

Oaktree Capital Management Limited

**Directors' Report and Financial Statements
for the year ended 31 December 2010**

Registered number

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Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2010

Registered office

Belvedere House
27 Knightsbridge, 4th Floor
London, SW1X 7LY, England

Independent auditors

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London, SE1 2RD, England

Directors

Mr Howard Stanley Marks (Company Chairman)
Mr William Richard Moores
Mr Sheldon Michael Stone

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2010

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2010. The Company commenced its principal activities on 4 May 1999 and became a member of IMRO (reference number 5084) on 24 June 1999. Since 1 December 2001, the Company has been regulated by the Financial Services Authority ("FSA") (reference number 189880).

Business review and principal activities

Oaktree Capital Management Limited (the "Company"), a United Kingdom company, is a majority-owned subsidiary of Oaktree International Holdings, LLC ("Holdings"). During 2007 the parent of Holdings converted from Oaktree Capital Management, LLC (the "former Parent"), to Oaktree Capital Management (Cayman) L.P. This is the result of a reorganisation of the former Parent, which was separated into five separate operating entities. These five separate operating entities are ultimately controlled by Oaktree Capital Group Holdings L.P. ("OCGH"). Holdings and OCGH are a limited liability company and a limited partnership, respectively, in the United States.

The principal activity of the Company is providing investment management services to Oaktree Capital Management, L.P. ("Oaktree"), one of the five separate operating entities, in connection with an investment partnership in which Oaktree, or an affiliate, serves as general partner and other separately managed accounts. Turnover relates to the reimbursement of the Company's costs by Oaktree, equivalent to the Company's costs, as defined, plus 5%.

The loss after taxation for the year ended 31 December 2010 was £10,851,000 (2009: £14,917,000) as set out in the profit and loss account on page 9. The equity-based compensation charge described in Note 17 on page 19 is treated as an equity-settled share-based transaction so that when the Company records this non-cash compensation expense, it also records a corresponding increase in capital. As a result, there was no negative impact on shareholders' funds in spite of the losses recorded in the profit and loss account. No dividend was paid for the period ended 31 December 2010 (2009: Nil).

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary to form an understanding of the development, performance or position of the business.

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2010

Disclosure required by BIPRU 11.5

Introduction

The European Capital Requirements Directive introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules. The Directive was introduced into the UK by the FSA. The new framework consisted of three 'pillars'

- **Pillar 1** specifies the minimum capital requirements
- **Pillar 2** requires an assessment to be made of whether additional capital should be held against risks not covered by Pillar 1
- **Pillar 3** requires disclosure of specified information about the underlying risk management controls and capital position

The Company is authorised and regulated by the FSA and as such is subject to minimum capital requirements. The Company is not subject to consolidated reporting with other entities. The Company is an affiliated entity of Oaktree.

Verification

The disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and provide information about the management of certain risks and for no other purposes. They do not constitute any form of audited financial statement and have been produced solely for the purposes of Pillar 3. They should not be relied upon in making judgements about the Company. The disclosures will only be subject to external verification to the extent that they are equivalent to those made under accounting requirements. The disclosures are reviewed at least annually and approved by the Company's Board.

Risk Management

The overall Oaktree Group philosophy is one of reduction of exposure to known risks through development of mitigating controls and the avoidance of risks for which the level of impact cannot be reduced to an acceptable level. With this underlying philosophy the assessment and control of risk is of fundamental importance to the Company. Each department of the Company is charged with assessing the risks underlying its area of responsibility and instituting controls to mitigate the identified risks.

In addition to the responsibilities of each department, the Company has top-level policies and procedures which form the basis for its risk management framework. These include the written statements of the roles and responsibilities of each employee, the review and documentation of the allocation of the responsibilities of senior management, the documentation of risks and controls in a formal risk assessment matrix and the Company's compliance manual. Each of the items noted are monitored by compliance staff of the Company and Oaktree during the year.

