

MEETING

HOGAN LOVELL SOUTH AFRICA

DATE:

14 MAY 2019

CHAIRPERSON:

NKONZO HLATSWAYO

SPEAKERS:

SUSAN BRIGHT

DAVID HUDD

MR HLATSWAYO: Good afternoon colleagues, and welcome to our guest, David and Susan, thanks very much for joining us. As we indicated yesterday, they are going to be addressing us on the issue that we discussed yesterday, and then I'm sure that
5 they will be happy to take questions from you after that. Meanwhile I will ask Susan, to start.

MS BRIGHT: Can you hear me okay? Thank you. Good afternoon, everybody. So, I'm going to start. The Hogan Lovells South Africa management team had invited us to explain the
10 decision to make Hogan Lovells, the arrangement between Hogan Lovells International and Hogan Lovells South Africa which presented in 2013, no longer works for us, and why we have decided to terminate the cooperation agreement between our two firms.

15 So, David and I met with the whole senior management team, so (indistinct) applied Ms Merlin here in Johannesburg on the 27th and the 28th of March to explain face-to-face why we had reached our decision. We explained that we have clear grounds for immediate termination of our cooperation agreement
20 of course, and that this have been confirmed to us by leading counsel to say that we'd also taken legal advice from senior counsel here in South Africa.

We reserved our rights to terminate the cooperation agreement immediately. What we explained before issuing a
25 formal notice of termination, we wanted to hold, without

prejudice, discussions about an appropriate transition period so that we could both plan and make appropriate arrangements in terms of our positioning in the market of work with our clients, our systems and technology operations, and any other forms of support to help you to re-establish this office as a fully independent law firm.

This was however on a clear understanding that we had the right to terminate immediately, and also to require repayment of our \$3.7 million loan. So, I'm going to explain the reasons for Hogan Lovells reaching that decision. David is then going to talk through the two proposals currently on the table that have been put to us by your management team. David and I have authorisation from the International Management Committee and the Board of Hogan Lovells to continue with our previous discussions with you on the option that you choose.

So, at our initial meeting at the end of March, we explained that we were looking very hard at the position here in South Africa. As you know, we had stood by Hogan Lovells South Africa throughout SARS, and NHLS and then BOSASA. These had undoubtedly tainted our global ground. We had no confidence by that stage that this was the end of the story. We had consistently asked for no more surprises, and have been consistently disappointed.

So, considering each of those things in turn, in terms of damage to the global brand, as I'm sure you'll know, we lost a

very, very significant piece of work from AngloGold Ashanti from our Durbanville office. We had to deal with multiple con queries over long periods of time. We had to deal with the press, not only here in South Africa very extensively with corroboration with many of you, but also in the UK. We also had to deal extensively with our regulator, the solicitor's regulating authority in the UK.

This was really serious. The importance of our global brand had been made very clear from the outset of our cooperation agreement. In terms of no more surprises, after the NHLs matter, we, or I told HLSA senior management, there could be no more surprises. By that I meant that any current or future work that might risk negative client or press comment, must be brought to our attention. And I repeated that at various times, including July's Manco meeting, and then I attended an Exco meeting here in Johannesburg at the beginning of September. But matters continued to emerge, so we had (indistinct) of Grace Mugabe, and Zuma's daughter, but also the police matters which we considered extensively, proved to be rather wider in scope than we had understood.

And then of course we had Bosasa, which was the final straw, which led to the reconsideration of our relationship between the two firms. We understand Bosasa is a surprise to you also, but our point is that it should not have been. We understand Bosasa itself are being publicly criticised in SA,

throughout the SIU investigation, so it should have been on people's minds as a sensitive client.

During after this became public, HLSA proved to be unable to scale the work down from Bosasa, or to provide full details to us, so the number of matters, the description of the work done, who have worked on matters, the amounts billed, the amounts held on client accountants set forth.

The relevant partner who is no longer with firm managed to delete his emails comprehensive agreement again, so just (indistinct, noise) partner (indistinct) and he failed to (indistinct) appropriate check of balance in the use of trust accounts. There is no whistle-blowing way in those involved at the time. Despite them, we understand (indistinct) unauthorised.

