents per share (2010 – 2.0 cent per share)	3,285	2,240
Final franked dividend at the tax rate of 30% for 2010: 3.0 cents per share (2009 – 3.25 cents per share)	4,412	3,538
Total dividends paid during the year	<u>7,697</u>	<u>5,778</u>

Dividends proposed and not recognised as a liability

Dividends on ordinary shares final franked dividend at the tax rate of 30% for the year ending 30 June 2011: 3.3 cents per share (2010 – 3.0 cents per share)	4,923	4,412
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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:	3,383	4,498
Impact on franking account of dividend recommended by the directors since the year end but not recognised as a liability at year end:	2,110	1,891

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 8: CASH AND CASH EQUIVALENTS	Note	2011	2010
		\$'000	\$'000
Cash at bank	21(a)	4,032	30,110
		<u>4,032</u>	<u>30,110</u>
NOTE 9: RECEIVABLES			
Current			
Trade debtors		50,533	31,286
Provision for doubtful debts		(2,942)	(2,242)
		<u>47,591</u>	<u>29,044</u>
Disbursements		51,182	39,175
Provision for non-recoverable disbursements		(4,531)	(2,441)
		<u>46,651</u>	<u>36,734</u>
Receivable from associate - Andrew Grech trading as Slater & Gordon Lawyers in South Australia	27	1,311	830
Other receivables		251	111
Total current receivables		<u>95,804</u>	<u>66,719</u>
NOTE 10: WORK IN PROGRESS			
Current			
Non-personal injury		1,914	3,846
Personal injury		174,867	106,345
Project litigation		2,825	1,678
		<u>179,606</u>	<u>111,869</u>
Non-current			
Project litigation		7,045	7,245
Total work in progress		<u>186,651</u>	<u>119,114</u>
NOTE 11: OTHER ASSETS			
Current			
Prepayments		4,316	3,773
Other current assets		520	351
		<u>4,836</u>	<u>4,124</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 12: PLANT AND EQUIPMENT	Note	2011	2010
		\$'000	\$'000
Plant and equipment at cost		15,816	8,929
Less accumulated depreciation		(6,311)	(2,276)
	12 (a)	<u>9,505</u>	<u>6,653</u>
Low value asset pool at cost		1,066	662
Less accumulated depreciation		(628)	(372)
	12 (b)	<u>438</u>	<u>290</u>
Total plant and equipment		<u>9,943</u>	<u>6,943</u>

Movements in carrying amounts

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

(a) Plant and equipment

Balance at the beginning of the year		6,653	2,009
Additions		1,523	5,519
Additions through acquisition of entities		2,929	70
Depreciation expense		(1,600)	(945)
Carrying amount at end of year		<u>9,505</u>	<u>6,653</u>

(b) Low value asset pool

Balance at the beginning of the year		290	247
Additions		296	166
Depreciation expense		(148)	(123)
Carrying amount at end of year		<u>438</u>	<u>290</u>

NOTE 13: INTANGIBLE ASSETS

Goodwill – at cost		47,373	22,073
Accumulated impairment loss		-	-
Net carrying amount	13(a)	<u>47,373</u>	<u>22,073</u>
Software development – at cost		5,496	4,468
Accumulated amortisation		(1,165)	(575)
Net carrying amount	13(b)	<u>4,331</u>	<u>3,893</u>
Trademarks – at cost		5,659	-
Accumulated impairment loss		-	-
Net carrying amount	13(c)	<u>5,659</u>	<u>-</u>
Customer relationships – at cost		1,397	-
Accumulated amortisation		(408)	-
Net carrying amount	13(d)	<u>989</u>	<u>-</u>
Total intangible assets		<u>58,352</u>	<u>25,966</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13: INTANGIBLE ASSETS (Continued)

	Note	2011	2010
		\$'000	\$'000

Movements in carrying amount

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

(a) Goodwill

Opening net book amount		22,073	16,167
Additions in respect to current period acquisitions	28	25,300	5,816
Additions in respect to restatement of acquisitions occurring in prior periods		-	90
Closing net book value		47,373	22,073

(b) Software development

Opening net book amount		3,893	2,547
Additions		1,025	1,758
Amortisation expense		(587)	(412)
Closing net book value		4,331	3,893

(c) Trademarks

Opening net book amount		-	-
Additions		5,659	-
Closing net book value		5,659	-

(d) Customer relationships

Opening net book amount		-	-
Additions		1,397	-
Amortisation expense		(408)	-
Closing net book value		989	-

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 states of New South Wales, Queensland (excluding TML), Victoria and Western Australia and the operations in the Australian Capital Territory. In addition, the operations of TML are considered to be an individual CGU.

