

Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2007

Registered number

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Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2007

Registered office

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

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007. 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). 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 Companies 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 profit after taxation for the year ended 31 December 2007 was £1,583,000 (2006 £254,000) as set out in the profit and loss account on page 6. No dividend will be paid for the period ended 31 December 2007 (2006 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)

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

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2007

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

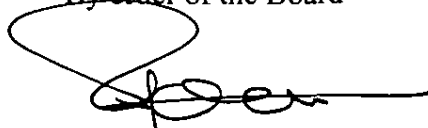
In the case of each of the persons who are directors at the time when the report is approved confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that ought to be taken as a director 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



WR Moores
Director

30 April 2007

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 which comprise the Profit and Loss Account, the Balance Sheet, the 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

In addition 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

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

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

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 2007 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
30 April 2008*

Oaktree Capital Management Limited

Profit and Loss Account

For the Year Ended 31 December 2007

	<i>Notes</i>	2007 £'000	2006 £'000
Turnover	2,3	47,785	14,536
Administrative expenses	4,6	<u>(45,802)</u>	<u>(14,066)</u>
Operating profit		1,983	470
Interest receivable		<u>299</u>	<u>157</u>
Profit on ordinary activities before taxation		2,282	627
Taxation on profit on ordinary activities	9	<u>(699)</u>	<u>(373)</u>
Profit for the financial year		<u>1,583</u>	<u>254</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 profit above and therefore no separate statement of total recognised gains and losses has been presented

The annexed notes on pages 9 to 16 form an integral part of these financial statements

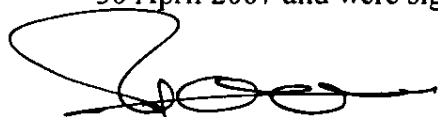
Oaktree Capital Management Limited

Balance Sheet

As at 31 December 2007

	<i>Notes</i>	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	7	5,396	3,683
Investments		<u>21</u>	<u>21</u>
		5,417	3,704
Current assets			
Debtors (including £2,389,104 (2006 £956,000) falling due after one year)	10	25,631	2,336
Cash at bank		<u>12,198</u>	<u>8,058</u>
		37,829	10,394
Creditors: amounts falling due within one year	11	<u>(9,090)</u>	<u>(6,503)</u>
Net current assets		<u>28,739</u>	<u>3,891</u>
Net assets		<u>34,156</u>	<u>7,595</u>
Capital and reserves			
Called up share capital	14	11,600	6,400
Equity based compensation	17	19,778	-
Profit and loss account	15	<u>2,778</u>	<u>1,195</u>
Total shareholders' funds		<u>34,156</u>	<u>7,595</u>

The financial statements on pages 6 to 16 were approved by the Board of Directors on 30 April 2007 and were signed on its behalf by



WR Moores
Director

The annexed notes on pages 9 to 16 form an integral part of these financial statements

Oaktree Capital Management Limited

Cash Flow Statement

For the Year Ended 31 December 2007

	<i>Notes</i>	2007 £'000	2006 £'000
Net cash inflow from operating activities	<i>12</i>	<u>1,117</u>	<u>2,299</u>
Returns on investments and servicing of finance			
Interest received		299	157
Taxation		(360)	(135)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,116)	(3,651)
Financing			
Issuance of ordinary share capital		5,200	3,750
Increase in cash	<i>13</i>	<u>4,140</u>	<u>2,420</u>

The annexed notes on pages 9 to 16 form an integral part of these financial statements

Oaktree Capital Management Limited

Notes to the Financial Statements

For the Year Ended 31 December 2007

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 1985 and applicable accounting standards in the United Kingdom. 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 not reversed at the balance sheet date 31 December 2007.

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 2007

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 2007 and 2006, the Company accrued £44,475,000 and £13,272,000, 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

	2007	2006
	£'000	£'000
Operating lease charges	1,432	1,017
Professional services	77	22
Auditor's remuneration - audit services	32	16
Auditor's remuneration - taxation services	39	64
Depreciation of tangible fixed assets	403	601
Foreign exchange loss (gain)	(26)	44

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2007

5. Directors' emoluments

Two directors received remuneration during the year ended 31 December 2007 and one director in 2006. The total remuneration was £1,103,728 and £894,000, respectively.

The total remuneration received by the highest paid director during the year ended 31 December 2007 and 2006 was £1,024,302 and £894,000 respectively. Shares in OCGH were received in respect of qualifying services under a long-term incentive scheme.