Police matters have been brought and we were advised during the extensive investigations in 2018, and it again goes to the inability to understand the scope of work being carried out, and to be confident that we at Hogan Lovells International have been told this true story, the full story.

We've got no (indistinct) assistance (indistinct). This is also highlighted to us with our concerns were on the fed of Hogan Lovells South Africa's practice with that of the global practice part of behaviour, systems and controls. Obviously the level of clients without controls in the systems has been lamentable, and we've got no confidence that this fundamental lack of respect processes will be addressed.

The nature of our agreement means that we and Hogan Lovells International are not in a situation where we can control a relationship which impacts others in our brand, and it simply no longer works for us. There are a number of practices within South Africa which are successful in their own right, that don't fit within the global business. There are concerns around behaviours as I've said, but specifically around the trust account. The controls around the trust account have proved to be seriously lacking. No alarm bells were raised about significant sums being deposited, or about payments relating to the Gilligan divorce proceedings, and there was no consideration of time of reporting the requirements.

We found evidence of funds being received in February 2016, it was out of the Cold Coal. They weren't allocated, because it was no client matter, number or matter. Repeated attempts were made to get information from the individual who deposited the funds, but it was not provided. Subsequently a request was made by the individual who deposited the funds for them to be returned, and they were by the Johannesburg Finance Function, on the orders of a partner, despite a voice coming from both London and the FICA officer here not to do so.

We then had involvement in the acquisition of a substantial real estate property by Grace Mugabe, who is a sanctioned individual, and acting on the purchase of a property for ex-president Zuma's daughter, who is a politically exposed person.

No questions appear to have been asked by the source of those funds. We've also had a continued lack of access to the finance system AJS, which means the key transactions and information are not visible outside Johannesburg, despite asking many
5 times.

And also we've had conflict issues when Warren Drew left. It became clear that he'd managed to conduct the entire Investec (indistinct) matter off the system, and the conflict (indistinct) and an engagement letter, no time recorded, and that
10 was only discovered after his departure.

We've conducted a review for all new matters opened during a period from July 2017 until the middle of 2018, and of those over 1 500 matters, 87 percent of them had time recorded in advance of the date that the matter was actually opened in
15 AJS. And just to help you understand the significance of that, the global average is 80 percent.

We were also troubled by disunity in the office which appeared towards the end of last year. It became clear to us that there were increasing levels of partner bitterness and strife
20 and open speculation on the market. That is just something we've not seen in either Hogan Lovells (indistinct, coughing) very damaging to the brand, both here locally and also internationally. But to have so much of this happening in a single office, caused us great worry and has forced us to look
25 very hard at our commitment.

Given all of the above, we explained in that first meeting that we had now lost faith in the ability of Hogan Lovells South Africa to operate successfully as part of Hogan Lovells, even though they are not being financially integrated, and also
5 causing further damage to our brand.

So, we explained that after lengthy deliberations, our International Management Committee and our Board had decided to terminate the cooperation agreement and ceasing this legal operation in South Africa, was the only way to protect
10 our brand in the wider Africa and global markets. We reached this decision with great reluctance, but we concluded that we had run out of road. We decided we needed to distance ourselves from further ongoing reputational harm that might emerge over the coming months and years, and to be able to
15 say to people that we've taken the ultimate decision, however painful for us too, to protect our business, our brand and our clients.

Over the last five or more years, we've made extensive commitments here to Hogan Lovell South Africa, including the
20 loan of 3.7 million on very favourable terms; a considerable investment in infrastructure, and significant amounts of senior management time and support for senior members of the business here. Concerns about the excessive amount of management time, has been and would need to be spent on
25 what is a relatively small part of the global practice, was also a

factor in the (indistinct) Board's decision, although obviously not ground for immediate termination. We also at the end of that meeting explained that our intention was to keep the global business service centre here running smoothly, given that SA is
5 core part of the global firm.

