

Oaktree Capital Management Limited

**Directors' Report and Financial Statements
for the year ended 31 December 2011**

Registered number

3592405



Oaktree Capital Management Limited

**Directors' Report and Financial Statements
for the year ended 31 December 2011**

Registered office

27 Knightsbridge, 4th Floor
London, United Kingdom, SW1X 7LY

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London, United Kingdom, SE1 2RT

Directors

Mr David Johnston
Mr Dominic Keenan
Mr Tom Ware

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2011

The directors present their report and the audited financial statements of Oaktree Capital Management Limited (the "Company") for the year ended 31 December 2011. 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). Following the business transfer to Oaktree Capital Management (UK) LLP, described below, on 16 November 2011 the Company ceased performing regulated activities and therefore requested the FSA cancel its authorization. The cancellation was effective from 5 December 2011.

Business review and principal activities

The Company is a private company limited by shares, incorporated under the laws of England and Wales. The 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, incorporated in the United States.

The principal activity of the Company is providing investment management services to certain funds and accounts and investment sub-management or sub-advisory services to Oaktree Capital Management, L.P. ("Oaktree"), one of the five separate operating entities. Turnover relates to the reimbursement of the Company's costs by Oaktree, equivalent to the Company's costs, as defined, plus 5%.

On 16 November 2011, pursuant to a contribution and transfer agreement (the "Transfer Agreement"), the Company transferred its business and operations to Oaktree Capital Management (UK) LLP, (the LLP). Pursuant to the Transfer Agreement, the Company transferred its assets and liabilities to the LLP, as well as certain investment management and sub-advisory agreements. On the same date, the Company entered into a sale and purchase agreement to sell its entire membership interest in the LLP to Oaktree Capital UK Limited, a private company limited by shares, incorporated in England and Wales on 15 April 2011 and wholly owned by Holdings.

The loss after taxation for the year ended 31 December 2011 was £14,377,000 (2010: £10,851,000) 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 2011 (2010: 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.

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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.

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Risk Management (*continued*)

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 £4,505,000 as of 31 December 2011.

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2011

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	19,153
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	19,153

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) {resigned 9 March 2012}
Mr William Richard Moores {resigned 31 January 2012}
Mr Sheldon Michael Stone {resigned 9 March 2012}

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

On 8 March 2012 the shareholders appointed new Directors as

Mr David George Johnston
Mr Dominic Keenan
Mr Thomas William Ware

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2011

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



Mr Tom Ware
Director

28 September 2012

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

We have audited the financial statements of Oaktree Capital Management Limited for the year ended 31st December 2011 which comprise of Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies 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 Directors' Responsibilities Statement 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. In addition, we read all the financial and non-financial information in the audit report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 31st December 2011 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



Catherine Lester

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

7 More London Riverside,
London, UK
SE1 2RT

28 September 2012

Oaktree Capital Management Limited

Profit and Loss Account

For the Year Ended 31 December 2011

	<i>Notes</i>	2011 £'000	2010 £'000
Turnover	2,3	35,119	55,007
Administrative expenses	4,6,17	<u>(49,134)</u>	<u>(64,818)</u>
Operating loss		(14,015)	(9,811)
Interest receivable and similar income		<u>46</u>	<u>73</u>
Loss on ordinary activities before taxation		(13,969)	(9,738)
Tax on loss on ordinary activities	9	<u>(408)</u>	<u>(1,113)</u>
Loss for the financial year		<u>(14,377)</u>	<u>(10,851)</u>

All activities are continuing operations

There is no difference between the loss on ordinary activities for the years 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 2011

Company Number 3592405

	<i>Notes</i>	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	7	-	4,123
Investments		-	21
		<u>-</u>	<u>4,144</u>
Current assets			
Debtors	10	19,609	5,710
Cash at bank and in hand		6,512	34,430
		<u>26,121</u>	<u>40,140</u>
Creditors: amounts falling due within one year	11	<u>(6,512)</u>	<u>(26,769)</u>
Net current assets		<u>19,609</u>	<u>13,371</u>
Net assets		<u>19,609</u>	<u>17,515</u>
Capital and reserves			
Called up share capital	14	11,600	11,600
Equity-based compensation	17	66,180	49,709
Profit and loss account	15	<u>(58,171)</u>	<u>(43,794)</u>
Total shareholders' funds	16	<u>19,609</u>	<u>17,515</u>

The financial statements on pages 9 to 20 were approved by the Board of Directors on 28 September 2012 and were signed on its behalf by



Mr Tom Ware
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 2011

	<i>Notes</i>	2011 £'000	2010 £'000
Net cash outflow from operating activities	<i>12</i>	<u>(30,140)</u>	<u>13,235</u>
Returns on investments and servicing of finance			
Interest received		46	73
Taxation		(1,351)	(659)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,299)	(277)
Disposal of tangible fixed assets		4,805	-
Disposal of investment		21	-
Financing			
Dividend paid		<u>-</u>	<u>-</u>
(Decrease)/Increase in cash	<i>13</i>	<u>(27,918)</u>	<u>12,372</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 2011

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 2011, 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 2011

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. 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

	2011	2010
	£'000	£'000
Fees charged to Oaktree	32,606	52,899
Fees received and receivable from third parties	2,513	2,108
	<u>35,119</u>	<u>55,007</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, incorporated in the United States.