6. Staff costs and employee information

	2007 £'000	2006 £'000
Wages and salaries	39,883	9,321
Social security costs	1,797	702
Other benefit costs	333	384
	<u>42,013</u>	<u>10,407</u>
	2007 Staff	2006 Staff
Administration	20	15
Investment management	25	17
	<u>45</u>	<u>32</u>

7. Tangible assets

	Leasehold improvements £'000	Furniture & equipment £'000	Total £'000
Cost			
As at 1 January 2007	4,537	1,004	5,541
Additions for the year	1,819	297	2,116
As at 31 December 2007	<u>6,356</u>	<u>1,301</u>	<u>7,657</u>
Accumulated Depreciation			
As at 1 January 2007	1,615	243	1,858
Charges for the year	216	187	403
As at 31 December 2007	<u>1,831</u>	<u>430</u>	<u>2,261</u>
Net Book Amount			
As at 31 December 2007	<u>4,525</u>	<u>871</u>	<u>5,396</u>
As at 1 January 2007	<u>2,922</u>	<u>761</u>	<u>3,683</u>

Oaktree Capital Management Limited

Notes to the Financial Statements

For the Year Ended 31 December 2007

8. Operating leases

The total rentals under operating leases for office space, charged as an expense in the profit and loss account, were £1,432,000 and £1,017,000 for the years ended 31 December 2007 and 2006, respectively

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

	2007	2006
	£'000	£'000
Within one year	2,257	935
Within two to five years	9,028	3,738
After five years	<u>17,867</u>	<u>8,333</u>
	<u>29,152</u>	<u>13,006</u>

Annual operating lease commitments by year of expiration are detailed below

	2007	2006
	£'000	£'000
Within one year	–	–
Within two to five years	–	–
After five years	<u>2,257</u>	<u>935</u>

9. Taxation on profit on ordinary activities

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

	2007	2006
	£'000	£'000
Current tax:		
Current year corporation tax at 30%	532	145
Under (over) provision in prior year	<u>(7)</u>	<u>132</u>
	525	277
Deferred tax:		
Origination and reversal of timing differences	<u>174</u>	<u>96</u>
Tax on profit on ordinary activities	<u>699</u>	<u>373</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2007

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

	2007	2006
	£'000	£'000
Profit on ordinary activities at the UK tax rate 30%	<u>685</u>	<u>188</u>
Effects of:		
Expenses not deductible for tax purposes	4	28
Accelerated capital allowances/other timing differences	(157)	(46)
Profit on disposal of assets	-	(25)
Adjustments to tax charge in respect of previous periods	<u>(7)</u>	<u>132</u>
Current tax charge	<u>525</u>	<u>277</u>

10. Debtors

	As at 31 December 2007	As at 31 December 2006
	£'000	£'000
Turnover receivable	593	101
Amounts due from Oaktree	21,424	563
Prepayments	613	235
VAT refund	522	181
Other	<u>2,479</u>	<u>1,256</u>
	<u>25,631</u>	<u>2,336</u>

Other debtors include £2,389,104 (2006. £956,000) 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 2007

11. Creditors: amounts falling due within one year

	As at 31 December 2007 £'000	As at 31 December 2006 £'000
Accrued compensation	7,055	5,200
Taxation	442	277
Deferred taxation	270	96
Accruals	1,323	930
	<u>9,090</u>	<u>6,503</u>

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

	2007 £'000	2006 £'000
Operating profit	1,983	470
Depreciation	403	601
Equity based compensation	19,778	-
Increase in debtors	(23,295)	(576)
Increase in creditors	2,248	1,804
Net cash inflow/(outflow) from operating activities	<u>1,117</u>	<u>2,299</u>

13. Analysis of changes in cash during the period

	2007 £'000	2006 £'000
Balance of cash at bank as at beginning of year	8,058	5,638
Net cash inflow	<u>4,140</u>	<u>2,420</u>
Balance of cash at bank as at end of year	<u>12,198</u>	<u>8,058</u>

14. Called-up share capital

	As at 31 December 2007	As at 31 December 2006
Authorised, issued and fully paid ordinary shares of £1	<u>11,600,000</u>	<u>6,400,000</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2007

15. Reserves

	2007 £'000	2006 £'000
Profit and loss account as at beginning of year	1,195	941
Retained profit	1,583	254
Profit and loss account as at end of year	<u>2,778</u>	<u>1,195</u>

16. Reconciliation in the movement in shareholder's funds

	Notes	2007 £'000	2006 £'000
Shareholder's funds as at beginning of year		7,595	3,591
Net proceeds from the issuance of ordinary share capital		5,200	3,750
Equity-based compensation related credit	17	19,778	-
Profit for the financial year		<u>1,583</u>	<u>254</u>
Shareholder's funds as at end of year		<u>34,156</u>	<u>7,595</u>

During 2007, 5,200,000 shares at £1 were issued to equity holders and there were no transaction costs relating to this issue

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 by newly-formed Oaktree Capital Group, LLC (OCG). The business of OCG is conducted by the Oaktree Operating Group.

As a 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 employee's employment with the Oaktree

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2007

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 £66.3 million based on the fair value of OCGH units on the grant date is being charged to compensation expense over the service period from 25 May 2007 through 2 January 2012. The fair market value on grant date has been determined by reference to the share price of the equity in the private over-the-counter offering. These units vested 20% on 2 January, 2008, with the remaining 80% vesting ratably on 2 January in each of the next four years thereafter. 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. Equity-based compensation expense of £19,778,000 was recognized for the period 25 May 2007 through 31 December 2007 and is included in the wages and salaries as disclosed in Note 6.

The Company and Oaktree have agreed terms of a recharge agreement whereby the Company will bear the costs incurred in connection with the vesting of OCGH units granted by Oaktree to employees of the Company.

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).