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2010

For the risk management framework to operate properly, communication among senior management and the board of the Company and senior management of Oaktree is of utmost importance. The communication between senior management and the board is facilitated by semi-annual board meetings. In addition, the Chief Compliance Officer of Oaktree also attends these board meetings to ensure that Oaktree is aware of all developments at the Company. In addition to the formal board meetings, staff and senior management of the Company have daily interactions with their counterparts at Oaktree thereby reducing the risk of any surprising developments surrounding the business and capital management of the Company.

Capital Adequacy

Under the BIPRU rules the Company has been classified as a "Limited Licence Firm". This categorisation is generally applied to firms that do not trade for their own account and do not provide the investment services of underwriting or placing financial instruments on a firm commitment basis. Limited Licence Firms are further classified by the capital requirement to which they are assigned. As the Company meets the additional criteria listed below, its base capital requirement has been set at €50,000 ("50K")

- it does not hold client money or securities in relation to investment services it provides and it is not authorised to do so,
- it is not a UCITS investment firm, and
- it does not operate a multilateral trading facility

Pillar 1 of the CRD requires firms to calculate their financial position in order to ensure that they meet their minimum capital requirements. Under Pillar 1, a Limited Licence Firm is exempted from the calculation of capital requirements under operational risk. Given its categorisation as a 50K Limited Licence Firm, the Company's capital requirement under Pillar 1 is the greater of i) the base minimum of €50,000, or ii) the fixed overhead requirement, which is defined as 25% of audited annual expenses adjusted for certain discretionary expenses and profit appropriations.

The Company's business model is fairly simple as it primarily provides investment management services to an affiliated entity in a limited number of strategies. Investment management services are also provided to a small number of non affiliated professional clients or eligible counterparties. The Company does not trade for its own account and is not permitted to hold client money under its scope of permissions.

All known risks, including operational risks, have been assessed and appropriate stress tests and scenario analyses have been undertaken to help determine any additional capital required under Pillar 2. No additional capital is currently required for Pillar 2. The minimum capital requirement is established as £3,563,000 as of 31 December 2010.

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2010

The main features of the Company's capital resources for regulatory purposes are as follows

| Capital item | £'000 |
|---|---------------|
| Tier 1 capital less innovative tier 1 capital | 17,515 |
| Total of tier 2, innovative tier 1 and tier 3 capital | 0 |
| Deductions from tier 1 and tier 2 capital | 0 |
| Total capital resources, net of deductions | 17,515 |

Tier 1 Capital comprises permanent share capital, profit and loss account and other reserves and interim net losses

The approach of the business to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process. The fixed overhead requirement under Pillar 1 is deemed by the Company to be sufficient capital to meet its current needs.

Directors

The Directors who held office during the year are given below

Mr Howard Stanley Marks (Company Chairman)
Mr William Richard Moores
Mr Sheldon Michael Stone

One director is entitled to shares in OCGH under a long-term incentive scheme for qualifying services to the Company.

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved:

(a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



WR Moores
Director

21 April 2011

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF OAKTREE CAPITAL MANAGEMENT LIMITED

We have audited the financial statements of Oaktree Capital Management Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities as set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

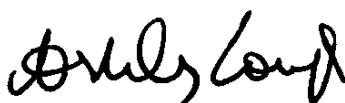
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Independent auditors' report to the members of
Oaktree Capital Management Limited**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Ashley Coups (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 April 2010

Oaktree Capital Management Limited

**Profit and Loss Account
For the Year Ended 31 December 2010**

| | <i>Notes</i> | 2010 £'000 | 2009 £'000 |
|--|--------------|------------------------|------------------------|
| Turnover | 2,3 | 55,007 | 41,922 |
| Administrative expenses | 4,6,17 | <u>(64,818)</u> | <u>(56,112)</u> |
| Operating loss | | (9,811) | (14,190) |
| Interest receivable | | <u>73</u> | <u>48</u> |
| Loss on ordinary activities before taxation | | (9,738) | (14,142) |
| Taxation on loss on ordinary activities | 9 | <u>(1,113)</u> | <u>(775)</u> |
| Loss for the financial year | | <u>(10,851)</u> | <u>(14,917)</u> |