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13: INTANGIBLE ASSETS (Continued)

	CGU NSW	CGU QLD	CGU VIC	CGU WA	CGU ACT	CGU TML
2011						
Goodwill recognised (\$'000)	25,914	3,623	4,824	684	226	12,102

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

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

2010

Goodwill recognised (\$'000)	12,713	3,623	4,819	684	226	-
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The assumptions used by management in determining the value in use for all CGU's include:

Growth in fees until 30 June 2016	6.5%
Growth in fees subsequent to 30 June 2016	5.0%
Risk free discount rate	5.1%
Assumed debt ratio	16.8%
Equity risk premium	6.0%
Weighted average cost of capital	11.0%

NOTE 14: OTHER NON-CURRENT ASSETS

	Note	2011 \$'000	2010 \$'000
VCR loans to employees	25	18,401	17,346
		<u>18,401</u>	<u>17,346</u>

NOTE 15: PAYABLES

Current

Unsecured liabilities

Trade creditors	2,497	1,550
Legal creditors and accruals	42,440	27,059
Vendor liabilities – acquisitions	16,489	4,613
	<u>61,426</u>	<u>33,222</u>

Non-current

Unsecured liabilities

Vendor liabilities – acquisitions	8,576	1,736
	<u>8,576</u>	<u>1,736</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: BORROWINGS

Current

Secured

Bank overdraft	21(a)	-	19
Bills of exchange and cash advances	29	6,000	6,260
Hire purchase liability		1,165	857
		<u>7,165</u>	<u>7,136</u>

Non-current

Secured

Bills of exchange and cash advances	29	36,672	23,875
Hire purchase liability		3,882	4,192
		<u>40,554</u>	<u>28,067</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 fixed and floating charge over the assets and uncalled capital of the Company.

Interest on the bank overdraft is charged at a variable rate, being the bank overdraft business rate + 1.5% or an agreed margin.

(b) A portion of the bills of exchange are the subject of an interest rate swap to hedge the risk of an adverse interest rate movement Note 29 (iv).

NOTE 17: PROVISIONS

Current

Employee benefits	10,764	7,919
Solicitor liability claims	700	320
	<u>11,464</u>	<u>8,239</u>

Non-current

Employee benefits	<u>1,633</u>	<u>1,478</u>
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(a) Aggregate employee benefits liability

(b) Number of employees at year end

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 18: CONTRIBUTED EQUITY	Note	2011 Shares	2011 \$'000	2010 Shares	2010 \$'000
Ordinary shares fully paid	18(a)	149,178,605	103,994	112,040,776	51,612
VCR shares	18(b)	5,569,044	5,815	8,232,022	7,050
Unallotted Share Capital	18(c)	-	-	-	22,520
Balance at end of the year		154,747,649	109,809	120,272,798	81,182
(a) Movement in ordinary share capital					
Balance at the beginning of the year		112,040,776	51,612	108,870,729	47,884
<i>Shares issued as consideration for acquisitions:</i>					
- 27 November 2009		-	-	328,155	556
- 5 March 2010		-	-	45,700	71
- 13 August 2010		3,403,927	5,276	-	-
- 3 September 2010		912,714	1,450	-	-
- 11 January 2011		2,083,340	3,700	-	-
- 7 March 2011		117,944	183	-	-
- 30 June 2011		19,152	30	-	-
		6,537,077	10,639	373,855	627
<i>Conversion of vested VCR shares to ordinary share capital:</i>					
- 21 December 2009		-	-	2,796,192	3,235
- 3 September 2010		2,560,834	3,683	-	-
- 12 January 2011		53,572	36	-	-
		2,614,406	3,719	2,796,192	3,235
<i>Share capital issued by share placement:</i>					
- 1 July 2010		16,806,116	23,529	-	-
- 13 August 2010		10,336,741	14,471	-	-
		27,142,857	38,000	-	-
<i>Share capital issued under share purchase plan:</i>					
- 13 August 2010		1,004,204	1,406	-	-
<i>Employee share scheme buy-back:</i>					
- 31 May 2011		(160,715)	(102)	-	-
Less capital raising costs, net of tax		-	(1,280)	-	(134)
Balance at end of the year		149,178,605	103,994	112,040,776	51,612
(b) Movement in VCR share capital					
Balance at the beginning of the year		8,232,022	7,050	8,148,214	5,900
<i>Conversion of vested VCR shares to ordinary shares:</i>					
- 21 December 2009		-	-	(2,796,192)	(3,235)
- 3 September 2010		(2,560,834)	(3,683)	-	-
- 12 January 2011		(53,572)	(36)	-	-
		(2,614,406)	(3,719)	(2,796,192)	(3,235)
<i>Share capital issued under Employee Ownership Plan:</i>					
- 21 December 2009		-	-	2,880,000	2,934
- 22 February 2011		1,830,000	2,379	-	-
		1,830,000	2,379	2,880,000	2,934
<i>Employee share scheme buy-back:</i>					
- 31 May 2011		(1,878,572)	(1,009)	-	-
Share based payments expense		-	1,131	-	1,467
Less capital raising costs, net of tax		-	(17)	-	(16)
Balance at end of the year		5,569,044	5,815	8,232,022	7,050

