

Message to Shareholders

The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's 29th fiscal year ended June 30, 2012.

We are greatly encouraged by the progress made in a challenging year for financial markets and financial services firms worldwide. This fiscal year unfolded against the backdrop of the European sovereign debt crisis and a slowing global economic environment. As a result, our Fiscal 2012 net income of \$67.4 million was the outcome of two distinct underlying dynamics.

On the one hand, we saw strong upward momentum in fee income which increased by 20% to \$236.0 million. This was the result of a significant increase in acquisition and placement activity that demonstrated the durability of our franchise and relationships in the Gulf region and the robust recovery of our transactional businesses following the global financial crisis. On the other hand, asset-based income declined to \$31.0 million for the period, largely due to negative returns on our hedge fund co-investment portfolio – the result, in turn, of extreme levels of uncertainty and negative sentiment in global markets that affected returns throughout the industry. In light of the distinct economic slowdown, we also took a conservative view towards marking to market our corporate investments, particularly in Europe. Gross operating income in Fiscal 2012 was \$267.1 million.

We raised a substantial \$1.3 billion from investors in this period. Corporate investment deal placement was \$214 million and in real estate we raised \$207 million through the placement of five real estate portfolios and the first closing of the real estate third debt fund. We raised \$917 million in new subscriptions into hedge funds from global institutions.

We have maintained our prudent approach towards balance sheet management. Total liquidity remains strong, in excess of \$1.0 billion. Total assets are \$2.7 billion. Our capital adequacy ratio stands at 26.9%, well above the Central Bank of Bahrain's regulatory minimum of 12%. We have also completed a new \$529.0 million forward start loan facility to refinance debt maturing in

March and April 2013, which received strong support from international and Gulf relationship banks.

Operating expenses decreased by 30% to \$150.7 million, reflecting lower fixed operating expenses and lower incentive compensation in line with net income for the period. Total interest expense decreased by 15% to \$47.8 million.

We continued to take a disciplined approach to investments against the background of a deteriorating global economy. We invested \$573 million in new corporate investments including Sur La Table, GL Education, Archway Marketing Services and Esmalglass Itaca. The Investcorp Technology Partners III Fund acquired a significant minority stake in Thought Equity Motion, now rebranded T3 Media. The Investcorp Gulf Opportunity Fund I agreed to acquire significant minority stakes in Orka Group and one other GCC-based company. Both transactions are expected to close in early Fiscal 2013. We undertook several attractively priced add-on investments through the Investcorp Technology funds and the Investcorp Gulf Opportunity Fund. We also facilitated several add-on acquisitions for corporate investment portfolio companies including FleetPride, IPH, Berlin Packaging and Skrill.

We deployed \$184.0 million in ten new real estate investments. Of these, three were placed with clients in a Sharia-compliant US Diversified Properties X Portfolio, two with clients in a Sharia-compliant Texas Apartment Portfolio and one with clients in the Northern California Portfolio while two debt investments were placed with clients in the Southland and Arundel Mezz portfolio. A bridge loan investment in New York's Paramount Hotel was subsequently replaced by the first investment made by the third real estate debt fund.

Investcorp's balance sheet co-investment in hedge funds delivered unlevered returns of -4.7% which, although negative, was in line with industry benchmarks in an exceptionally difficult return environment. There was a modest recovery in the second half of the fiscal year compared to the first half, with a return of 1.2% for the six-month period. Investcorp's Single Manager

Platform outperformed the benchmark, delivering returns of +3.6% over the twelve months.

We delivered more than \$649.0 million in proceeds from realizations and other distributions this year, further evidence of our success in managing investments through difficult times in order to maximize value. We sold Accuity Inc, a former subsidiary of SourceMedia Inc, for an enterprise value of \$530.0 million, and the Gulf Opportunity Fund I made its first sale, its stake in Redington International, for a total consideration of \$115.0 million. Real estate realizations included the sale of the W South Beach Mezzanine Loan.

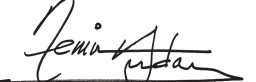
Out of the net income for the current fiscal year, Investcorp's Board of Directors is proposing appropriations of \$4.7 million as ordinary share dividends (representing \$7.50 per ordinary share) and \$61.4 million in preference share dividends at the stated rate of 12% per annum.