All activities are continuing operations

There is no difference between the loss on ordinary activities for the period and its historical cost equivalent

The Company had no recognised gains or losses other than those disclosed in the loss above and therefore no separate statement of total recognised gains and losses has been presented

The annexed notes on pages 12 to 20 form an integral part of these financial statements

Oaktree Capital Management Limited


Balance Sheet

As at 31 December 2010

Company Number 3592405

| | <i>Notes</i> | 2010 £'000 | 2009 £'000 |
|---|--------------|-----------------------|-----------------------|
| Fixed assets | | | |
| Tangible assets | 7 | 4,123 | 4,480 |
| Investments | | 21 | 21 |
| | | <u>4,144</u> | <u>4,501</u> |
| Current assets | | | |
| Debtors | 10 | 5,710 | 5,663 |
| Cash at bank | | 34,430 | 22,058 |
| | | <u>40,140</u> | <u>27,721</u> |
| Creditors: amounts falling due within one year | 11 | <u>(26,769)</u> | <u>(16,777)</u> |
| Net current assets | | <u>13,371</u> | <u>10,944</u> |
| Net assets | | <u>17,515</u> | <u>15,445</u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 11,600 | 11,600 |
| Equity-based compensation | 17 | 49,709 | 36,788 |
| Profit and loss account | 15 | <u>(43,794)</u> | <u>(32,943)</u> |
| Total shareholders' funds | 16 | <u>17,515</u> | <u>15,445</u> |

The financial statements on pages 9 to 20 were approved by the Board of Directors on 21 April 2011 and were signed on its behalf by.


 WR Moores
 Director

The annexed notes on pages 12 to 20 form an integral part of these financial statements.

Oaktree Capital Management Limited**Cash Flow Statement
For the Year Ended 31 December 2010**

| | <i>Notes</i> | 2010 £'000 | 2009 £'000 |
|--|--------------|-----------------------|-----------------------|
| Net cash inflow from operating activities | <i>12</i> | <u>13,235</u> | <u>472</u> |
| Returns on investments and servicing of finance | | | |
| Interest received | | 73 | 48 |
| Taxation | | (659) | (1,195) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (277) | (308) |
| Disposal of tangible fixed assets | | - | 5 |
| Financing | | | |
| Dividend paid | | <u>-</u> | <u>-</u> |
| Increase/(Decrease) in cash | <i>13</i> | <u>12,372</u> | <u>(978)</u> |

The annexed notes on pages 12 to 20 form an integral part of these financial statements

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2010

1. Accounting policies

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The Directors consider that the accounting policies set out below are suitable, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

a. Turnover

Turnover is recorded as income on an accruals basis. Turnover relates to the reimbursement of the Company's costs by Oaktree, equivalent to the Company's costs, as defined, plus 5%. All turnover is derived in the UK.

b. Current Taxation

Provision is made for all current tax liabilities in the year in which the liability arises at the current rate of UK Corporation Tax.

c. Deferred taxation

The Company has adopted the provisions of accounting standard FRS 19 – Deferred tax. As a result, deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date 31 December 2010, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on an undiscounted basis.

d. Tangible fixed assets and depreciation

Depreciation of furniture and equipment is provided using the straight-line method over the estimated useful lives of the assets, which generally range from three to five years. The cost of leasehold improvements is amortised using the straight-line basis over the shorter of the respective estimated useful life or the lease term.

Tangible fixed assets are stated at historic purchase costs less accumulated depreciation. Costs include the original purchase price of the assets and the costs attributable to bringing the asset to its working condition.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2010

e. Operating leases

All leases are operating leases. The annual rentals are charged to operating profit on a straight-line basis over the terms of the leases.

f. Financial instruments

The Company has implemented the disclosure aspects of FRS25. This has not had any impact on the financial statements.

g. Dividends

The Company has implemented the disclosure aspects of FRS 21. No dividend was paid during the year (2009 Nil).

h. Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies, outstanding at the balance sheet date, are translated at the rates ruling at that date. Foreign currency transactions undertaken by the UK operations are translated into sterling at the exchange rates ruling at the time of the transactions and foreign exchange profits and losses arising are treated as part of the company's profit and loss on ordinary activities.