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 18: CONTRIBUTED EQUITY (Continued)

(c) Movement in Unallotted Share Capital	Note	2011	2010
		\$'000	\$'000
Balance at the beginning of the year		22,520	-
Proceeds received in relation to share placement on 30 June 2010 and shares issued on 1 July 2010		-	23,529
Less capital raising costs		-	(1,009)
Transfer to ordinary share capital upon issue of shares on 1 July 2010		(23,529)	-
Capital raising costs transferred to ordinary share capital		1,009	-
Balance at end of the year		-	22,520

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 25 for detailed discussion on the rights attached to VCR shares.

NOTE 19: RESERVES

Cash flow hedging reserve

The movement in cash flow hedge reserves attributable to interest rate swaps is as follows:

Balance at the beginning of the year	(331)	-
Gain/(loss) recognised on interest rate hedge, net of tax	86	(331)
Balance at the end of the year	(245)	(331)

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

NOTE 20: RETAINED PROFITS

Retained earnings	20(a)	85,853	65,642
(a) Retained earnings			
Balance at the beginning of year		65,642	51,620
Net profit attributable to ordinary equity holders		27,908	19,800
Total available for appropriation		93,550	71,420
Dividends paid	7	(7,697)	(5,778)
Balance at end of year		85,853	65,642

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 21: CASH FLOW INFORMATION

	Note	2011	2010
(a) Reconciliation of cash		\$'000	\$'000

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

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

Cash on hand	8	4,032	30,110
Bank overdraft	16	-	(19)
		4,032	30,091

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

Profit after income tax		27,908	19,800
<i>Non-cash flows in profit from ordinary activities</i>			
Notional interest on VCR share loans		(1,324)	(1,347)
Depreciation and amortisation		2,743	1,480
Share based payments expenses		1,131	1,467
Costs associated with acquisition		1,444	-
Notional interest on deferred consideration		1,261	314
<i>Changes in assets and liabilities</i>			
(Increase)/decrease in receivables		(5,701)	445
Decrease in other assets		224	618
Increase in work in progress		(21,569)	(13,210)
Increase/(decrease) in payables		(405)	3,285
Increase/(decrease) in income tax payable		(2,290)	3,849
Increase in deferred taxes		15,054	6,840
Increase in provisions		1,563	1,188
Cash flows from operations		20,039	24,729

NOTE 22: COMMITMENTS AND CONTINGENCIES

Operating lease commitments

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

Within one year		11,053	6,156
One year or later and not later than five years		32,830	18,291
Greater than five years		19,567	14,732
		63,450	39,179

Bank guarantees in respect of rental properties and acquisitions		3,654	2,378
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: COMMITMENTS AND CONTINGENCIES (Continued)

Other commitments and contingencies

The Group has entered into an agreement with ASK Funding Limited ("ASK") to provide financial guarantees to ASK with respect to disbursement funding borrowings to the Group's clients. The nature of this agreement is that ASK will fund disbursements in respect of individual matters and will be reimbursed out of any settlement proceeds on the matter. The Group has provided a financial guarantee for the repayment of the clients' obligations to ASK. The total amount funded by ASK to the Group's clients at 30 June 2011 is \$9,289,925 (2010: \$306,326). The maximum exposure of the Group at 30 June 2011 is \$9,289,925 (2010: \$306,326) if the individual client matters are not recovered from any other party.

