

Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2006

Registered number

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Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2006

Registered office

Belvedere House
27 Knightsbridge, 4th Floor
London, SW1X7LY, England

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2006

The directors present their report and the audited financial statements of the company for the year ended 31 December 2006. The Company commenced its principal activities on 4 May 1999 and became a member of IMRO (reference number 5084) on 24 June 1999. Beginning 1 December 2001, the Company is 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), which is a wholly-owned subsidiary of Oaktree Capital Management, LLC (Oaktree). Holdings and Oaktree are limited liability companies in the United States.

The principal activity of the Company is providing investment management services for Oaktree in connection with an investment partnership, in which Oaktree 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 profit after taxation for the year ended 31 December 2006 was £254,000 (2005 £196,000) as set out in the profit and loss account on page 6. No dividend will be paid for the period ended 31 December 2006 (2005 Nil).

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Oaktree and are not managed separately.

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.

Directors

The Directors who held office during the year are given below:

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

Directors' interests

None of the Directors held shares in the Company at any stage in the period from 3 July 1998 to 31 December 2006. The following directors of the Company held shares in Holdings:

| | Shares held as at 31 December 2006 | Shares held as at 31 December 2005 |
|---------------|---------------------------------------|---------------------------------------|
| Howard Marks | 2,481,000 | 1,212,000 |
| Sheldon Stone | 1,370,000 | 670,000 |

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2006

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that 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 those financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

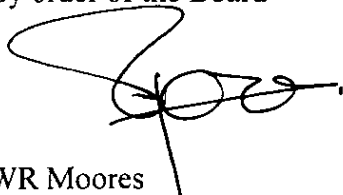
Statement of disclosure of information to auditors

- So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all the steps that ought to be taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to be 'WR Moores', written over a horizontal line.

WR Moores
Director

27 April 2007

Independent auditor's report to the members of Oaktree Capital Management Limited

We have audited the financial statements of Oaktree Capital Management Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

We report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

27 April 2007

Oaktree Capital Management Limited

Profit and Loss Account

For the Year Ended 31 December 2006

| | <i>Notes</i> | 2006 £'000 | 2005 £'000 |
|--|--------------|-----------------------|-----------------------|
| Turnover | 2,3 | 14,536 | 6,850 |
| Administrative expenses | 4,6 | <u>(14,066)</u> | <u>(6,654)</u> |
| Operating profit | | 470 | 196 |
| Interest receivable | | <u>157</u> | <u>139</u> |
| Profit on ordinary activities before taxation | | 627 | 335 |
| Taxation on profit on ordinary activities | 9 | <u>(373)</u> | <u>(139)</u> |
| Profit for the financial year | | <u>254</u> | <u>196</u> |

All activities are continuing operations

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

The annexed notes on pages 9 to 15 form an integral part of these financial statements

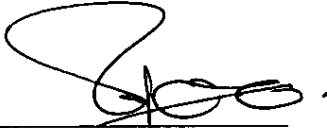
Oaktree Capital Management Limited

Balance Sheet

As at 31 December 2006

| | <i>Notes</i> | 2006 £'000 | 2005 £'000 |
|---|--------------|-----------------------|-----------------------|
| Fixed assets | | | |
| Tangible assets | 7 | 3,683 | 633 |
| Investments | | <u>21</u> | <u>21</u> |
| | | 3,704 | 654 |
| Current assets | | | |
| Debtors (including £956,000 (2005 £821,000) falling due after one year) | 10 | 2,336 | 1,760 |
| Cash at bank | | <u>8,058</u> | <u>5,638</u> |
| | | 10,394 | 7,398 |
| Creditors: amounts falling due within one year | 11 | <u>(6,503)</u> | <u>(4,461)</u> |
| Net current assets | | <u>3,891</u> | <u>2,937</u> |
| Net assets | | <u>7,595</u> | <u>3,591</u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 6,400 | 2,650 |
| Profit and loss account | 15 | <u>1,195</u> | <u>941</u> |
| Total shareholders' funds | | <u>7,595</u> | <u>3,591</u> |

The financial statements on pages 6 to 15 were approved by the Board of Directors on 27 April 2007 and were signed on its behalf by


 WR Moores
 Director

The annexed notes on pages 9 to 15 form an integral part of these financial statements