2. Turnover

| | 2010 | 2009 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Fees charged to Oaktree | 52,899 | 40,425 |
| Fees received and receivable from third parties | 2,108 | 1,497 |
| | <u>55,007</u> | <u>41,922</u> |

3. Related party transactions

The Company is a majority-owned subsidiary (99%) of Oaktree International Holdings, LLC ("Holdings"). During 2007 the parent of Holdings converted from Oaktree Capital Management, LLC (the "former Parent"), to Oaktree Capital Management (Cayman) L.P. This is the result of a reorganisation of the former Parent, which was separated into five separate operating entities. These five separate operating entities are ultimately controlled by Oaktree Capital Group Holdings L.P. ("OCGH"). Holdings and OCGH are a limited liability company and a limited partnership, respectively, in the United States.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2010

3. Related party transactions (*continued*)

The Company's primary business is providing investment management services to Oaktree Capital Management, L P ("Oaktree"), one of the five separate operating entities, in connection with an investment partnership in which Oaktree, or an affiliate, serves as general partner and other separately managed accounts. For the periods ended 31 December 2010 and 2009, the Company accrued £52,899,000 and £40,425,000, respectively from Oaktree, which was recorded as turnover in the profit and loss account.

The Company has also participated in transactions with majority-owned subsidiaries of Holdings. See Notes 10 and 11 for outstanding amounts.

4. Loss on ordinary activities before taxation

This is stated after charging

| | 2010 | 2009 |
|--|--------|--------|
| | £'000 | £'000 |
| Staff costs – see Notes 6 and 17 | 58,844 | 49,959 |
| Operating lease charges | 1,545 | 1,199 |
| Professional services | 504 | 128 |
| Auditor's remuneration - audit services | 25 | 30 |
| Auditor's remuneration - taxation services | 339 | 126 |
| Depreciation of tangible fixed assets | 634 | 628 |
| Foreign exchange loss | 78 | 1,453 |

5. Directors' emoluments

Two directors received remuneration during the years ended 31 December 2010 and 31 December 2009 totaling £2,096,245 and £1,578,657, respectively.

The total remuneration received by the highest paid director during the year ended 31 December 2010 and 2009 was £1,996,245 and £1,478,658 respectively. Shares in OCGH were received in respect of qualifying services under a long-term incentive scheme.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2010

6. Staff costs and employee information

| | 2010 | 2009 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Wages and salaries | 40,262 | 29,576 |
| Equity-based compensation – <i>see Note 17</i> | 12,921 | 16,930 |
| Social security costs | 4,780 | 2,944 |
| Other benefit costs | 881 | 509 |
| | 58,844 | 49,959 |
| | | |
| | 2010 | 2009 |
| | Average | Average |
| | Staff | Staff |
| Administration | 38 | 35 |
| Investment management | 39 | 34 |
| | 77 | 69 |

7. Tangible assets

| | Leasehold improvements £'000 | Furniture & equipment £'000 | Total £'000 |
|---------------------------------|---|--|------------------------|
| Cost | | | |
| As at 1 January 2010 | 6,127 | 1,802 | 7,929 |
| Additions for the year | 185 | 92 | 277 |
| As at 31 December 2010 | 6,312 | 1,894 | 8,206 |
| Accumulated Depreciation | | | |
| As at 1 January 2010 | 2,515 | 934 | 3,449 |
| Charges for the year | 351 | 283 | 634 |
| As at 31 December 2010 | 2,866 | 1,217 | 4,083 |
| Net Book Amount | | | |
| As at 31 December 2010 | 3,446 | 677 | 4,123 |
| As at 1 January 2010 | 3,612 | 868 | 4,480 |

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2010

8. Operating leases

The total rentals under operating leases for office space, charged as an expense in the profit and loss account, were £1,545,000 and £1,199,000 for the years ended 31 December 2010 and 2009, respectively