NOTE 23: EARNINGS PER SHARE	2011	2010
	\$'000	\$'000

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

Net profit after tax	27,908	19,800
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	27,908	19,800
Weighted average number of ordinary shares used in calculating basic earnings per share ('000's)	145,744	110,551
<i>Effect of dilutive securities:</i>		
VCR shares	6,575	8,192
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share ('000's)	152,319	118,743

VCR shares

VCR shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Refer to Note 25 for a detailed explanation of VCR shares.

NOTE 24: KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

Directors

Anna Booth	Chair – Non-Executive
Andrew Grech	Managing Director
Ian Court	Director – Non-Executive
Ken Fowlie	Executive Director, General Manager – Commercial & Project Litigation
Erica Lane	Director – Non-Executive
John Skippen	Director – Non-Executive – Appointed 26 May 2010
Peter Gordon	Consultant – Resigned as a Director on 15 April 2010

Executives

Hayden Stephens	General Manager – Personal Injuries North
Cath Evans	General Manager – Personal Injuries South
Wayne Brown	Chief Financial Officer
Chris Prast	General Manager – Western Australia
Rod Cunich	General Manager – Business and Private Clients
Mike Feehan	Chief Operating Officer – Resigned 30 June 2010

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 24: KEY MANAGEMENT PERSONNEL (Continued)

(b) Shareholdings of Key Management Personnel

Shares held in Slater & Gordon Limited (number)

Net movement in share capital 2011

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

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

Net movement in share capital 2010

Key Management Personnel^(a)	Ordinary shares balance at beginning of year	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares balance at end of year
Andrew Grech	10,211,642	-	(1,000,000)	9,211,642
Peter Gordon ^(b)	7,966,140	-	(1,991,535)	5,974,605
Ken Fowlie	6,819,721	-	(433,500)	6,386,221
Hayden Stephens	6,416,794	-	(711,679)	5,705,115
Cath Evans	6,550,476	-	-	6,550,476
Anna Booth	50,000	-	-	50,000
Ian Court	15,000	-	-	15,000
Erica Lane	-	-	-	-
John Skippen	-	-	-	-
Mike Feehan ^(c)	600,000	200,000	-	800,000
Wayne Brown	217,286	166,667	-	383,953
Chris Prast	642,858	-	-	642,858
Rod Cunich	-	-	-	-
Total	39,489,917	366,667	(4,136,714)	35,719,870

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

^(b) Peter Gordon resigned as a director on 15 April 2010 and is no longer a KMP of the Group.

^(c) Mike Feehan resigned as Chief Operating Officer on 30 June 2010 and is no longer a KMP of the Group. He has continued with the group in other roles as a consultant and as an employee.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 24: KEY MANAGEMENT PERSONNEL (Continued)

Key Management Personnel ^(a)	VCR shares balance at beginning of year	VCR shares issued	VCR shares vested as Ordinary shares 21 December 2009	VCR shares balance at end of year
Mike Feehan ^(b)	400,000	-	(200,000)	200,000
Wayne Brown	285,714	150,000	(166,667)	269,047
Chris Prast	-	150,000	-	150,000
Rod Cunich	-	225,000	-	225,000
Total	685,714	525,000	(366,667)	844,047

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

^(b) Mike Feehan resigned as Chief Operating Officer on 30 June 2010 and is no longer a KMP of the Group. He has continued with the group in other roles as a consultant and as an employee.

(c) Balances to Key Management Personnel (“KMP”)

Details of aggregates of balances with KMP are as follows:

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

	Balance at beginning of year \$	Balance at end of year \$	Number in Group
2011	1,232,486 *	1,034,145	3
2010	1,985,570	2,519,039	4

* Mike Feehan resigned as Chief Operating Officer on 30 June 2010 and is no longer part of the KMP of the Group. The balance at the beginning of the year has been amended to reflect this change. Mike Feehan is still employed within the Slater & Gordon group.

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

30 June 2011	Balance at beginning of year	Balance at end of year	Highest balance during the year
Wayne Brown	481,912	463,347	481,912
Chris Prast	510,904	309,867	510,904
Rod Cunich	239,670	260,931	260,931
30 June 2010	Balance at beginning of year	Balance at end of year	Highest balance during the year
Mike Feehan	1,328,489	1,446,334	1,446,334
Wayne Brown	308,082	481,912	481,912
Chris Prast	348,999	510,904	510,904
Rod Cunich	-	239,670	239,670

Terms and Conditions of balances to Key Management Personnel:

The balances at the end of the period due to the Company by Mike Feehan, Wayne Brown, Chris Prast and Rod Cunich are pursuant to the EOP. The terms and conditions of which are disclosed in Note 25. Notional interest of \$38,523 for Wayne Brown (2010: \$29,416), \$42,185 for Chris Prast (2010: \$31,518), \$18,917 for Rod Cunich (2010: \$9,093) and for Mike Feehan (2010: \$104,859) was not charged on these loan balances.

