Interim Results 2013

2013-09-17

RNS Number : 1410O
Burford Capital
17 September 2013

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**BURFORD CAPITAL REPORTS HALF YEAR 2013 RESULTS**

*Total income increased 41%*

*Significant activity in the UK leading up to implementation of Jackson reforms*

Burford Capital Limited ("Burford" or "the Company"), the world's largest provider of investment capital and risk solutions for litigation, announces its financial results for the half year ended 30 June 2013.

**Highlights**

- A 65% increase in Burford's profit before tax for the period (excluding the accounting impact of the Burford UK acquisition, the 2012 Reorganisation and UK restructuring costs) to $9.7 million (June 2012: $5.9 million).
  - The large one-time non-cash charge resulting in an accounting loss for the period is as described in the 2012 accounts and has no cash or NAV impact on the Company.
- Burford's income for the six months was $19.5 million, a 41% increase on prior year (June 2012: $13.8 million). The increase reflects:
  - an 86% increase in income from the litigation portfolio amid continuing increases in activity levels;
  - a 58% increase in income from the UK insurance business.
- Cash receipts from the litigation portfolio increased more than seven-fold as compared to the same period last year.
- Significant levels of activity in the UK business in the months leading up to the implementation of the Jackson reforms, with more than $150 million in new business exposure written in the first half - more than in all of 2011 and 2012 combined.
- Since inception through 30 June 2013, 25 investments have generated $128 million in gross investment recoveries and $40 million net of invested capital, producing a 46% return on invested capital.
- Burford continued to see significant volumes of market activity and continued to deploy capital in new investments as well as managing its substantial portfolio of existing investments.

**Sir Peter Middleton, Chairman of Burford, commented:**
"We are very pleased with Burford's progress. The UK business has performed strongly and has substantially exceeded expectations, and its recent activity has set the stage for years of profits. The core investment portfolio is showing solid performance and increasing levels of activity. The business is maturing well and we are grateful for Shareholder support of the reorganisation and the conversion to an operating business. We look forward to a successful second half of 2013."

**Christopher Bogart, Chief Executive Officer of Burford, commented:**
"The first half of 2013 was a busy and successful time for Burford. The investment portfolio continued to mature and provide cash returns. We enjoyed a significant level of activity in the UK."

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**About Burford Capital**

Burford Capital is the world's largest provider of investment capital and risk solutions for litigation with the largest and most experienced dedicated team in the industry. Burford is publicly traded on the London Stock Exchange's AIM market under the ticker symbol BUR. Burford provides a broad range of corporate finance and insurance solutions to lawyers and clients engaged in significant litigation and arbitration around the world.

For more information about Burford, visit www.burfordcapital.com

## Financial Highlights

Full unaudited IFRS consolidated financial statements can be found in the following pages and a summary is set out below. The figures for taxation and profit after tax exclude the impact of the Burford UK acquisition, the 2012 Reorganisation and the one-off UK Restructuring costs and are shown to assist in understanding of the underlying performance of the Company. All other figures presented are derived directly from the unaudited consolidated financial statements.

| **US $'000** | **30-Jun-13** | **30-Jun-12** | **% change** |
|---|---|---|---|
| Litigation-related Investment Income | 10,096 | 5,421 | |
| Insurance-related Income | 10,207 | 6,448 | |
| Other Income | (818) | 1,926 | |
| **Total Income** | **19,485** | **13,795** | **41%** |
| Operating expenses - corporate and investment | (6,687) | (6,255) | |
| Operating expenses - insurance | (3,127) | (1,665) | |
| **Profit before tax and the impacts relating to the Burford UK acquisition, the 2012 Reorganisation and UK Restructuring costs** | **9,671** | **5,875** | **65%** |
| Taxation * | *(1,303)* | *(1,075)* | |
| **Profit after tax **** | ***8,368*** | ***4,800*** | ***74%*** |

* *Taxation does not include deferred taxation credit on amortisation of embedded value intangible asset.*

** *This is profit after tax excluding the impact of the Burford UK acquisition, the 2012 Reorganisation, and UK Restructuring costs, which are included in the Consolidated Statement of Comprehensive Income on page 11.*

## Report to Shareholders

The first half of 2013 was a busy and successful time for Burford. The investment portfolio continued to mature and provide cash returns. We enjoyed a significant level of activity in the UK. We increased the dividend by 30%, paying out almost $10 million to shareholders in May. The share price has increased significantly since the beginning of the year.

Burford has also been actively making the transition from its old investment fund structure to being a new perpetual finance company. The final step of our reorganisation was the overwhelming approval of our Shareholders at May's AGM; we are grateful for your support. In these accounts, shareholders will notice our move away from NAV per share given that we have shed our fund structure, along with the large non-cash charge associated with the reorganisation as required by IFRS. That charge won't recur after this year and has no practical impact on the Company. We explained all of these issues at length in our 2012 Annual Report and refer readers there for more information. The new Burford is already enjoying its greater flexibility and ability to adapt to market conditions. We will continue to write about the Company's capital structure going forward, but a first step will be our goal of completing this year the contingent preferred share issue we have been discussing for some time.

It is only a few months since the release of our comprehensive review of the business in our annual report and in keeping with our custom this shorter interim report will simply address developments in the business without repeating the material in the annual report.

*Burford UK*

We have completed the successful integration of Burford UK (formerly known as Firstassist), the UK legal expenses insurer purchased in 2012. Our approach to the UK market is now a comprehensive one; a single team offers a suite of insurance and litigation finance products on a fully integrated basis. Our offerings are now entirely under the Burford brand; we no longer use the Firstassist name. We have an experienced team in place, with Andrew Langhoff, our Chief Operating Officer and Chief Executive of Burford UK, resident in London and Ross Clark, a longtime senior Firstassist executive, serving as Chief Investment Officer for all UK litigation risk, be it insurance or funding. The business is well positioned to exploit a broad range of attractive market opportunities and to be nimble and responsive to client demand in the rapidly evolving UK legal landscape following the implementation of the Jackson reforms in April 2013.

While we are excited about the future, we are delighted with the performance during the first half of the year. As lawyers rushed to pursue claims before the April implementation of the Jackson reforms, we saw an unprecedented level of demand for our insurance products. In turn we devoted enormous resources to meeting that demand, including adding resources from our US-based team to assist our UK team. Our scale and market-focused approach proved invaluable and unlike many other market participants who simply were not able to process the

demand, we were able to keep up while maintaining our quality and underwriting standards.

The result was that we wrote more than $150 million in new business exposure in the first quarter - more business than Firstassist had written in all of 2011 and 2012 combined. Because of the conditional and deferred nature of our litigation expenses insurance products, it is too soon to tell how much that potential exposure will convert into actual premiums, which will turn into income for the Group over the next few years as cases settle, but it seems clear that the former Firstassist will exceed our expectations and that we have a valuable annuity in hand. It is worth noting that the UK litigation insurance segment contributed a further $10.2 million in income and $5.9 million in profit before tax in the first six months of 2013.

While our focus on meeting the demand for insurance products caused us to deemphasise litigation funding in the UK for a time, we're also happy to report that our UK funding business is proceeding nicely, with strong demand for capital and some early success. Indeed, we saw our first resolution of a UK funding matter in the second quarter, with a return of more than 100% in less than a year. We also completed a law firm financing transaction, a market innovation.