Annual operating lease commitments by year of expiration are detailed below

| | 2010 £'000 | | 2009 £'000 | |
|-----------------------------------|-----------------------|-------|-----------------------|-------|
| | Plant & machinery | Other | Plant & machinery | Other |
| Expiring within one year | - | - | - | - |
| Expiring within two to five years | - | - | - | - |
| Expiring after five years | - | 2,257 | - | 2,257 |

9. Taxation on profit on ordinary activities

The charge for taxation, which is based on the profit for the period, amounted to

| | 2010 £'000 | 2009 £'000 |
|--|-----------------------|-----------------------|
| Current tax: | | |
| Current year UK corporation tax at 28% | 951 | 826 |
| Under (over) provision in prior year | (24) | 27 |
| | <u>927</u> | <u>853</u> |
| Deferred tax: | | |
| Origination and reversal of timing differences | 186 | (78) |
| | <u>1,113</u> | <u>775</u> |

The tax assessed for the year differs from the effective standard rate in the United Kingdom corporation tax of 28%. The differences are explained below

| | 2010 £'000 | 2009 £'000 |
|--|-----------------------|-----------------------|
| Loss on ordinary activities at the UK tax rate 28% | <u>(2,726)</u> | <u>(3,960)</u> |
| Effects of: | | |
| Expenses not deductible for tax purposes | 3,638 | 4,760 |
| Accelerated capital allowances/other timing differences | 39 | 26 |
| Adjustments to tax charge in respect of previous periods | (24) | 27 |
| | <u>927</u> | <u>853</u> |

The Company has not recharged the equity based compensation expense to Oaktree. This expense is a non-deductible expense to the Company.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2010

10. Debtors

| | As at 31 December 2010 £'000 | As at 31 December 2009 £'000 |
|--|---|---|
| Turnover receivable | 167 | 131 |
| Amounts due from Oaktree and affiliated entities | 1,105 | 1,954 |
| Prepayments | 770 | 568 |
| Taxation | 443 | 138 |
| Other | 3,225 | 2,872 |
| | <u>5,710</u> | <u>5,663</u> |

Other debtors include £2,389,104 falling due after more than one year. This amount relates to deposits on operating leases, payable on expiration or termination of the lease.

11. Creditors: amounts falling due within one year

| | As at 31 December 2010 £'000 | As at 31 December 2009 £'000 |
|---|---|---|
| Accrued compensation | 24,681 | 15,685 |
| Amounts owed to Oaktree and affiliated entities | 162 | 168 |
| Taxation | 585 | 317 |
| Deferred taxation | 358 | 172 |
| Accruals | 983 | 435 |
| | <u>26,769</u> | <u>16,777</u> |

Amounts owed to/from Oaktree and affiliated entities are unsecured, interest free and repayable on demand.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2010

12. Reconciliation of operating profit to net cash inflow from operating activities

| | 2010 £'000 | 2009 £'000 |
|---|-----------------------|-----------------------|
| Operating loss | (9,811) | (14,190) |
| Depreciation | 634 | 628 |
| Equity-based compensation | 12,921 | 16,930 |
| Increase in debtors | (47) | (1,891) |
| Increase/(Decrease) in creditors | 9,538 | (1,121) |
| Other non-cash changes | - | 116 |
| Net cash inflow from operating activities | <u>13,235</u> | <u>472</u> |

13. Analysis of changes in cash during the period

| | 2010 £'000 | 2009 £'000 |
|---|-----------------------|-----------------------|
| Balance of cash at bank as at beginning of year | 22,058 | 23,036 |
| Net cash inflow/(outflow) | <u>12,372</u> | <u>(978)</u> |
| Balance of cash at bank as at end of year | <u>34,430</u> | <u>22,058</u> |

14. Called-up share capital

| | As at 31 December 2010 | As at 31 December 2009 |
|--|---------------------------------------|---------------------------------------|
| Authorised, issued and fully paid ordinary shares of £1 each | <u>11,600,000</u> | <u>11,600,000</u> |

15. Profit and Loss Account

| | 2010 £'000 | 2009 £'000 |
|---|-----------------------|-----------------------|
| Profit and loss account as at beginning of year | (32,943) | (18,026) |
| Retained loss for the financial year | <u>(10,851)</u> | <u>(14,917)</u> |
| Profit and loss account as at end of year | <u>(43,794)</u> | <u>(32,943)</u> |