Additional disclosures relating to Key Management Personnel:

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: EMPLOYEE OWNERSHIP PLAN (“EOP”)

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

Invitation and Eligibility

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

Plan

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

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

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

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

Vesting, redemptions and conversion

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

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

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

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

After conversion

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: EMPLOYEE OWNERSHIP PLAN (“EOP”) (Continued)

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 Group. The minimum holding is calculated based on the lower of 5 times the employee’s annual salary and 20% of the aggregate VCR shares issued to that employee which have vested and been converted to ordinary shares.
- If they cease to be employed by the Group, they may forfeit or be required to dispose of some or all of their shares upon such termination. The ramifications of a departure from employment are linked to the circumstances surrounding that departure.

Transfer

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

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

The profile of the vesting of VCR shares into ordinary shares, conversion into ordinary shares (subject to disposal restrictions) or scheduled for redemption as VCR shares based on the shares issued under the EOP as at 30 June 2011.

	Vested ‘000	1 year or less ‘000	1 to 5 years ‘000	More than 5 years ‘000	Total ‘000
VCR shares which have (or may) vest as ordinary shares	14,015	2,693	2,180	-	18,888
VCR shares which may convert to ordinary shares but are subject to disposal restrictions	4,167	4,327	10,405	-	18,899
VCR shares to be redeemed	-	964	-	-	964

Recognition in the Accounts

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

The key assumptions used in the present value calculation are:

Date VCR shares issued	22 December 2006	19 February 2008	17 November 2008	21 December 2009	22 February 2011
Shares issued	15,175,000 (post share split March 2007 - 16,258,946)	2,625,000	3,721,427	2,880,000	1,830,000
Issue price	\$0.68 (post share split March 2007 - \$0.635)	\$1.75	\$1.31	\$1.63	\$2.05
Effective interest rate	7.8%	8.5%	8.5%	8.5%	8.5%
Final repayment date	1 July 2011 to 1 July 2012	1 July 2011 to 1 July 2013	1 July 2012 to 1 July 2014	1 July 2013 to 1 July 2015	1 July 2014 to 1 July 2016

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

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

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26: AUDITOR'S REMUNERATION	2011	2010
	\$'000	\$'000
Amounts received or due and receivable by Pitcher Partners and related entities for:		
An audit of the financial report of the Group and review of statutory accounts	226	142
The half year review of the financial report of the Group	72	52
Due diligence investigations	232	152
General controls and IT conversion review	7	11
	<u>537</u>	<u>357</u>

NOTE 27: RELATED PARTY DISCLOSURES	2011	2010
	Ownership Interest (%)	

Significant Subsidiaries

Trilby Misso Lawyers Limited	100	-
Keddies The Insurance Law Specialists Pty Limited	100	-

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

Transactions with KMP of the entity or its parent and their personally-related entities

- As outlined in the replacement Prospectus ("the Prospectus") dated 13 April 2007 and Financial Report for the year ended 30 June 2008 the South Australian practice was operated by Andrew Grech as a sole practitioner trading as Slater & Gordon Lawyers under a Service and Licence Agreement between Andrew Grech and the Company. In 2011 the Service and Licence Fee totalled \$800,000 (2010 - \$400,000);
- Anna Booth is a director of Members Equity Bank for which the Group provided legal services in the ordinary course of business;
- Peter Gordon is a director of Gordon Legal Pty Ltd which provided consulting services to the Group in 2010 which totalled \$84,000. Since resigning as a director on 15 April 2010, Peter Gordon has continued to provide consulting services to the Group.

The shareholdings of related parties are disclosed in Note 24 and remuneration of KMP are disclosed in the Directors' Report and Note 24.

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

NOTE 28: BUSINESS COMBINATIONS

2011

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

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

The strategic rationale for this business combination is to:

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

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 28: BUSINESS COMBINATIONS (Continued)

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

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

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

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

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

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

Acquisition of business – Rob Powe Lawyers

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 28: BUSINESS COMBINATIONS (Continued)

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

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

Had the combination been effected at 1 July 2010, net profit after tax for the consolidated entity would have been \$30,287,000 and revenue would have been \$193,542,000. The Directors of the Company consider these numbers to represent an approximate measure of the performance of the Group on an annualised basis and to provide a reference point for comparison in future periods.