The principal activity of the Company is providing investment management services to certain funds and accounts and investment sub-management or sub-advisory services to Oaktree Capital Management, L.P. ("Oaktree"). For the periods ended 31 December 2011 and 2010, the Company accrued £32,606,000 and £52,899,000, respectively from Oaktree, which was recorded as turnover in the profit and loss account.

On 16 November 2011, pursuant to a contribution and transfer agreement (the "Transfer Agreement"), the Company transferred its business and operations to Oaktree Capital Management (UK) LLP, ("the LLP"). Pursuant to the Transfer Agreement, the Company transferred its assets and liabilities to the LLP, as well as certain investment management and sub-advisory agreements. On the same date, the Company entered into a sale and purchase agreement to sell its entire membership interest in the LLP to Oaktree Capital UK Limited, a private company limited by shares, incorporated in England and Wales on 15 April 2011 and wholly owned by Holdings.

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

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2011

4. Loss on ordinary activities before taxation

This is stated after charging

	2011 £'000	2010 £'000
Staff costs – see <i>Notes 6 and 17</i>	42,071	58,844
Operating lease charges	1,938	1,545
Professional services	786	504
Auditor's remuneration - audit services	28	25
Auditor's remuneration - taxation services	292	339
Depreciation of tangible fixed assets	617	634
Foreign exchange loss	487	78

5. Directors' emoluments

Two directors received remuneration during the years ended 31 December 2011 and 31 December 2010 totaling £7,190,492 and £2,096,245, respectively

The total remuneration received by the highest paid director during the year ended 31 December 2011 and 2010 was £7,102,543 and £1,996,245 respectively. Shares in OCGH were received in respect of qualifying services under a long-term incentive scheme

6. Staff costs and employee information

	2011 £'000	2010 £'000
Wages and salaries	20,435	40,262
Equity-based compensation – see <i>Note 17</i>	16,471	12,921
Social security costs	4,253	4,780
Other benefit costs	912	881
	<u>42,071</u>	<u>58,844</u>

	2011 Average Staff Number	2010 Average Staff Number
Administration	41	38
Investment management	45	39
	<u>86</u>	<u>77</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2011

7. Tangible assets

	Leasehold improvements £'000	Furniture and equipment £'000	Total £'000
Cost			
As at 1 January 2011	6,312	1,894	8,206
Additions for the year	973	326	1,299
Disposals for the year	(7,285)	(2,220)	(9,505)
As at 31 December 2011	-	-	-
Accumulated Depreciation			
As at 1 January 2011	2,866	1,217	4,083
Charges for the year	379	238	617
Disposals for the year	(3,245)	(1,455)	(4,700)
As at 31 December 2011	-	-	-
Net Book Amount			
As at 31 December 2011	-	-	-
As at 1 January 2011	3,446	677	4,123

8. Operating leases

The total rentals under operating leases for office space, charged as an expense in the profit and loss account, were £1,938,000 and £1,545,000 for the years ended 31 December 2011 and 2010, respectively

Annual operating lease commitments by year of expiration are detailed below

	2011 £'000		2010 £'000	
	Plant & machinery	Other	Plant & machinery	Other
Expiring within one year	-	-	-	-
Expiring within two to five years	-	-	-	-
Expiring after five years	-	-	-	2,257

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2011

9. Tax on loss on ordinary activities

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

	2011 £'000	2010 £'000
Current tax:		
Current year UK corporation tax at 26.5%	742	951
Under (over) provision in prior year	32	(24)
	<u>774</u>	<u>927</u>
Deferred tax:		
Origination and reversal of timing differences	(366)	186
Tax on loss on ordinary activities	<u>408</u>	<u>1,113</u>

The tax assessed for the year differs from the effective standard rate in the United Kingdom corporation tax of 26.5%. The differences are explained below

	2011 £'000	2010 £'000
Loss on ordinary activities at the UK tax rate 26.5%	<u>(3,702)</u>	<u>(2,726)</u>
Effects of:		
Expenses not deductible for tax purposes	4,385	3,638
Accelerated capital allowances/other timing differences	59	39
Adjustments to tax charge in respect of previous periods	32	(24)
Current tax charge	<u>774</u>	<u>927</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 2011**