We also engaged in a restructuring of the UK business in the second quarter to reduce our headcount and expense base, whilst seeking to improve our skills mix. This restructuring was a necessary consequence in light of the changes we expect from the Jackson reforms and it was, in our view, important to act quickly to maximise the value of our "annuity" once those reforms took effect. (The interim accounts presented in this report include a one-time provision for this restructuring, which will pay for itself in the next year in cost savings.) Going forward, we are happy to add resources to address demand, but we wanted to start from an appropriately lean and efficient platform.

It is too early to tell what the real impact of the Jackson reforms will be on UK litigation generally, let alone litigation finance and insurance. The court system is still dealing with the enormous bulge of pre-Jackson filings while the Jackson era remains uncertain. Our very early experience is consistent with our prior assessment - that there remains demand for insurance coverage in larger commercial matters and that the demand for various financing products has increased. However, more time is needed for the new reality to come into sharper focus. Whatever happens, it certainly feels as though there is strong market demand for Burford's products and solutions, and for the presence of a substantial and professional player in the market.

Finally, we have noted before that it sometimes makes sense for us to collaborate with a partner to obtain specialised expertise rather than doing everything organically. Patent litigation is one such area we have previously identified as falling into that category. UK insolvency finance is another, and thus we were pleased to announce in July 2013 a small investment in and strategic relationship with Manolete Partners, an insolvency financing specialist also backed by Jon Moulton, a leading UK private equity investor.

*Investment portfolio*

Consistent with our prior commentary about the litigation investment portfolio, we are continuing to see activity in the portfolio as matters mature. Our profits from the portfolio are up significantly over the same period last year (an increase from $5.4 million in portfolio income in 2012 to $10.1 million in 2013), as are our cash inflows, with $21.6 million of cash proceeds in 2013 versus $2.5 million in 2012, representing an increase of 764%.

Continuing our non-IFRS reporting on portfolio activity and progress:

> Since inception through 30 June 2013, 25 investments have generated $128 million in gross investment recoveries[1] and $40 million net of invested capital, producing a 46% return on invested capital. Comparatively, through 30 June 2012, only 12 investments had generated $61 million in gross investment recoveries and $20 million net of invested capital, demonstrating the degree of portfolio acceleration.

[1] Investment recoveries and pending investment recoveries are non-IFRS terms defined in footnotes 1 and 2 to the Burford 2012 Annual Repor

At 30 June 2013, Burford had an additional $41 million in gross pending investment recoveries across eight investments and $15 million net of invested capital, for a 57% return on invested capital.

We are maintaining our portfolio approach to litigation investing and we do not propose to comment on individual investments, other than annually to provide some commentary on investments that are entirely concluded. In this interim report, we restrict ourselves to aggregate information.

*Commitments:* Since inception, Burford has committed $386 million of capital to 51 investments:

| | **Commitment Amount ($'m)** | **Number of Investments** |
|---|---|---|
| Short duration portfolio | 65 | 13 |
| Core portfolio | 235 | 33 |
| Special situations portfolio | 27 | 3 |
| Other investments* | 59 | 2 |
| **Total** | **386** | **51** |

At 30 June 2013, Burford's current commitments were as follows:

| | **Commitment Amount ($'m)** | **Number of Investments** |
|---|---|---|
| Short duration portfolio | 27 | 5 |
| Core portfolio | 172 | 21 |
| Special situations portfolio | 8 | 1 |
| Other investments* | 59 | 2 |
| **Total** | **266** | **29** |

*Includes Burford UK and the litigation portfolio financing

The portfolio is behaving in line with our expectations. As matters progress through the litigation process, some settle, and we receive our return from those settlements, sometimes rapidly and sometimes over time. Some of those settlements exceed our expectations, in timing,

quantum or both, and some disappoint (while still providing a return - we have never lost money on a settled investment), but overall they produce desirable returns.

While many matters settle, some do not. By definition, a settlement requires a claimant to accept less than it is claiming and typically less than it believes it could recover through a trial or arbitration, and while many claimants are willing to accept that discount in exchange for certainty and risk avoidance, some are not. Thus, the portion of the portfolio that does not settle also behaves consistently with our expectations: some matters win and produce results that are in excess of their settlement values, and some matters disappoint, either by producing lower results or outright losses. And when there is a win, there may well be a further component of time and activity, including appeals and judgement enforcement activity.

That is exactly what has happened in the portfolio in the six months to 30 June. More than a dozen matters had some sort of economic activity, although in many cases less than a complete resolution (for example, one party settling but another continuing to litigate). Some settled, some had a win that increased their value and some disappointed. But the important point is that the aggregate performance was solidly positive and considerably more active than a year ago. (It is important to remember that there is some seasonality in this business, with more activity occurring in the second half and especially the fourth quarter of the year. December is historically our busiest month.)

In summary, Burford now has a large, well diversified and active investment portfolio that is increasingly providing net positive results and cash flow, and we continue to make new investments to add to that portfolio. We look forward to the continued development of the investment portfolio.

*Other financial comments*

A couple of other items on the financial statements deserve attention.

We show a small loss on the income statement for our cash management investments as opposed to the usual small profit. This is a consequence of the broad declines in value experienced by fixed income funds late in the second quarter. Because we mark those funds to market, we have booked an unrealised loss at 30 June, although we in fact realised cash profits from our cash management of more than $1 million in the period. See note 9 to the financial statements for more information. And, of course, the foreign exchange loss we show is entirely non-cash.

As discussed extensively in our 2012 Annual Report, the accounting for the 2012 reorganisation included a large non-cash charge in 2013 pursuant to IFRS 2. This charge is explained in detail in note 7 of the current financial statements, has no impact on net assets and will not recur.

We are very pleased with Burford's progress. The UK business has performed strongly and has substantially exceeded expectations, and its recent activity has set the stage for years of profits. The core investment portfolio is showing solid performance and increasing levels of activity. The business is maturing well and we are grateful for shareholder support of the reorganisation and the conversion to an operating business. We look forward to a successful second half of 2013.

| | | |
|---|---|---|
| Sir Peter Middleton GCB | Christopher Bogart | Jonathan Molot |
| Chairman | Chief Executive Officer | Chief Investment Officer |

16 September 2013

Messrs. Bogart and Molot, like all of Burford's people other than our four directors, are employees and officers of subsidiaries of Burford Capital Limited.

**Independent review report to Burford Capital Limited**

**Introduction**

We have been engaged by Burford Capital Limited to review the condensed set of financial statements in the Interim Report for the six months ended 30 June 2013 which comprises the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 20. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

**Directors' Responsibilities**

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with International Accounting Standard 34, "Interim Financial Reporting".