2010

During the prior year, the Group acquired the following legal practices (not the legal entities):

- Long Howland Lawyers & Advisors on 31 July 2009
- McGlades Personal Injury Law on 25 September 2009
- Kenyons Lawyers on 4 December 2009
- Stewart & Noble Lawyers on 19 March 2010
- Adams Leyland Lawyers on 12 April 2010
- Part of the personal injuries practice of Robbins Watson Solicitors on 15 April 2010

	\$'000
Consideration	
- Cash	8,188
- Net present value of deferred cash consideration	3,319
- Stamp duty on acquisition	120
Total cash consideration	11,627
Other consideration arrangements in lieu of cash	600
- Equity (shares) issued as consideration	556
- Net present value of equity (shares) issued as deferred consideration	1,326
Total equity issued as consideration	1,882
Total acquisition cost	14,109

	Fair Value	Carrying Amount
Net assets acquired		
Assets		
- Trade and other receivables	3,575	3,575
- Work in progress	6,674	6,674
- Plant and equipment	70	70
- Other	2,751	2,751
Total assets acquired	13,070	13,070
Liabilities		
- Payables	1,527	1,527
- Provisions	3,250	3,250
Total liabilities acquired	4,777	4,777
Net assets acquired	8,293	8,293
Goodwill on acquisition	5,816	

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 28: BUSINESS COMBINATIONS (Continued)

The profit and loss results of the acquired businesses are not set out. 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 Group.

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 2009, as the Group does not have access to audited financial information to reliably determine the revenue and profit of the acquired businesses from 1 July 2009 to the date of acquisition.

The key items that flowed from the acquisitions 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 Group; and
- Access to referral networks not previously available to the Group.

NOTE 29: FINANCIAL RISK MANAGEMENT

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

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

(i) Credit risk exposures

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

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

Concentrations of credit risk

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

There is also credit risk associated with unrendered disbursements and trade receivables. Once client matters are billed, a significant portion of receivables related to the personal injuries business are considered low risk. This is because these receivables are collected directly from settlements paid by insurers into trust funds held on behalf of the Group's clients. As at 30 June 2011, approximately 80% of trade receivables relate to the personal injuries business.

For the non-personal injuries business, the Group is exposed to the credit risk associated with the client's ability to meet their obligations under the fee and retainer agreement. The Group minimises the concentration of this credit risk by undertaking transactions with a large number of clients.

Management of credit risk

The Group actively manages its credit risk by:

- Assessing the capability of a client to meet its obligations under the fee and retainer agreement;
- Periodically reviewing the reasons for bad debt write offs in order to improve the future decision making process;
- Maintaining an adequate provision against the future recovery of debtors and disbursements;
- Including in each practitioner's Key Performance Indicators ("KPI's") measurements in respect of both debtor levels, recovery and investment in disbursements;
- Providing ongoing training to staff in the management of their personal and practice group debtor portfolios; and
- Where necessary, pursuing the recovery of debts owed to the Group through external mercantile agents and the courts.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk

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

Management of liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. Refer to the Statement of Cash Flows and Note 21: Cash Flow Information, for further information on the historical cash flows and the current borrowing facilities.

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

	2011	2010
	\$'000	\$'000
Total banking facility		
Banking overdrafts	5,000	5,000
Cash advance and equipment finance facility	84,000	-
Commercial bill and equipment finance facility	-	48,088
Insurance premium funding facility	-	546
Total credit facility	<u>89,000</u>	<u>53,634</u>
Amount utilised	<u>(47,719)</u>	<u>(35,203)</u>
Unused bank facility	<u>41,281</u>	<u>18,431</u>

Banking Overdrafts

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

Cash Advance & Equipment Finance Facility

The current facility is an \$84,000,000 (2010: nil) variable interest rate facility provided by Westpac, expiring no later than 3 years. Included in the facility above is an equipment finance lease facility of \$7,000,000, expiring no later than 9 years.

Commercial Bill Facility & Equipment Finance Facility

In 2010, the Group had a variable interest rate facility provided by Westpac, expiring no later than 3 years. Included in the facility above was an equipment finance lease of \$4,503,000, expiring no later than 9 years. This facility was refinanced as part of the cash advance and equipment finance facility.

Premium Funding Facility

In 2010 the Group had a fixed rate premium funding facility of \$546,000 provided by Westpac, expiring on 30 June 2012.