This decision is final. The members of your management team have tried to persuade us otherwise, but I need to make clear the decision is final. I am now going to hand over to David.
MR HUDD: Can everyone hear me? Okay, so I'm David Hudd,
10 I am the Deputy-CEO of Hogan Lovells. I understood you said I'm going to try and explain the options that are before you today, and also how they arose. So from the meeting we had in South Africa the end of March, the HLSA senior management team that's in (indistinct), Clive (indistinct) together with Wessel
15 came over to London the following week at their request to continue the without prejudice discussions. Those meetings took place on the 3rd and 4th of April. The initial response of your management team, was that if we terminated the cooperation agreement, you would, or HLSA would put itself into voluntary
20 liquidation given the last partner standing provisions of your partnership agreement. That would clearly be disastrous for HLSA partners, because it will crystallise liabilities, and it would also be very damaging to the reputation of Hogan Lovells.

So, two of the suggestions were put to us by HLSA. First
25 of all was Hogan Lovells taking complete control of the entire

HLSA firm. We rejected that, because it wouldn't, it would involve us taking on all your liabilities, and also **would enable us to distance ourselves from the reputation issues that Susan spoke about.**

5 The second proposal with some of your partners which are in Hogan Lovells, to form a full financially integrated Hogan Lovells operation in South Africa, and the rest of your partners would carry on with an independent South African law firm. There's no detail on that, but we've made it clear that we were
10 would be considering that proposal, provided it was properly prepared by your management team in conjunction with Exco that they were confident it could be delivered and it will set out in detail who would be in each firm; how the liabilities would be apportioned, and how each entity would be financially viable.

15 So, we had a further set of meetings the following week on the 11th and 12 of April, again in London. We went through the two options that are now going to be before you. The management team has subsequently produced some more information, and we've had a couple of video conferences in
20 early May.

 Before we travelled here, we took the temperature of our IMC Board, and they are fully supportive to us discussing both these options with you. So I think really the onus is on you now to decide which way you want to go. Before I go into those
25 options, let me explain a bit about the financial and operational

support that we are prepared to offer to try and make this a little bit easier. First of all, we've offered to suspend repayment of the \$3.7 million loan we made to HLSA. So that debt would be assumed by the South African law firm in either scenario, but
5 we wouldn't require repayment as long as the South African law firm continue to operate. If the South African law firm became insolvent, we would have a right to prove in the insolvency along with all other unsecured creditors. So that is the first aspect.

The second aspect is, we're prepare to lend the South
10 African law firm a further \$2.3 million which will retain the medium term loan facility you've currently got with Standard Bank. That will be an arm's length loan, the interest will be on more favourable terms than Standard Bank are currently offering, because the interest would be to (indistinct) flat rather
15 than (indistinct). We would require each partner in the South African law firm to jointly (indistinct) guaranty that loan. So it wouldn't just be an obligation with the firm, an obligation with your partners.

We would have liked to (indistinct) to that people, so we
20 (indistinct) into the firm as (indistinct) We understand you've already got the (indistinct) profits, and also that's not really the practice in the South African market, so that's why we're asking for the joint of several guarantee.

The third thing we'll be doing, is we would assess the
25 South African firm to renegotiate the terms of its leases, and I'll

5 speak a bit more about how that would work in either scenario,
and finally the two firms would have an informal, non-exclusive
referral arrangement with each other. So the first of the two
options before you is bifurcation, and that would involve up to
10 ten partners joining Hogan Lovells which would set up Zone 3
financially integrated office in Johannesburg.

The HLSA management team has identified a group of
potential partners. We've looked at the list. If the HLSA partners
prefer this option, we'll approach those partners individually, in
10 fact, Susan and I are staying here until tomorrow evening for
that reason, and we try and ascertain if those individual partners
are interested in joining Hogan Lovells and to discuss the
process.

If we were to go that route because you've chosen it, we
15 would use an accelerated version of the process that we have
in place for all partners joining Hogan Lovells. So that would
involve the completion of a questionnaire by each partner on
their practice, it would involve the preparation by us of a
nomination paper, there'd be sublimated interviews with key
20 Hogan Lovells partners, and then that the approval, an approval
process by the IMC, by the Board and ultimately by the whole
Hogan Lovells branch, because all partners joining Hogan
Lovells, have to be approved by the whole branch.