As disclosed in note 1, the annual financial statements of the Company will be prepared in accordance with IFRS. The condensed set of financial statements included in this Interim Report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

**Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Interim Report based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim

Report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Ernst & Young LLP
Guernsey, Channel Islands

16 September 2013

Notes:

1. The maintenance and integrity of the Burford Capital Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Guernsey governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

**Consolidated Statement of Comprehensive Income for the period ended 30 June 2013**

| | Notes | 1 January 2013 to 30 June 2013 | 1 January 2012 to 30 June 2012 As restated |
|---|---|---|---|
| | 2 | $'000 | $'000 |
| **Income** | | | |
| Net gains on litigation-related investments | 10 | 6,749 | 2,887 |
| Insurance-related income | | 10,207 | 6,448 |
| Interest and other income from litigation-related activities | 12 | 3,347 | 2,534 |
| Net (losses)/gains on cash management investments at fair value through profit or loss | 9 | (403) | 2,168 |
| Net losses on foreign exchange | | (415) | (242) |
| **Total income** | | 19,485 | 13,795 |
| Operating expenses | | (9,814) | (7,920) |
| **Profit before tax and the impacts relating to the Burford UK acquisition, the 2012 Reorganisation and UK Restructuring costs** | | 9,671 | 5,875 |
| Non-cash, non-NAV charge associated with the 2012 Reorganisation | 7 | (26,539) | - |
| Reorganisation advisory fees | | (619) | - |
| UK Restructuring costs | 14 | (1,148) | - |
| Non-recurring Burford UK acquisition impacts | 5 | - | 4,119 |
| Amortisation of embedded value intangible asset arising on Burford UK acquisition | 6 | (5,927) | (5,508) |
| **(Loss)/profit for the period before taxation** | | (24,562) | 4,486 |
| Taxation | 4 | (1,303) | (1,075) |
| Deferred tax credit on amortisation of embedded value intangible asset | 4 | 1,482 | 1,377 |
| Total taxation | | 179 | 302 |
| **(Loss)/profit for the period after taxation** | | (24,383) | 4,788 |
| Attributable to non-controlling interest | | - | (155) |
| Attributable to controlling interests | | (24,383) | 4,943 |
| | | (24,383) | 4,788 |
| **Other comprehensive income** | | | |
| Exchange differences on translation of foreign operations on consolidation | | (2,040) | (44) |
| **Total comprehensive income for the period that may be reclassified to the income statement** | | (26,423) | 4,744 |
| Attributable to non-controlling interests | | - | (155) |
| Attributable to controlling interests | | (26,423) | 4,899 |
| | | Cents | Cents |
| **Basic and diluted profit per Ordinary Share** | 16 | (11.92) | 2.75 |
| **Basic and diluted comprehensive income per Ordinary Share** | 16 | (12.92) | 2.72 |

The notes on pages 15 to 33 form an integral part of these consolidated financial statements.

**Consolidated Statement of Financial Position as at 30 June 2013**

| | Notes | 30 June 2013 | 31 December 2012 | 30 June 2012 As restated |
|---|---|---|---|---|
| | 2 | $'000 | $'000 | $'000 |
| Assets | | | | |
| Non-current assets | | | | |
| Embedded value intangible asset | 6 | 13,956 | 21,196 | 25,919 |
| Tangible assets | | 463 | 565 | 245 |
| Litigation-related investments | 10 | 161,226 | 159,749 | 149,109 |
| Litigation portfolio financing | 11 | 30,000 | 30,000 | 30,000 |
| Due from settlement of litigation-related investments | 12 | 42,406 | 28,482 | 17,572 |
| | | 248,051 | 239,992 | 222,845 |
| Current assets | | | | |
| Cash management investments at fair value through profit or loss | 9 | 40,979 | 50,790 | 60,326 |
| Due from settlement of litigation-related investments | 12 | 5,886 | 15,358 | 10,907 |
| Due from sales of cash management investments at fair value through profit or loss | | - | - | 10,011 |
| Receivables and prepayments | 13 | 11,496 | 13,311 | 11,228 |
| Cash and cash equivalents | | 27,263 | 25,559 | 13,509 |
| | | 85,624 | 105,018 | 105,981 |
| Total assets | | 333,675 | 345,010 | 328,826 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Payables | 14 | 6,795 | 6,312 | 2,660 |
| Current tax payable | | 1,269 | 1,503 | 1,581 |
| | | 8,064 | 7,815 | 4,241 |
| Non-current liabilities | | | | |
| Deferred consideration (Burford UK acquisition) | | - | - | 10,372 |
| Deferred tax payable | 4 | 3,312 | 5,087 | 6,493 |
| | | 3,312 | 5,087 | 16,865 |
| Total liabilities | | 11,376 | 12,902 | 21,106 |
| Total net assets | | 322,299 | 332,108 | 307,720 |
| Represented by: | | | | |
| Share capital | 15 | 328,749 | 302,210 | 290,376 |
| Reserves | | (6,450) | 29,898 | 17,207 |
| Equity attributable to owners of parent | | 322,299 | 332,108 | 307,583 |
| Non-controlling interests | | - | - | 137 |
| Total equity shareholders' funds | | 322,299 | 332,108 | 307,720 |

The notes on pages 15 to 33 form an integral part of these consolidated financial statements.
The financial statements on pages 10 to 33 were approved by the Board of Directors on 16 September 2013 and were signed on its behalf by:

**Charles Parkinson**
Director

16 September 2013

## Consolidated Statement of Cash Flows for the period ended 30 June 2013

| | Notes | 1 January 2013 to 30 June 2013 | 1 January 2012 to 30 June 2012 As restated |
|---|---|---|---|
| | 2 | $'000 | $'000 |
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the period before tax | | (24,562) | 4,486 |
| **Adjusted for:** | | | |
| Fair value change on cash management investments at fair value through profit or loss | | 1,596 | 1,128 |
| Fair value change on litigation-related investments | | (6,601) | (156) |
| Realised gains on disposal of cash management investments at fair value through profit or loss | | (902) | (2,798) |
| Realised gains on realisation of litigation-related investments | | (148) | (2,731) |
| Non-cash, non-NAV charge associated with the 2012 reorganisation | | 26,539 | - |
| Amortisation of embedded value intangible asset | | 5,927 | 5,508 |
| Non-recurring Burford UK acquisition impacts | | - | (6,247) |
| Depreciation of tangible fixed assets | | 163 | 21 |
| Effect of exchange rate changes on cash and cash equivalents | | (902) | - |
| | | 1,110 | (789) |
| **Changes in working capital** | | | |
| Decrease in receivables | | 1,815 | 5,306 |
| Decrease in payables | | (89) | (2,874) |
| Taxation paid | | (1,537) | (823) |
| Net proceeds from disposal of cash management investments at fair value through profit or loss | | 9,117 | 65,884 |
| Purchase of litigation-related investments | | (20,310) | (38,777) |
| Proceeds from litigation-related investments | | 21,599 | 2,513 |
| **Net cash inflow from operating activities** | | 11,705 | 30,440 |
| **Cash flows from financing activities** | | | |
| Dividend paid | | (9,925) | (6,588) |
| **Net cash outflow from financing activities** | | (9,925) | (6,588) |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | | - | (19,245) |
| Purchases of tangible fixed assets | | (76) | - |
| **Net cash outflow from investing activities** | | (76) | (19,245) |
| **Net increase in cash and cash equivalents** | | 1,704 | 4,607 |

**Consolidated Statement of Cash Flows for the period ended 30 June 2013 (continued)**

| | Notes | 1 January 2013 to 30 June 2013 | 1 January 2012 to 30 June 2012 As restated |
|---|---|---|---|
| | 2 | $'000 | $'000 |
| **Reconciliation of net cash flow to movements in cash and cash equivalents** | | | |
| Cash and cash equivalents at beginning of period | | 25,559 | 8,902 |
| Increase in cash and cash equivalents | | 1,704 | 4,607 |
| **Cash and cash equivalents at end of period** | | 27,263 | 13,509 |