Oaktree Capital Management Limited

Cash Flow Statement

For the Year Ended 31 December 2006

| | <i>Notes</i> | 2006 £'000 | 2005 £'000 |
|--|--------------|-----------------------|-----------------------|
| Net cash inflow (outflow) from operating activities | <i>12</i> | <u>2,299</u> | <u>(176)</u> |
| Returns on investments and servicing of finance | | | |
| Interest received | | 157 | 139 |
| Taxation | | (135) | (12) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (3,651) | (179) |
| Financing | | | |
| Issuance of ordinary share capital | | <u>3,750</u> | <u>1,250</u> |
| Increase in cash | <i>13</i> | <u>2,420</u> | <u>1,022</u> |

The annexed notes on pages 9 to 15 form an integral part of these financial statements.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2006

1. Accounting policies

These financial statements are prepared on the going concern basis, historical cost convention, in accordance with the Companies Act 1985 and applicable standards. The principal accounting policies are set out below.

a. Turnover

Turnover is recorded as income as the related costs are incurred.

b. Taxation

The charge for UK taxation is based on the profit for the period.

c. Deferred taxation

The company has adopted the provisions of accounting standard FRS 19 – Deferred tax. As a result, deferred tax is now provided in respect of all timing differences which have originated but reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future, except that:

1. Provision is not made in respect of property revaluation surpluses
2. Deferred tax assets are recognised only to the extent that it is more likely than not there will be suitable profits from which the future reversal of the relevant timing differences can be deducted

d. Tangible 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.

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.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2006

g. Dividends

The company has implemented the disclosure aspects of FRS21. However, as no dividends have been paid during the last two years, the financial statements have not been affected.

h. Foreign Exchange

Foreign currency transactions are entered into the accounts at year to date average exchange rates, at the month when booked, for profit and loss transactions and month end closing rates, at the month when booked, for balance sheet transactions. Exchange rates used are based on those advised by Oaktree. Gains and losses are recognised once receipts and payments have been affected.

2. Turnover

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.

3. Related party transactions

The Company's primary business is providing investment management services for Oaktree in connection with an investment partnership, in which Oaktree serves as general partner, and other separately managed accounts. For the periods ended 31 December 2006 and 2005, the Company accrued £13,272,000 and £5,247,000, respectively from Oaktree, which was recorded as turnover in the profit and loss account. See Notes 10 and 11.

4. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging

| | 2006 | 2005 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Operating lease charges | 1,017 | 794 |
| Professional services | 22 | 113 |
| Auditor's remuneration - audit services | 16 | 8 |
| Auditor's remuneration - taxation services | 64 | 25 |
| Depreciation of tangible fixed assets | 601 | 303 |
| Foreign exchange loss (gain) | 44 | (18) |

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2006

5. Directors' emoluments

Only one director received remuneration during the years ended 31 December 2006 and 2005. The remuneration was £894,000 and £815,000, respectively.

6. Staff costs and employee information

The average number of persons employed by the Company was thirty two during the year ended 31 December 2006, and twenty nine for the year ended 31 December 2005.

| | 2006 £'000 | 2005 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 9,321 | 4,411 |
| Social security costs | 702 | 404 |
| Other benefit costs | 384 | 138 |
| | <u>10,407</u> | <u>4,953</u> |

| | Period ended 31 December 2006 | Period ended 31 December 2005 |
|-----------------------|----------------------------------|----------------------------------|
| Administration | 15 | 19 |
| Investment management | 17 | 10 |
| | <u>32</u> | <u>29</u> |

7. Tangible assets

| | Leasehold improvements £'000 | Furniture & equipment £'000 | Total £'000 |
|---------------------------------|------------------------------------|-----------------------------------|----------------|
| Cost | | | |
| As at 1 January 2006 | 1,635 | 255 | 1,890 |
| Additions for the year | 2,902 | 749 | 3,651 |
| As at 31 December 2006 | <u>4,537</u> | <u>1,004</u> | <u>5,541</u> |
| Accumulated Depreciation | | | |
| As at 1 January 2006 | 1,099 | 158 | 1,257 |
| Charges for the year | 516 | 85 | 601 |
| As at 31 December 2006 | <u>1,615</u> | <u>243</u> | <u>1,858</u> |
| Net Book Amount | | | |
| As at 31 December 2006 | <u>2,922</u> | <u>761</u> | <u>3,683</u> |
| As at 1 January 2006 | <u>536</u> | <u>97</u> | <u>633</u> |

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2006

8. Operating leases

The total rentals under operating leases for office space, charged as an expense in the profit and loss account, were £1,017,000 and £794,000 for the years ended 31 December 2006 and 2005, respectively

At 31 December payment commitments under operating lease agreements in respect of properties were

| | 2006 | 2005 |
|--------------------------|---------------|---------------|
| | £'000 | £'000 |
| Within one year | 935 | 482 |
| Within two to five years | 3,738 | 3,760 |
| After five years | 8,333 | 9,331 |
| | <u>13,006</u> | <u>13,573</u> |