10. Debtors

	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Trade debtors	-	167
Amounts due from Oaktree and affiliated entities	-	1,105
Amounts due from Oaktree Capital UK Limited	19,609	-
Other debtors	-	3,225
Taxation	-	443
Prepayments and accrued	-	770
	<u>19,609</u>	<u>5,710</u>

11. Creditors: amounts falling due within one year

	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Accrued compensation	-	24,681
Amounts owed to the LLP	6,512	-
Amounts owed to Oaktree and affiliated entities	-	162
Taxation	-	585
Deferred taxation	-	358
Accruals	-	983
	<u>6,512</u>	<u>26,769</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 2011**

12. Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2011	2010
	£'000	£'000
Operating loss	(14,015)	(9,811)
Depreciation	617	634
Equity-based compensation	16,471	12,921
Increase in debtors	(13,899)	(47)
(Increase)/Decrease in creditors	(19,314)	9,538
Net cash (outflow)/inflow from operating activities	<u>(30,140)</u>	<u>13,235</u>

13. Analysis of changes in cash during the period

	2011	2010
	£'000	£'000
Balance of cash at bank as at beginning of year	34,430	22,058
Net cash (outflow)/inflow	<u>(27,918)</u>	<u>12,372</u>
Balance of cash at bank as at end of year	<u>6,512</u>	<u>34,430</u>

14. Called-up share capital

	As at 31 December 2011	As at 31 December 2010
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

	2011	2010
	£'000	£'000
Profit and loss account as at beginning of year	(43,794)	(32,943)
Loss for the financial year	<u>(14,377)</u>	<u>(10,851)</u>
Profit and loss account as at end of year	<u>(58,171)</u>	<u>(43,794)</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2011

16. Reconciliation of movement in shareholders' funds

	2011	2010
	£'000	£'000
Loss for the financial year	(14,377)	(10,851)
Equity-based compensation related credit –see Note 17	16,471	12,921
Shareholders' funds as at beginning of year	17,515	15,445
Shareholders' funds as at end of year	19,609	17,515

There were no additional shares issued in 2011 (2010 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 units of OCG, by way of an exchange agreement. Holders of OCG units share ratably in any authorized distributions. 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, a corresponding increase in capital is also recorded.

For the service period from 25 May 2007 through 1 January 2012, £84,657,000 is charged as compensation expense, subject to adjustment for forfeitures, transfers and others, of which 99% has been recognised in the accounts as of 31 December 2011.

For the service period from 1 January 2008 through 1 January 2013, £1,933,000 is charged as compensation expense, subject to adjustment for forfeitures, transfers and others, of which 96% has been recognised in the accounts as of 31 December 2011.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2011

Equity-Based Compensation (*continued*)

For the service period from 1 January 2009 through 1 January 2014, £499,000 is charged as compensation expense, subject to adjustment for forfeitures, transfers and others, of which 87% has been recognised in the accounts as of 31 December 2011

For the service period from 1 January 2010 through 1 January 2015, £2,904,000 is charged as compensation expense, subject to adjustment for forfeitures, transfers and others, of which 72% has been recognised in the accounts as of 31 December 2011

During 2011 an additional fifty five thousand three hundred OCGH units were issued. These units vest on 2 January 2012. For the service period through 1 January 2012, 100% or £912,000 is charged as compensation expense and has been recognised in the accounts as of 31 December 2011

Equity-based compensation expense of £16,471,000 was recognised for the year ended 31 December 2011 (2010: £12,921,000) and is included in the wages and salaries as disclosed in Note 6. During the period, twelve thousand five hundred OCGH units were forfeited and one hundred thirteen thousand units were transferred.

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")

19. Business transfer

On 16 November 2011, pursuant to a contribution and transfer agreement (the "Transfer Agreement"), the Company transferred its business and operations to Oaktree Capital Management (UK) LLP, (the LLP). Pursuant to the Transfer Agreement, the Company transferred its assets and liabilities to the LLP, as well as certain investment management and sub-advisory agreements. On the same date, the Company entered into a sale and purchase agreement to sell its entire membership interest in the LLP to Oaktree Capital UK Limited, a private company limited by shares, incorporated in England and Wales on 15 April 2011 and wholly owned by Holdings.

20. Subsequent event

On 8 March 2012, the shareholders appointed Mr David George Johnston, Mr Dominic Keenan and Mr Thomas William Ware as Directors of the Company. Mr William Richard Moores resigned as Director on 31 January 2012 and Mr Howard Stanley Marks and Mr Sheldon Michael Stone resigned as Directors on 9 March 2012.