The notes on pages 15 to 33 form an integral part of these consolidated financial statements

**Consolidated Statement of Changes in Equity for the period to 30 June 2013**

| 30 June 2013 | Share capital $'000 | Revenue reserve $'000 | FOREIGN CURRENCY CONSOL-IDATION RESERVE $'000 | TOTAL $'000 |
|---|---|---|---|---|
| At 1 January 2013 | 302,210 | 29,771 | 127 | 332,108 |
| Loss for the period | - | (24,383) | - | (24,383) |
| Other comprehensive income | - | - | (2,040) | (2,040) |
| Dividends paid | - | (9,925) | - | (9,925) |
| Issue of share capital | 26,539 | - | - | 26,539 |
| Balance at 30 June 2013 | 328,749 | (4,537) | (1,913) | 322,299 |

| 30 June 2012 As restated (note 2) | Share capital $'000 | Revenue reserve $'000 | Available for sale reserve $'000 | FOREIGN CURRENCY CONSOL-IDATION RESERVE $'000 | NON-CONTROLLING INTEREST $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 290,376 | 10,799 | 8,097 | - | - | 309,272 |
| Transfer on adoption of IFRS 9 | - | 8,097 | (8,097) | - | - | - |
| Profit/(loss) for the period | - | 4,943 | - | - | (155) | 4,788 |
| Other comprehensive income | - | - | | (44) | - | (44) |
| Dividends paid | - | (6,588) | - | - | - | (6,588) |
| Adjustment arising from change in non-controlling interest on acquisition | - | - | - | - | 292 | 292 |
| Balance at 30 June 2012 | 290,376 | 17,251 | - | (44) | 137 | 307,720 |

The notes on pages 15 to 33 form an integral part of these consolidated financial statements

**Notes to the consolidated financial statements**

1. Legal form and principal activity

Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") provide investment capital, financing and risk solutions with a focus on the litigation and arbitration sector and following the acquisition of Firstassist Legal Group Holdings Limited ("Firstassist") on 29 February 2012, the provision of litigation insurance. Firstassist changed its name to Burford Capital Holdings (UK) Limited ("Burford UK") on 25 January 2013.

The Company was incorporated under The Companies (Guernsey) Law, 2008 (the "Law") on 11 September 2009. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009.

These financial statements cover the period from 1 January 2013 to 30 June 2013.

2. Principal accounting policies

There have been no changes to the Group's principal risks and uncertainties in the six month period ended 30 June 2013 and the Board does not anticipate any changes to the principal risks and uncertainties in the second half of the year.

These consolidated condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". These financial statements do not contain all the information and disclosures as presented in the annual financial statements. The consolidated condensed interim financial statements are presented in United States Dollars and are rounded to the nearest $'000 unless otherwise indicated.

**New standards, interpretations and amendments**
The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012, except for the changes outlined below effective as of 1 January 2013.

Following the issue of IFRS 13 "Fair Value Measurement", which establishes a framework for measuring fair value and associated disclosures, the Group has adopted the disclosure requirements in respect of financial instruments in the notes to these condensed consolidated financial statements. Financial assets and financial liabilities measured at fair value continue to be valued using the techniques set out in the accounting policies used in the 2012 Annual Report. These changes had no significant impact on the measurement of the Group's assets and liabilities. The IFRS 13 disclosures required by IAS 34 are given in note 18.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the interim condensed consolidated financial statements of the Group.

**Basis of consolidation**
The consolidated financial statements comprise the financial statements of Burford Capital Limited and the Subsidiaries. All the Subsidiaries are consolidated in full from the date of acquisition.

All intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full.

The Subsidiaries' accounting policies and financial year end are consistent with those of the Company.

**Notes to the consolidated financial statements**

2. Principal accounting policies

**Restatement of comparatives: Early adoption of IFRS 9: Financial Instruments**
The Group adopted IFRS 9 Financial Instruments (2010) ("IFRS 9") with a date of initial application of 1 January 2012. IFRS 9 is required to be adopted by 1 January 2015; the Group elected to adopt it early, with AIM's consent, to achieve reporting consistency between unrealised and realised gains and losses that was not available under the previous accounting policy.

The decision to early adopt IFRS 9 with a date of initial application of 1 January 2012 was taken after the interim financial statements for the period ended 30 June 2012 had been published. Therefore the comparative numbers for the period ended 30 June 2012 have been restated to reflect the early adoption. As a consequence of the change, due diligence and closing costs capitalised as part of the investment cost have been expensed in the income statement.

The total net assets at 30 June 2012 have been restated to $307,720,000 which is a reduction of $187,000 on the net assets of $307,907,000 per the 2012 interim financial statements.

**3. Material agreements**

**Investment Adviser Agreement**
Following the acquisition of the Investment Adviser under the 2012 Reorganisation (see Note 7), the Investment Adviser Agreement was terminated at the end of 2012. Details of the Investment Adviser Agreement were disclosed in the 2012 Annual Report.

**Administration fee**
Under the terms of an administration agreement dated 15 October 2009 between the Company and International Administration Group (Guernsey) Limited (the "Administrator"), as amended, effective 1 January 2011, the Administrator is entitled to receive an annual fee payable quarterly in advance, and further annual fees for the administration of each of the Subsidiaries expected to total approximately $400,000 per annum.

**Cash management arrangements**
The Company retained Potomac River Capital LLC ("Potomac") to provide treasury management services and to perform investment services with respect to the Company's surplus cash pending investment. No fees are payable other than fees embedded in the underlying investments made by Potomac.

**4. Taxation**

The Company is exempt from tax in Guernsey. In certain cases, a subsidiary of the Company may elect to make use of investment structures that are subject to income tax in a country related to the investment. Burford UK and its subsidiaries (see note 5) are subject to UK taxation based on profits and income for the period as determined in accordance with relevant tax legislation.

All material tax arising in the current period arose in Burford UK and comprises current taxation of $1,225,000 (30 June 2012: $1,075,000) and a deferred tax credit of $1,482,000 (30 June 2012: $1,377,000) relating to the amortisation of the intangible asset.

**Notes to the consolidated financial statements**

**4. Taxation**

| | 30 June 2013 $'000 | 31 December 2012 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| Deferred tax liability at start of period | 5,087 | - | - |
| Deferred taxation on embedded value intangible asset | - | 7,968 | 7,968 |
| Tax released on amortisation of embedded value intangible asset | (1,482) | (2,979) | (1,377) |
| Deferred tax - Burford UK | 21 | - | - |
| Foreign exchange adjustment | (314) | 98 | (98) |
| Deferred tax liability at end of period | 3,312 | 5,087 | 6,493 |

**5. Acquisition of subsidiary**

On 29 February 2012, the Company acquired Burford UK (formerly known as Firstassist) and its subsidiaries. Burford UK's principal activity is the provision of litigation insurance. Burford UK is regulated by the FCA (formerly known as the FSA) as an insurance intermediary. The Company originally acquired 100% of Burford UK's preferred ordinary shares and 87.5% of Burford UK's ordinary shares. The remaining 12.5% ordinary shares were acquired on 21 December 2012. The acquisition enables expansion into the UK market through an existing profitable business and the Group also gains the services of a leading team to pursue litigation finance in addition to the insurance business acquired.
Burford UK contributed $10,207,000 total income and an after tax profit of $4,707,000 to the Group during the period, before deduction of $4,445,000 in respect of non-cash amortisation of the embedded value intangible asset less associated deferred tax credit.