(iii) Fair values

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

Management of fair value risk in WIP

The Group actively manages the fair value risk by:

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: FINANCIAL RISK MANAGEMENT (Continued)

Management of fair value risk in interest rate swaps

The Group measures its interest rate swaps at fair value. These fair values are based on level 2 fair value measurements, as defined in the fair value hierarchy in AASB 7, with reference to market data which can be used to estimate future cash flows and discount them to present value. Management's aim is to use and source this data consistently from period to period.

(iv) Interest rate risk

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

Financial Instruments	Weighted average interest rate		Non interest bearing		Variable interest rate		Fixed interest rate		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>(i) Financial assets</i>										
Cash	3.19%	4.30%	-	-	4,032	30,110	-	-	4,032	30,110
Trade debtors			47,591	29,044	-	-	-	-	47,591	29,044
Disbursements			46,651	36,734	-	-	-	-	46,651	36,734
Receivables from related parties			1,311	830	-	-	-	-	1,311	830
Other receivables			251	111	-	-	-	-	251	111
VCR share loans receivable			18,401	17,346	-	-	-	-	18,401	17,346
Total financial assets			114,205	84,065	4,032	30,110	-	-	118,237	114,175
<i>(ii) Financial liabilities</i>										
Bank overdraft	8.01%		-	-	-	19	-	-	-	19
Trade creditors			2,497	1,550	-	-	-	-	2,497	1,550
Legal creditors and accruals			42,440	27,059	-	-	-	-	42,440	27,059
Interest bearing vendor liabilities – acquisitions	4.72%		-	-	-	-	22,907	-	22,907	-
Non-interest bearing vendor liabilities - acquisitions			2,158	6,349	-	-	-	-	2,158	6,349
Provisions			13,097	9,717	-	-	-	-	13,097	9,717
Hire purchase liability	9.25%	9.25%	-	-	-	-	5,047	5,049	5,047	5,049
Bills of exchange – fixed rate	5.99%	5.99%	-	-	-	-	15,000	15,000	15,000	15,000
Bills of exchange – variable rate	6.79%	7.25%	-	-	27,672	15,135	-	-	27,672	15,135
Total financial liabilities			60,192	44,675	27,672	15,154	42,954	20,049	130,818	79,878

Interest rate swaps

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

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

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: FINANCIAL RISK MANAGEMENT (Continued)

At balance date, the details of outstanding contracts, all of which are to receive floating/pay-fixed interest rate swaps, are as follows:

Maturity of notional amounts	Effective average fixed interest rate payable		Notional principal value	
	2011	2010	2011	2010
			\$'000	\$'000
2 to 5 years	5.99%	5.99%	15,000	15,000
			<u>15,000</u>	<u>15,000</u>

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

	Note	2011 \$'000	2010 \$'000
Floating rate instruments			
Bank overdrafts	16	-	19
Unhedged cash advances/bills of exchange	16	27,672	15,135
		<u>27,672</u>	<u>15,154</u>

Interest rate swaps are measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as the profit or loss associated with the hedged risk is recognised in the Consolidated Statement of Comprehensive Income. Given the matching of the hedge settlements with the payment of interest expense on the hedged borrows, the balance in the reserve attributable to interest rate swaps is generally minimal.

NOTE 30: SUBSEQUENT EVENTS

On 31 August 2011 the Company issued 2,129,046 ordinary shares as a result of the conversion of VCR shares pursuant to the terms of the Employee Ownership Plan and as approved at the AGM on 26 October 2011. These ordinary shares issued subsequent to 30 June 2011 will also participate in the final dividend declared for the year ending 30 June 2011 of 3.3 cents, fully franked, equating to the sum of \$70,000.

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 31: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2011 the parent entity of the Group was Slater & Gordon Limited.

	2011	2010
	\$'000	\$'000
Results of parent entity		
Profit for the period	18,308	19,800
Other comprehensive income	245	(331)
Total comprehensive income for the period	<u>18,553*</u>	<u>19,469</u>
Financial position for the parent entity at year end		
Current assets	209,688	212,822
Total assets	341,586	270,322
Current liabilities	68,024	50,751
Total liabilities	155,770	123,829
Total equity of the parent company comprising of		
Contributed equity	109,808	81,182
Reserves	(245)	(331)
Retained profits	76,253	65,642
Total Equity	<u>185,816</u>	<u>146,493</u>

* There has been limited recharge by the parent entity of marketing and advertising, interest expense and associated management services to the subsidiary entities.