Oaktree Capital Management Limited

Notes to the Financial Statements

For the Year Ended 31 December 2010

16. Reconciliation of movement in shareholders' funds

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| Loss for the financial year | (10,851) | (14,917) |
| Equity-based compensation related credit –see Note 17 | 12,921 | 16,930 |
| Dividend | - | - |
| Shareholders' funds as at beginning of year | 15,445 | 13,432 |
| Shareholders' funds as at end of year | 17,515 | 15,445 |

There were no additional shares issued in 2010 (2009 Nil)

17. Equity-Based Compensation

In May 2007, the former Parent was reorganised from a limited liability company into five limited partnerships (collectively, Oaktree Operating Group) in conjunction with a private over-the-counter equity offering of Class A units by newly-formed Oaktree Capital Group, LLC ("OCG") The business of OCG is conducted by the Oaktree Operating Group

As part of the reorganisation, units in OCGH, the newly formed ultimate parent company, were issued to holders of interests in the former parent and to other individuals These OCGH units vest over five years, and both vested and non-vested units are entitled to distributions from the Oaktree Operating Group through OCGH From time to time, the general partner of OCGH may designate dates on which holders of OCGH units ("OCGH Unitholders") may have their vested OCGH units exchanged for Class C Units of OCG, by way of an exchange agreement. The Class C units are a newly established series as of 28 March 2008 Holders of Class C units are entitled to ten votes per unit and share ratably in any authorized distributions Upon approval by the OCG Board of Directors, the units may be converted at the option of the holder on a one-for-one basis into OCG Class A units The partnership agreement of OCGH generally provides that, in the event an individual's employment with the Oaktree Operating Group is terminated for any reason, the unvested portion of his or her OCGH units will be forfeited and, generally, will be reallocated among other OCGH Unitholders, unless the termination is due to his or her death or disability

As a result of the service requirement of the OCGH units held by employees of the Company and subject to the risk of forfeiture, an amount equal to the fair value of OCGH units on the grant date is charged to compensation expense over the related service period of five years. The fair market value on grant date has been determined by reference to the US dollar share price of the equity in the private over-the-counter offering This transaction is treated as an equity-settled share-based transaction so that when the Company records this equity-based compensation expense, it also records a corresponding increase in capital

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For the Year Ended 31 December 2010

17. Equity-Based Compensation (*continued*)

For the service period from 25 May 2007 through 1 January 2012, £72,718,000 is charged as compensation expense, subject to adjustment for forfeitures, of which 95% has been recognised in the accounts as of 31 December 2010. The remaining 5% will be recognised over the rest of the service period.

For the service period from 1 January 2008 through 1 January 2013, £1,939,000 is charged as compensation expense, subject to adjustment for forfeitures, of which 86% has been recognised in the accounts as of 31 December 2010. The remaining 14% will be recognised over the rest of the service period.

For the service period from 1 January 2009 through 1 January 2014, £504,000 is charged as compensation expense, subject to adjustment for forfeitures, of which 71% has been recognised in the accounts as of 31 December 2010. The remaining 29% will be recognised over the rest of the service period.

On 1 January 2010 the Company issued an additional one hundred ninety six thousand five hundred OCGH units subject to similar vesting conditions as described above. For the service period from 1 January 2010 through 1 January 2015, £2,962,000 is charged as compensation expense, subject to adjustment for forfeitures, of which 46% has been recognised in the accounts as of 31 December 2010. The remaining 54% will be recognised over the rest of the service period.

Equity-based compensation expense of £12,921,246 was recognised for the year ended 31 December 2010 (2009: £16,929,800) and is included in the wages and salaries as disclosed in Note 6. There were no forfeitures in the period.

18. Ultimate parent undertaking

The immediate parent undertaking is Oaktree International Holdings, LLC ("Holdings"). The ultimate parent undertaking and controlling party is Oaktree Capital Group Holdings L.P. ("OCGH").