The net nonrecurring gain of $4,119,000 associated with the Burford UK acquisition recorded in the 30 June 2012 Consolidated Statement of Comprehensive Income is broken down below:

| | 30 June 2012 $'000 |
|---|---|
| Bargain purchase gain arising on Burford UK acquisition | 6,247 |
| Burford UK acquisition costs - non-recurring | (2,026) |
| Amortisation of discount on future Burford UK contingent deferred consideration | (102) |
| | 4,119 |

As a result of the acquisition the Group has additional exposure to currency risk as Burford UK conducts its operations in Sterling.

Like the Company, Burford UK's business is centered around litigation activity and the assessment of litigation risk and thus the substantive risks set forth previously for the Group generally apply to Burford UK as well. The principal additional risks unique to Burford UK are (i) that Burford UK obtains insurance capacity through an arrangement with Great Lakes

**Notes to the consolidated financial statements**

**5. Acquisition of subsidiary**

Reinsurance (UK) Plc (a wholly-owned subsidiary of MunichRe) and thus is dependent on the continuation of that arrangement and the ongoing solvency of Great Lakes (which is currently rated A+ by AM Best and AA- by S&P) and (ii) that the implementation of the recently passed Legal Aid, Sentencing and Prosecution of Offenders Act will reduce the demand for Burford UK's current product offerings.

**6. Embedded value intangible asset**

| | 30 June 2013 $'000 | 31 December 2012 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| At 1 January | 21,196 | - | - |
| Additions - Burford UK | - | 31,874 | 31,874 |
| Amortisation | (5,927) | (11,079) | (5,508) |
| Exchange difference on re-translation | (1,313) | 401 | (447) |
| At 30 June / 31 December | 13,956 | 21,196 | 25,919 |

Burford UK was acquired on 29 February 2012. The intangible asset represents the value of Burford UK's book of business at the date of acquisition, it has an estimated useful life extending to 2016 and is being amortised in accordance with the expected maturity of the business.

**7. Non-cash, non-NAV charge associated with the 2012 reorganisation**

On 21 November 2012, the Company entered into a reorganisation transaction (the "2012 Reorganisation") the ultimate effect of which was to internalise the management of the Company and acquire the Investment Adviser. The consideration for the acquisition was 24,545,454 shares of the Company's stock. The Reorganisation was completed on 12 December 2012, and the Company issued the aforementioned shares on that date to the Investment Adviser's principals, Christopher Bogart and Jonathan Molot. As a result of the Reorganisation, the Company has, inter alia, become the owner of Burford Capital LLC, the US operating entity that employs what are now the Company's US employees and which has built a substantial market leading position in the litigation finance market, and the Company is also no longer obliged to make payments of management and performance fees to the Investment Adviser.

The legal form of the Reorganisation transaction was a reverse triangular merger pursuant to section 351 of the US Internal Revenue Code whereby the Company created a subsidiary that merged with and into the Investment Adviser in a reverse subsidiary merger, and all of the equity interests in the surviving entity (Burford Capital LLC) were issued to the Company, which in turn issued the aforementioned shares which were then transferred to Messrs. Bogart and Molot. As a result and as disclosed in the Company's November 2012 RNS announcement, Messrs. Bogart and Molot became owners of those shares immediately and unconditionally, although the shares are subject to a two year lock-up period.

**Notes to the consolidated financial statements**

**7. Non-cash, non-NAV charge associated with the 2012 reorganisation**

From a corporate law and corporate structure perspective, the Reorganisation is a sale of a business for stock and does not contain any employment component (in that Messrs. Bogart and Molot were employees of Burford Capital LLC both before and after the Reorganisation), and the transaction was entirely concluded within 2012. However, because Messrs. Bogart & Molot are continuing as employees of Burford Capital LLC, IFRS treats the Reorganisation as falling under both IFRS 2 and IFRS 3, notwithstanding the potential for inconsistency between the actual legal form of the transaction and the accounting treatment. This accounting position was solidified in January 2013 (with retroactive effect) following release of general guidance by the IFRS Interpretations Committee.

Thus, for accounting purposes only, the Company has determined a fair value for the Reorganisation transaction by using the implied market value of the shares issued based on their bid price converted to US dollars and without considering their illiquidity or certain contractual restrictions on their transfer, yielding total consideration of $38,373,111. Of that amount, $518,534 relating to tangible assets acquired and a non-cash charge computed pursuant to IFRS 3 of $11,315,080 reflecting the internalisation referred to above were recognised in the Group's 2012 Annual Report.

In February 2013, the accounting review of the application of IFRS 2 (as influenced by the IFRS Interpretations Committee's January 2013 action) reached the conclusion that the remaining $26,539,497 in deemed value would be appropriately recognised as a non-cash charge to income (with a corresponding increase in equity thus having no NAV impact) over a three year period in light of certain pre-existing provisions in the principals' employment arrangements for liquidated damages in the event of employment termination. The Company took the view that sustained recognition of non-cash charges of this sort was not advisable and thus, with the consent of the principals, eliminated those provisions nunc pro tunc, following which the appropriate IFRS 2 treatment was determined to be the full recognition of the remaining deemed value in the current period.

**8. Segmental information**

Management consider that there are two operating business segments, being (i) provision of litigation investment (reflecting litigation and arbitration-related investment activities anywhere in the world) and (ii) provision of litigation insurance (reflecting UK litigation insurance activities).

**Segment revenue and results**

| **30 June 2013** | **Litigation Investment** | **Litigation Insurance** | **Other corporate activity** | **Total** |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Income | 10,096 | 10,207 | (818) | 19,485 |
| Operating expenses | (4,761) | (3,127) | (1,926) | (9,814) |
| Non-cash, non-NAV charge associated with the 2012 Reorganisation | - | - | (26,539) | (26,539) |
| Reorganisation advisory fees | - | - | (619) | (619) |
| UK Restructuring costs | - | (1,148) | - | (1,148) |
| Amortisation of embedded value intangible asset | - | - | (5,927) | (5,927) |
| *Profit/(loss) for the period before taxation* | 5,335 | 5,932 | (35,829) | (24,562) |
| Current taxation | - | (1,225) | (78) | (1,303) |
| Deferred tax credit | - | - | 1,482 | 1,482 |
| Other comprehensive income | - | - | (2,040) | (2,040) |
| *Total comprehensive income* | 5,335 | 4,707 | (36,465) | (26,423) |

**Notes to the consolidated financial statements**

**8. Segmental information**

**Segment revenue and results**

| 30 June 2012 As restated (Note 2) | Litigation Investment | Litigation Insurance | Other corporate activity | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Income | 5,421 | 6,448 | 1,926 | 13,795 |
| Operating expenses | (1,832) | (1,665) | (4,423) | (7,920) |
| Non-recurring Burford UK acquisition impacts | - | - | 4,119 | 4,119 |
| Amortisation of embedded value intangible asset* | - | - | (5,508) | (5,508) |
| *Profit/(loss) for the period before taxation* | 3,589 | 4,783 | (3,886) | 4,486 |
| Current taxation | - | (1,075) | - | (1,075) |
| Deferred tax credit* | - | - | 1,377 | 1,377 |
| Other comprehensive income | - | - | (44) | (44) |
| *Total comprehensive income* | 3,589 | 3,708 | (2,553) | 4,744 |