Those HLSA partners not joining Hogan Lovells, would
25 form their own independent firm, and they'd benefit from the

financial operation support I talked about earlier. But in addition, we Hogan Lovells would be assuming some of the office space currently operated by HLSA, so that would reduce the liabilities of the South African firm. And I'd like you to note
5 that they're only considering this option, because it's been proposed by HLSA management, and we won't pursue it if it's not approved by the HLSA partner. So in other words, there's no intention to approach individual partners in trying to persuade them to join us. It has to be the (indistinct, background noise)

10 The other option (indistinct) is a stand-alone independent law firm option, and that would involve HLSA continue with a stand-alone firm with no one joining Hogan Lovells, and Hogan Lovells not having its own independent office in South Africa. The South African firm in that scenario would have this benefit
15 of the financial operational support I mentioned earlier, although obviously, because we won't be taking any (indistinct), we would be reducing the liabilities of the South African firm.

And I'm just saying to you, when you are analysing this option compared with the bifurcation option, I think you need to
20 consider whether partners who might have joined Hogan Lovells in the bifurcation option, would opt to stay in this stand-alone firm, or whether they might move to another firm with a more international focus. That's, as I say, something for you to think about. In either case we would retain the global business
25 services centre in Johannesburg. So, in conclusion, those are

the two options which the HLSA management team have proposed to us, and which we are prepared to consider.

We don't want to try and influence your decision, but if you're unable to reach a decision in a time and fashion, we'll
5 obviously have to just terminate the cooperation agreement and then work with the HLSA management team to organise an orderly disengagement. If you are able to reach a decision, we would aim to agree detailed terms by the end of May, with closing to follow as soon as practical arguments. As I
10 mentioned, Susan and I are here all day tomorrow, and ready to follow up depending on which way you decide to go.

So that's all Susan and I were proposing to say by way of an explanation of why we're here and what we're proposing, but we are very happy to take your questions. Any questions? Ja?

15 FEMALE SPEAKER: David, so I'm (indistinct)

MR HUDD: Ja.

FEMALE SPEAKER: (Indistinct) scenario...

MR HUDD: Yes.

FEMALE SPEAKER: (Indistinct)

20 MR HUDD: Ja, but I mean, just to be clear, the bifurcation option is an easier negotiation, because obviously we are taking some of the space. And I think the idea of your management team, is that by offering a longer lease, you might get the landlord to take some of the space back, but we would sit, at
25 least sitting alongside you. Even in the go-alone option we'd do

that, but obviously we'd have less leverage, because we wouldn't be taking any of the space ourselves. Any other questions?

FEMALE SPEAKER: Sorry, I have another.

5 MR HUDD: Yeah.

FEMALE SPEAKER: The (indistinct) your claim (indistinct) the remaining firm, we understood you today, and I'm sure that (indistinct), but you are as prepared as we are that the remaining firm (indistinct) if that is financially viable. Can I just
10 ask, are you relatively comfortable (indistinct) have been given to you, that both of you are looking at financial, because I know (indistinct) if I understand correctly, assume that something (indistinct). Are you concerned about that, or are you here because you are relatively relaxed that both could be viable?

15 MR HUDD: I think, as I say, it's for you to decide which option you want to go with. We have got ourselves comfortable with both. I have to say, I think, that the bifurcation option is probably an easier one to implement in the sense that you haven't got the danger of people here, I mentioned that (indistinct), but it's for
20 you to decide that. I mean, I can't give you a kind of, being overly legalistic and wrap a warranty about it, but we've seen, and we can get ourselves comfortable with either scenario, and we are prepared to offer the same degree of financial operation support in either scenario. But I think it is for you to decide
25 which way you want to go, but you do need to ascertain that risk

of people leaving in the stand-alone option. Any other questions? Okay, thank you.

MR HLATSWAYO: Thank you, guys. Thank you, colleagues.

MEETING ADJOURNS

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