Our achievements this year have reinforced the foundations on which Investcorp will build for the future. We are pleased to acknowledge the commitment, skills and professionalism of Investcorp's people who have made these many achievements possible. We also pay tribute to the support of our Strategic Partnership Group and to the trust placed in us by our clients and shareholders. The Board records its thanks to you all. And as always, we wish to mark our gratitude for the longstanding support given to this Firm by the Central Bank of Bahrain and the Government of the Kingdom of Bahrain.

Signed on behalf of the Board of Directors



Abdul Rahman Salim Al-Ateeqi
Chairman of the Board



Nemir A. Kirdar
Executive Chairman & CEO

July 31, 2012

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED JUNE 30, 2012

\$000s	2012	2011
FEE INCOME		
Management fees	88,103	93,189
Activity fees	84,172	65,743
Performance fees	63,750	38,508
Fee income (a)	236,025	197,440
ASSET BASED INCOME		
Hedge funds	(50,218)	39,489
Corporate investment	59,840	121,664
Real estate investment	17,270	40,555
Treasury and other asset based income	4,156	14,470
Asset based income (b)	31,048	216,178
Gross operating income (a) + (b)	267,073	413,618
Provisions for impairment	(1,088)	(2,099)
Interest expense	(47,824)	(56,033)
Operating expenses	(150,749)	(215,173)
NET INCOME	67,412	140,313
Basic and fully diluted earnings per ordinary share (\$)	10	128

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2012

\$000s	2012	2011
NET INCOME (AS ABOVE)	67,412	140,313
Other comprehensive income		
Fair value movements - available for sale investments	(1,986)	(1,860)
Fair value movements - cashflow hedges	(15,286)	8,229
Revaluation loss on premises and equipment	-	(3,034)
Other comprehensive (loss) income	(17,272)	3,335
TOTAL COMPREHENSIVE INCOME	50,140	143,648

CONTACT DETAILS

Kingdom of Bahrain

Investcorp Bank B.S.C.
Investcorp House
P.O. Box 5340
Manama
Kingdom of Bahrain

Tel: +973 17532000

London

Investcorp International Ltd.
48 Grosvenor Street
London
W1K 3HW
UK

Tel: +44 (0)20 7629 6600

New York

Investcorp International Inc.
280 Park Avenue
New York
NY 10017
USA

Tel: +1 212 599 4700

FINANCIAL RESULTS FOR YEAR ENDED JUNE 30, 2012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2012

	Preference share capital	Ordinary share capital	Reserves				Treasury shares	Retained earnings	Proposed appropriations	Unrealized fair value changes and revaluation reserve recognized directly in equity				Total equity
			Share premium	Statutory reserve	General reserve	Total				Available for sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total	
\$000s														
Balance at July 1, 2010	508,678	200,000	446,243	100,000	50,000	596,243	(161,669)	(234,489)	57,374	6,573	11,679	9,949	28,201	994,338
Total comprehensive income / (loss)	-	-	-	-	-	-	-	140,313	-	(1,860)	8,229	(3,034)	3,335	143,648
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	861	-	-	-	(861)	(861)	-
Treasury shares purchased during the year - net	-	-	-	-	-	-	(23,062)	-	-	-	-	-	-	(23,062)
Loss on sale of treasury shares	-	-	(3,444)	-	-	(3,444)	3,444	-	-	-	-	-	-	-
Preference share dividends paid	-	-	-	-	-	-	-	-	(57,374)	-	-	-	-	(57,374)
Proposed appropriations / transfers:														
Preference share dividend	-	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-	-
Ordinary share dividend	-	-	-	-	-	-	-	(9,306)	9,306	-	-	-	-	-
Transfer of general reserve to retained earnings	-	-	-	-	(50,000)	(50,000)	-	50,000	-	-	-	-	-	-
Transfer of fair value losses to share premium	-	-	(299,919)	-	-	(299,919)	-	299,919	-	-	-	-	-	-
Charitable contributions by shareholders	-	-	-	-	-	-	-	(4,000)	4,000	-	-	-	-	-
Vesting of preference shares during the year - net	2,787	-	-	-	-	-	-	-	-	-	-	-	-	2,787
Balance at June 30, 2011	511,465	200,000	142,880	100,000	-	242,880	(181,287)	181,922	74,682	4,713	19,908	6,054	30,675	1,060,337
Total comprehensive income / (loss)	-	-	-	-	-	-	-	67,412	-	(1,986)	(15,286)	-	(17,272)	50,140
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	-	230	-	-	-	(230)	(230)	-
Treasury shares sold / vested during the period - net	-	-	-	-	-	-	7,878	-	-	-	-	-	-	7,878
Loss on sale and vesting of treasury shares	-	-	(9,834)	-	-	(9,834)	9,834	-	-	-	-	-	-	-
Approved appropriations for fiscal 2011 paid:														
Preference share dividend	-	-	-	-	-	-	-	-	(61,376)	-	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	-	(9,306)	-	-	-	-	(9,306)
Charitable contributions by shareholders	-	-	-	-	-	-	-	-	(4,000)	-	-	-	-	(4,000)
Preference share dividend forfeited	-	-	-	-	-	-	-	70	-	-	-	-	-	70
Proposed preference share dividend	-	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	-	(4,720)	4,720	-	-	-	-	-
Balance at June 30, 2012	511,465	200,000	133,046	100,000	-	233,046	(163,575)	183,538	66,096	2,727	4,622	5,824	13,173	1,043,743