** In the 2012 interim financial statements, these amounts were included within Litigation Insurance segment but have been reallocated to Other Corporate Activity to be consistent with the 2012 year end and 2013 interim segmental information disclosures.*

**Notes to the consolidated financial statements**

**8. Segmental information**

**Segment assets**

| 30 June 2013 | Litigation Investment | Litigation Insurance | Other corporate activity | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| *Non-current assets* | | | | |
| Embedded value intangible asset | - | - | 13,956 | 13,956 |
| Tangible fixed assets | - | 109 | 354 | 463 |
| Litigation-related Investments | 161,226 | - | - | 161,226 |
| Litigation portfolio financing | 30,000 | - | - | 30,000 |
| Due from settlement of litigation-related investments | 42,406 | - | - | 42,406 |
| | 233,632 | 109 | 14,310 | 248,051 |
| *Current assets* | | | | |
| Cash management investments at fair value through profit or loss | - | - | 40,979 | 40,979 |
| Due from settlement of litigation-related investments | 5,886 | - | - | 5,886 |
| Receivables and prepayments | 2,097 | 9,212 | 187 | 11,496 |
| Cash and cash equivalents | 15,352 | 11,715 | 196 | 27,263 |
| | 23,335 | 20,927 | 41,362 | 85,624 |
| *Total assets* | 256,967 | 21,036 | 55,672 | 333,675 |
| *Current liabilities* | | | | |
| Payables | (4,517) | (1,664) | (614) | (6,795) |
| Taxation payable | - | (1,269) | - | (1,269) |
| | (4,517) | (2,933) | (614) | (8,064) |
| *Non-current liabilities* | | | | |
| Deferred taxation payable | - | (21) | (3,291) | (3,312) |
| | - | (21) | (3,291) | (3,312) |
| *Total liabilities* | (4,517) | (2,954) | (3,905) | (11,376) |
| *Total net assets* | 252,450 | 18,082 | 51,767 | 322,299 |

**Notes to the consolidated financial statements**

**8. Segmental information**

**Segment assets**

| 31 December 2012 | Litigation Investment | Litigation Insurance | Other corporate activity | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| *Non-current assets* | | | | |
| Embedded value intangible asset | - | - | 21,196 | 21,196 |
| Tangible fixed assets | - | 231 | 334 | 565 |
| Litigation-related Investments | 159,749 | - | - | 159,749 |
| Litigation portfolio financing | 30,000 | - | - | 30,000 |
| Due from settlement of litigation-related investments | 28,482 | - | - | 28,482 |
| | 218,231 | 231 | 21,530 | 239,992 |
| *Current assets* | | | | |
| Cash management investments at fair value through profit or loss | - | - | 50,790 | 50,790 |
| Due from settlement of litigation-related investments | 15,358 | - | - | 15,358 |
| Receivables and prepayments | 1,172 | 11,952 | 187 | 13,311 |
| Cash and cash equivalents | 12,249 | 12,809 | 501 | 25,559 |
| | 28,779 | 24,761 | 51,478 | 105,018 |
| *Total assets* | 247,010 | 24,992 | 73,008 | 345,010 |
| *Current liabilities* | | | | |
| Payables | (4,686) | (1,016) | (610) | (6,312) |
| Taxation payable | - | (1,503) | - | (1,503) |
| | (4,686) | (2,519) | (610) | (7,815) |
| *Non-current liabilities* | | | | |
| Deferred taxation payable | - | - | (5,087) | (5,087) |
| | - | - | (5,087) | (5,087) |
| *Total liabilities* | (4,686) | (2,519) | (5,697) | (12,902) |
| *Total net assets* | 242,324 | 22,473 | 67,311 | 332,108 |

**Notes to the consolidated financial statements**

**8. Segmental information**

**Segment assets**

| 30 June 2012<br>As restated (Note 2) | Litigation Investment<br>$'000 | Litigation Insurance<br>$'000 | Other corporate activity<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| *Non-current assets* | | | | |
| Embedded value intangible asset* | - | - | 25,919 | 25,919 |
| Tangible fixed assets | - | 245 | - | 245 |
| Litigation-related Investments | 149,109 | - | - | 149,109 |
| Litigation portfolio financing | 30,000 | - | - | 30,000 |
| Due from settlement of litigation-related investments | 17,572 | - | - | 17,572 |
| | 196,681 | 245 | 25,919 | 222,845 |
| *Current assets* | | | | |
| Cash management investments at fair value through profit or loss | - | - | 60,326 | 60,326 |
| Due from settlement of litigation-related investments | 10,907 | - | - | 10,907 |
| Due from settlement of cash management investments at fair value through profit or loss | - | - | 10,011 | 10,011 |
| Receivables and prepayments | - | 11,112 | 116 | 11,228 |
| Cash and cash equivalents | 5,572 | 7,937 | - | 13,509 |
| | 16,479 | 19,049 | 70,453 | 105,981 |
| *Total assets* | 213,160 | 19,294 | 96,372 | 328,826 |
| *Current liabilities* | | | | |
| Payables | (2,187) | (368) | (105) | (2,660) |
| Taxation payable | - | (1,581) | - | (1,581) |
| | (2,187) | (1,949) | (105) | (4,241) |
| *Non-current liabilities* | | | | |
| Deferred consideration | - | - | (10,372) | (10,372) |
| Deferred taxation payable* | - | - | (6,493) | (6,493) |
| | - | - | (16,865) | (16,865) |
| *Total liabilities* | (2,187) | (1,949) | (16,970) | (21,106) |
| *Total net assets* | 210,973 | 17,345 | 79,402 | 307,720 |

* *In the 2012 interim financial statements, this was included within Litigation Insurance segment but has been moved into Other Corporate Activity for this report to be consistent with the 2012 year end and 2013 interim segmental information disclosures.*

**Notes to the consolidated financial statements**

**9. Cash management investments at fair value through profit or loss**

| | 30 June 2013<br>$'000 | 31 December 2012<br>$'000 | 30 June 2012<br>$'000 |
|---|---|---|---|
| Listed corporate bond fund | 9,458 | 9,137 | 12,057 |
| Unlisted fixed income and investment funds | 31,521 | 41,653 | 48,269 |
| | 40,979 | 50,790 | 60,326 |

| Reconciliation of movements: | 30 June 2013<br>$'000 | 31 December 2012<br>$'000 | 30 June 2012<br>$'000 |
|---|---|---|---|
| Balance at 1 January | 50,790 | 144,805 | 144,805 |
| Purchases | 17,883 | 92,528 | 65,814 |
| Proceeds on disposal | (27,000) | (190,661) | (151,963) |
| Realised profit on disposal | 902 | 4,704 | 2,798 |
| Fair value change in period | (1,596) | (586) | (1,128) |
| Balance at 30 June / 31 December | 40,979 | 50,790 | 60,326 |

During the period ended 30 June 2013, the bulk of the cash management investments at fair value through profit or loss were in fixed income

and investment funds.

| Net changes in cash management investments at fair value through profit or loss: | 30 June 2013 $'000 | 30 June 2012 $'000 |
|---|---|---|
| Realised (including interest income) | 1,193 | 3,296 |
| Fair value movement | (1,596) | (1,128) |
| **Net (losses)/gains** | (403) | 2,168 |

Fair value measurements are based on Level 1 inputs of the three level hierarchy system for $9,458,000 (31 December 2012: $9,137,000; 30 June 2012: $12,057,000) of the fair value through profit and loss investments which indicates inputs based on quoted prices in active markets for identical assets. For $31,521,000 (31 December 2012: $41,653,000; 30 June 2012: $48,269,000) of the fair value through profit and loss investments (including commercial paper) fair value measurements are based on Level 2 inputs of the three level hierarchy system which indicates inputs other than quoted prices included in Level 1 that are observable, either directly (as prices) or indirectly (derived from prices).