Other commitments and contingencies

The Company has entered into an agreement with ASK Funding Limited ("ASK") to provide financial guarantees to ASK with respect to disbursement funding borrowings to the Company's clients. The nature of this agreement is that ASK will fund disbursements in respect of individual matters and will be reimbursed out of any settlement proceeds on the matter. The Company has provided a financial guarantee for the repayment of the clients' obligations to ASK. The total amount funded by ASK to the Company's clients at 30 June 2011 is \$1,037,060 (2010: \$306,326). The maximum exposure of the Company at 30 June 2011 is \$1,037,060 (2010: \$306,326) if the individual client matters are not recovered from any other party.

Operating lease commitments

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

Within one year	7,433	6,156
One year or later and not later than five years	23,544	18,291
Greater than five years	16,655	14,732
	<u>47,632</u>	<u>39,179</u>

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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SLATER & GORDON LIMITED

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 57 to 93 and the directors' report are in accordance with the Corporations Act 2001 and:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b) As stated in Note 1, the financial statements also comply with International Financial Reporting Standards;
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date.

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

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 2011.

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



Anna Booth
Chair



Andrew Grech
Managing Director

Melbourne
7 September 2011



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

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

Report on the Financial Report

We have audited the accompanying financial report of Slater & Gordon Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

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

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

Opinion

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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 48 to 54 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Slater & Gordon Limited and controlled entities for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.



M W PRINGLE
Partner

7 September 2011



PITCHER PARTNERS
Melbourne

SLATER & GORDON LIMITED AND CONTROLLED ENTITIES
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In accordance with the Australian Stock Exchange Limited Listing Rules, the Directors provide the following information as at 26 August 2011.

(a) Distribution of shareholders and option holders.

Holding	Number of Ordinary Shareholders
1 - 1,000	399
1,001 - 5,000	583
5,001 - 10,000	215
10,001 - 100,000	230
100,001 - Over	89
	<u>1,516</u>

There are 84 shareholders holding less than a marketable parcel (i.e. less than \$500 per parcel of shares).

(b) Twenty largest shareholders

Shareholder	Number of Shares Held	% Held
1 National Nominees Limited	19,860,053	13.28
2 HSBC Custody Nominees (Australia) Limited	19,829,735	13.12
3 Cogent Nominees Pty Limited	15,830,797	10.57
4 J P Morgan Nominees Australia Limited	14,277,185	9.38
5 Andrew Grech	8,022,356	5.37
6 RBC Dexia Investor Services Australia Nominees Pty Limited (PIPooled A/C)	6,225,630	4.36
7 Ken Fowlie	6,086,221	4.08
8 Cath Evans	6,050,476	4.05
9 Hayden Stephens	5,205,115	3.49
10 Paul Henderson	3,774,835	2.53
11 Citicorp Nominees Pty Limited	3,677,339	2.59
12 Peter Gordon	2,666,165	1.79
13 James Higgins	2,000,000	1.34
14 Equity Trustees Limited (SGH PI Smaller Co's Fund)	1,287,207	0.86
15 McFadyen Family Investments Pty Ltd (as trustee for The Gem Family A/C)	1,225,241	0.84
16 Marcus Clayton	962,896	0.64
17 Mike Feehan	900,000	0.60
18 Craig Lee (Lee Super Fund A/C)	866,608	0.58
19 Aust Executor Trustees NSW Ltd (Ironbark Karara Small Co)	842,275	0.64
20 Credit Suisse Securities (Europe) Ltd (Collateral A/C)	810,000	0.54
	<u>120,446,368</u>	<u>80.65</u>

(c) Substantial shareholders

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

Shareholder	Ordinary Shares	
	Number	% *
Mawer Investment Management Limited	15,452,896	10.8
Andrew Grech	14,512,623	9.7
Ken Fowlie	13,254,873	8.9
Cath Evans	13,132,977	8.8
Peter Gordon	12,524,293	8.4
Hayden Stephens	12,314,350	8.3
National Australia Bank Limited and its Associated Companies	11,298,237	7.6
Paul Henderson	11,036,000	7.4
Aviva Investors Pty Limited	9,098,329	8.3
Marcus Clayton	9,014,041	6.0

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

(d) VCR shares

Total number of VCR shares on issue is 5,569,044 held by 69 employee shareholders.

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CORPORATE DIRECTORY

Directors

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

Company Secretaries

Wayne Brown
Kirsten Morrison

Registered Office and Corporate Office

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

Company Website

www.slatergordon.com.au

Company Numbers

ACN 097 297 400
ABN 93 097 297 400

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:
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Email:
web.queries@computershare.com.au



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