Annual operating lease commitments by year of expiration are detailed below

| | 2006 | 2005 |
|--------------------------|--------------|--------------|
| | £'000 | £'000 |
| Within one year | – | – |
| Within two to five years | – | – |
| After five years | 935 | 935 |

9. Taxation on profit on ordinary activities

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

| | 2006 | 2005 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current tax: | | |
| Current year corporation tax at 30% | 145 | 154 |
| Under (over) provision in prior year | 132 | (1) |
| | <u>277</u> | <u>153</u> |
| Deferred tax: | | |
| Origination and reversal of timing differences | 96 | (14) |
| Tax on profit on ordinary activities | <u>373</u> | <u>139</u> |

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2006

9. Taxation on profit on ordinary activities (*continued*):

The tax assessed for the period is different than the standard rate of corporation tax in the UK (30%). The differences are explained below

| | 2006 | 2005 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Profit on ordinary activities at the UK tax rate 30% | <u>188</u> | <u>101</u> |
| Effects of: | | |
| Expenses not deductible for tax purposes | 28 | 40 |
| Accelerated capital allowances/other timing differences | (46) | 13 |
| Profit on disposal of assets | (25) | — |
| Adjustments to tax charge in respect of previous periods | <u>132</u> | <u>(1)</u> |
| Current tax charge | <u>277</u> | <u>153</u> |

10. Debtors

| | As at 31 | As at 31 |
|--------------------------|-----------------|-----------------|
| | December | December |
| | 2006 | 2005 |
| | £'000 | £'000 |
| Turnover receivable | 101 | 396 |
| Amounts due from Oaktree | 563 | — |
| Prepayments | 235 | 225 |
| VAT refund | 181 | 244 |
| Other | <u>1,256</u> | <u>895</u> |
| | <u>2,336</u> | <u>1,760</u> |

Other debtors include £956,000 (2005 £821,000) falling due after more than one year. This amount relates to deposit on operating lease, payable on expiration or termination of the lease.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2006

11. Creditors: amounts falling due within one year

| | As at 31 December 2006 £'000 | As at 31 December 2005 £'000 |
|-------------------------|---|---|
| Accrued compensation | 5,200 | 2,183 |
| Amounts owed to Oaktree | – | 1,886 |
| Taxation | 277 | 149 |
| Deferred taxation | 96 | (14) |
| Accruals | 930 | 257 |
| | <u>6,503</u> | <u>4,461</u> |

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

| | 2006 £'000 | 2005 £'000 |
|---|-----------------------|-----------------------|
| Operating profit | 470 | 196 |
| Depreciation | 601 | 303 |
| Increase in debtors | (576) | (1,558) |
| Increase in creditors | 1,804 | 883 |
| Net cash inflow (outflow) from operating activities | <u>2,299</u> | <u>(176)</u> |

13. Analysis of changes in cash during the period

| | 2006 £'000 | 2005 £'000 |
|---|-----------------------|-----------------------|
| Balance of cash at bank as at beginning of year | 5,638 | 4,616 |
| Net cash inflow | <u>2,420</u> | <u>1,022</u> |
| Balance of cash at bank as at end of year | <u>8,058</u> | <u>5,638</u> |

14. Called-up share capital

| | As at 31 December 2006 | As at 31 December 2005 |
|---|---------------------------------------|---------------------------------------|
| Authorised, issued and fully paid ordinary shares of £1 | <u>6,400,000</u> | <u>2,650,000</u> |

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2006

15. Reserves

| | 2006 | 2005 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Profit and loss account as at beginning of year | 941 | 745 |
| Retained profit | <u>254</u> | <u>196</u> |
| Profit and loss account as at end of year | <u>1,195</u> | <u>941</u> |

16. Reconciliation in the movement in shareholder's funds

| | 2006 | 2005 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Shareholder's funds as at beginning of year | 3,591 | 2,145 |
| Net proceeds from the issuance of ordinary share capital | 3,750 | 1,250 |
| Profit for the financial year | <u>254</u> | <u>196</u> |
| Shareholder's funds as at end of year | <u>7,595</u> | <u>3,591</u> |

During 2006, 3,750,000 shares at £1 were issued to equity holders and there were no transaction costs relating to this issue

17. Ultimate parent undertaking

The immediate parent undertaking is Oaktree International Holdings, LLC. The ultimate parent undertaking and controlling party is Oaktree Capital Management, LLC.