**10. Litigation-related investments at fair value through profit or loss**

The Company structures its investment portfolio to include a mixture of shorter duration investments intended to produce short-term returns; medium duration or "core" investments and "special situations" investments with higher risk and longer duration designed to add noteworthy returns to the portfolio over time. The Group classifies its litigation-related



investments at fair value through profit or loss into tranches consistent with the foregoing portfolio structure as outlined below.

**30 June 2013**

| | Balance at fair value as at 1 January 2013 | Additions | Real-isations | Net realised gain / (loss) for period | Realised Exchange difference | Fair value movement | Balance at fair value as at 30 June 2013 |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Short Duration Investments | 34,854 | 196 | - | - | - | 3,304 | 38,354 |
| Core Investments | 111,856 | 22,019 | (26,051) | 3,335 | (103) | 3,777 | 114,833 |
| Special Situations Investments | 13,039 | - | - | (4,520)* | - | (480) | 8,039 |
| **Total litigation-related investments at fair value through profit or loss** | 159,749 | 22,215 | (26,051) | (1,185) | (103) | 6,601 | 161,226 |

* The table above shows a realised loss in the special situations portfolio. This loss is a non-cash loss (except for $520,000 of investment expenses expended). In 2010, the Company made a $4 million investment in a special situations matter and in the same period sold a $4 million participation in that investment, leaving the Company with no capital outstanding and at risk (other than the previously mentioned investment expenses) in the investment. The Company initially recorded the participation as a payable in its 2010 accounts, and in 2011 reduced that payable as described in note 7 to the 2011 Annual Report. The Company did not recognise a gain on the investment in 2011 nor did it report the participation as a realisation in the equivalent investments table in note 7 to the 2011 Annual Report. In the current period, the Company entered into an agreement with the participant whereby the Company retained the $4 million paid by the participant in 2010 and disclaimed any further interest in the investment. Thus, on a cash basis, the impact on the Company was neutral; the Company neither gained nor lost any cash on the investment (other than the previously mentioned investment expenses). However, pursuant to IFRS and also in light of the Company's adoption of IFRS 9, the matter will be accounted for as a realised loss to clear the impact of the prior accounting entries.

**31 December 2012**

| | Transfer from available for sale financial assets | Additions | Real-isations | Net realised gain / (loss) for year | Fair value movement | Balance at fair value as at 31 December 2012 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Short Duration Investments | 36,646 | 8,356 | (15,707) | 5,972 | (413) | 34,854 |
| Core Investments | 71,375 | 46,760 | (25,855) | 9,646 | 9,930 | 111,856 |
| Special Situations Investments | 14,919 | 1,990 | (34) | (3,836) | - | 13,039 |
| **Total litigation-related investments at fair value through profit or loss** | 122,940 | 57,106 | (41,596) | 11,782 | 9,517 | 159,749 |

## 10. Litigation-related investments at fair value through profit or loss

**30 June 2012**
**As restated (Note 2)**

| | Transfer from available for sale financial assets | Additions | Real-isations | Net realised gain for period | Fair value movement | Balance at fair value as at 30 June 2012 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Short Duration Investments | 36,646 | 4,390 | - | - | 542 | 41,578 |
| Core Investments | 71,375 | 33,187 | (16,295) | 2,731 | 590 | 91,588 |
| Special Situations Investments | 14,919 | 2,000 | - | - | (976) | 15,943 |
| **Total litigation-related investments at fair value through profit or loss** | 122,940 | 39,577 | (16,295) | 2,731 | 156 | 149,109 |

Fair value measurements are based on Level 3 inputs of the three level hierarchy system which indicates inputs for the assets that are not based on observable market data (unobservable inputs).

The net gains on litigation-related investments included at fair value through profit or loss included on the face of the Consolidated Statement of Comprehensive Income comprise:

| | 30 June 2013 $'000 | 30 June 2012 As restated $'000 |
|---|---|---|
| Net realised gains on litigation-related investments at fair value through profit or loss (above) | (1,185) | 2,731 |
| Fair value movement (above) | 6,601 | 156 |
| Gain for decrease in liability for investment sub-participation | 1,333 | - |
| Net gains on litigation-related investments at fair value through profit or loss | 6,749 | 2,887 |

## 11. Litigation portfolio financing

| | 30 June 2013 $'000 | 30 June 2012 $'000 |
|---|---|---|
| Total litigation portfolio financing | 30,000 | 30,000 |
| Interest and other income from litigation portfolio financing | 2,047 | 2,038 |

**Notes to the consolidated financial statements**

## 11. Litigation portfolio financing

Litigation portfolio financing is measured at amortised cost. The $30,000,000 financing attracts interest at 13.5% per annum, payable monthly and is repayable in instalments commencing on 31 January 2014 and maturing on 31 July 2016. It is secured on the assets of the borrower. The interest income from litigation financing assets is included in "Interest and other income from litigation financing activities" in the Consolidated Statement of Comprehensive Income.

## 12. Due from settlement of litigation-related investments

Amounts due from settlement of litigation-related investments relate to the recovery of litigation-related investments that have successfully concluded and where there is no longer any litigation risk remaining.The settlement terms and duration vary by investment.

| | 30 June 2013 $'000 | 31 December 2012 $'000 | 30 June 2012 As restated $'000 |
|---|---|---|---|
| **Due from settlement of litigation-related investments** | | | |
| At 1 January | 43,840 | 14,694 | 14,694 |
| Transfer of realisations from litigation-related investments (Note 10) | 26,051 | 41,596 | 16,295 |
| Fair value gain on due from settlement of litigation-related investments | - | 5,201 | - |
| Interest income on due from settlement of litigation-related investments | 278 | 138 | 46 |
| Proceeds from settled litigation-related investments | (21,809) | (17,651) | (2,510) |
| Proceeds from interest income on due from settlement of litigation-related investments | (68) | (138) | (46) |
| At 30 June / 31 December | 48,292 | 43,840 | 28,479 |
| **Split:** | | | |
| Non-current assets | 42,406 | 28,482 | 17,572 |
| Current assets | 5,886 | 15,358 | 10,907 |
| | 48,292 | 43,840 | 28,479 |

**Notes to the consolidated financial statements**

**12. Due from settlement of litigation-related investments**

The interest and other income on litigation-related activities on the face of the Consolidated Statement of Comprehensive Income comprises:

| | 30 June 2013 $'000 | 30 June 2012 As restated $'000 |
|---|---|---|
| Interest and other income on litigation portfolio financing (Note 11) | 2,047 | 2,038 |
| Interest income on due from settlement of litigation-related investments (above) | 278 | 46 |
| Interest and other income from continuing litigation-related investments | 1,022 | 450 |
| **Interest and other income from litigation-related activities** | 3,347 | 2,534 |

**13. Receivables and prepayments**

| | 30 June 2013 $'000 | 31 December 2012 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| Trade receivable - insurance segment | 8,890 | 11,264 | 10,445 |
| Loans | - | - | 559 |
| Prepayments accrued | 176 | 441 | 161 |
| Interest receivable from continuing litigation-related investments | 2,010 | 988 | - |
| Other debtors | 420 | 618 | 63 |
| | 11,496 | 13,311 | 11,228 |

**Notes to the consolidated financial statements**

**14. Payables**

| | 30 June 2013 $'000 | 31 December 2012 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| Audit fee payable | 169 | 160 | 105 |
| Reorganisation advisory fees payable | 500 | 450 | - |
| General expenses payable | 1,508 | 1,595 | 372 |
| UK Restructuring costs* | 1,010 | - | - |
| Claim costs payable | 2,050 | 562 | 850 |
| Investment sub-participations | 1,558 | 3,545 | 1,333 |
| | 6,795 | 6,312 | 2,660 |

* Restructuring costs in the period of$1,148,000 relate to the restructuring of Burford UK in light of the Jackson reforms that came into effect in the UK market on 1 April 2013. The costs include redundancy costs of $935,000, impairment of fixed assets of $75,000 and an onerous contract provision of $138,000. Part of the redundancy costs have been paid as at 30 June 2013, with the remaining redundancy costs to be paid in July 2013. The restructuring costs payable at the end of the period of $1,010,000 include the remaining redundancy costs payable in July 2013 and the onerous contract provision, which is likely to be payable in early 2014.

**15. Share capital**

| | 30 June 2013 $'000 | 31 December 2012 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| **Authorised share capital** | | | |
| Unlimited ordinary shares of no par value | - | - | - |
| | **Number** | **Number** | **Number** |
| **Issued share capital** | | | |
| Ordinary shares of no par value | 204,545,455 | 204,545,455 | 180,000,001 |

80,000,001 Ordinary Shares were issued at 100p each on 21 October 2009. A further 100,000,000 Ordinary Shares were issued at 110p each on 9 December 2010. As detailed in note 7, a further 24,545,454 shares were issued on 12 December 2012 as consideration for the acquisition of the Investment Adviser.

| | 30 June 2013 $'000 | 31 December 2012 $'000 | 30 June 2012 $'000 |
|---|---|---|---|
| At 1 January | 302,210 | 290,376 | 290,376 |
| Shares issued in 2012 reorganisation (note 7) | 26,539 | 11,834 | - |
| At 30 June / 31 December | 328,749 | 302,210 | 290,376 |

**Notes to the consolidated financial statements**

**16. Profit per Ordinary Share, Comprehensive Income per Ordinary Share**

Profit per Ordinary Share is calculated based on a loss for the period of $24,383,000 (30 June 2012: profit of $4,943,000) and the weighted average number of Ordinary Shares in issue for the period of 204,545,455 (30 June 2012: 180,000,001). Total Comprehensive Income per Ordinary Share is calculated based on a loss on comprehensive income for the period of $26,423,000 (30 June 2012: profit of $4,899,000), and the weighted average number of Ordinary Shares in issue for the year of 204,545,455 (30 June 2012: 180,000,001).

**17. Financial commitments and contingent liabilities**

As a normal part of its business, the Group routinely enters into some investment agreements that oblige the Group to make continuing investments over time, whereas other agreements provide for the immediate funding of the total investment commitment. The terms of the former type of investment agreements vary widely; in some cases, the Group has broad discretion as to each incremental funding of a continuing investment, and in others, the Group has little discretion and would suffer punitive consequences were it to fail to provide incremental funding.
Moreover, in some agreements, the Group's funding obligations are capped at a fixed amount, whereas in others the commitment is not fixed (although the Group estimates its likely future commitment to each such investment). At 30 June 2013, considering the amount of capped commitments and the Group's estimate of uncapped funding obligations, the Group had outstanding commitments for approximately $68 million (31 December 2012: $95 million; 30 June 2012: $75 million); that figure does not include executed investment agreements that are capable of cancellation without penalty by the Group for adverse findings during a post-agreement diligence period. Of that $68 million in commitments, the Group expects less than 50% to be sought from it during the next twelve months.

**18. Fair value of assets and liabilities**

The financial assets measured at fair value are disclosed using a fair value hierarchy that reflects the market price observability of the inputs used in making the fair value measurements, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3 - Those inputs for the asset or liability that are not based on observable market data (unobservable inputs). The inputs into determination of fair value require significant management judgement and estimation.

*Valuation Methodology*
Financial assets and financial liabilities measured at fair value continue to be valued using the techniques set out in the accounting policies used in the 2012 Annual Report.

**Notes to the consolidated financial statements**

**18. Fair value of assets and liabilities**

*Fair Value Hierarchy*

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| Litigation-related Investments | - | - | 161,226 | 161,226 |
| Cash Management Investments at fair value through profit or loss: | | | | |
| Listed corporate bond funds | 9,458 | - | - | 9,458 |
| Unlisted fixed income and investment funds | - | 31,521 | - | 31,521 |
| **Total** | 9,458 | 31,521 | 161,226 | 202,205 |

*Sensitivity of level 3 valuations*
Following investment, the Group engages in a semi-annual review of each investment's fair value. At 30 June 2013, should the value of investments have been 10% higher or lower than provided for in the Group's fair value estimation, while all other variables remained constant, the Group's income and net assets would have increased and decreased respectively by $16,123,000.

*Movements in level 3 fair value assets*
The table below analysis movements in the Level 3 financial assets.

| | Litigation-related investments | Total level 3 assets |
|---|---|---|
| | $'000 | $'000 |
| At 1 January 2013 Investments | 159,749 | 159,749 |
| Additions | 22,215 | 22,215 |
| Realisations | (26,051) | (26,051) |
| Net gains on litigation-related investments recognised in the Income Statement | 5,416 | 5,416 |
| Exchange adjustment | (103) | (103) |
| **At 30 June 2013** | 161,226 | 161,226 |

There were no transfers between levels in the fair value hierarchy.

*Reasonably possible alternative assumptions*
Whilst the potential range of outcomes for the investments is wide, the Group's fair value estimation is its best assessment of the current fair value of each investment. That estimate is inherently subjective being based largely on an assessment of how individual events have changed the possible outcomes of the investment and their relative probabilities and hence the extent to which the fair value has altered. The aggregate of the fair values selected falls within a wide range of reasonably possible estimates. In the Group's opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the values of the investments are correlated.

**Notes to the consolidated financial statements**

**19. Related party transactions**

Directors' fees paid in the period amounted to $175,000 (30 June 2012: $183,000). There were no directors' fees outstanding at 30 June 2013, 31 December 2012 or 30 June 2012.

Administration fees payable to International Administration Group (Guernsey) Limited ("IAG") are disclosed in Note 3. There were no administration fees outstanding at 30 June 2013, 31 December 2012 or 30 June 2012.

There is no controlling party.

**20. Subsequent events**

On 29 July 2013, Burford Capital Limited acquired a 16% shareholding in Manolete Partners PLC ("Manolete"), the UK's leading insolvency litigation financier.

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