CONSOLIDATED BALANCE SHEET

June 30, 2012

\$000s	June 30, 2012	June 30, 2011
ASSETS		
Cash and short-term funds	156,252	24,649
Placements with financial institutions and other liquid assets	194,567	341,395
Positive fair value of derivatives	81,250	45,033
Receivables and prepayments	284,337	300,436
Loans and advances	188,853	169,832
<u>Co-investments</u>		
Hedge funds	414,098	607,398
Corporate investment	1,221,790	1,121,735
Real estate investment	154,460	188,838
Total co-investments	1,790,348	1,917,971
Premises, equipment and other assets	54,072	59,235
TOTAL ASSETS	2,749,679	2,858,551
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits from financial institutions	10,111	-
Deposits from clients - short-term	195,245	318,028
Negative fair value of derivatives	39,160	22,804
Payables and accrued expenses	214,432	202,521
Deposits from clients - medium-term	119,241	95,309
Medium-term debt	567,256	584,912
Long-term debt	560,491	574,640
TOTAL LIABILITIES	1,705,936	1,798,214
EQUITY		
Preference share capital	511,465	511,465
Ordinary shares at par value	200,000	200,000
Reserves	233,046	242,880
Treasury shares	(163,575)	(181,287)
Retained earnings	183,538	181,922
<i>Ordinary shareholders' equity excluding proposed appropriations, unrealized fair value changes recognized directly in equity and revaluation reserve</i>	453,009	443,515
Proposed appropriations	66,096	74,682
Unrealized fair value changes recognized directly in equity and revaluation reserve	13,173	30,675
TOTAL EQUITY	1,043,743	1,060,337
TOTAL LIABILITIES AND EQUITY	2,749,679	2,858,551

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

\$000s	2012	2011
OPERATING ACTIVITIES		
Net income	67,412	140,313
Adjustments for non-cash items in net income		
Depreciation	6,037	6,803
Provisions for impairment	1,088	2,099
Amortization of transaction costs of borrowings	7,437	7,760
Vesting of share awards - net of forfeitures	3,265	2,787
Net income adjusted for non-cash items	85,239	159,762
Changes in:		
Operating capital		
Placements with financial institutions and other liquid assets (non cash equivalent)	10,000	50,000
Receivables and prepayments	15,415	10,403
Loans and advances	(19,425)	80,798
Deposits from clients - short-term	(122,783)	70,602
Payables and accrued expenses	11,911	58,179
Co-investments		
Hedge funds	193,300	(70,124)
Corporate investment	(102,041)	(70,830)
Real estate investment	34,378	27,939
Fair value of derivatives	2,140	86,526
Other assets	(55)	(28)
NET CASH FROM OPERATING ACTIVITIES	108,079	403,227
FINANCING ACTIVITIES		
Deposits from financial institutions	10,111	-
Deposits from clients - medium-term	23,932	4,616
Medium-term revolvers drawn	50,346	-
Medium-term revolvers repaid on maturity	(50,000)	(150,000)
Medium-term revolvers repaid and available for drawdown	-	(490,000)
Medium-term debt issued (net of transaction costs)	-	88,750
Medium-term debt repaid	(19,000)	(200,000)
Long-term debt repaid	(57,875)	(62,875)
Treasury shares sold (purchased) - net	4,613	(23,062)
Dividends and charitable contributions paid	(74,612)	(57,374)
NET CASH USED IN FINANCING ACTIVITIES	(112,485)	(889,945)
INVESTING ACTIVITY		
Investment in premises and equipment	(819)	(49)
NET CASH USED IN INVESTING ACTIVITY	(819)	(49)
Net decrease in cash and cash equivalents	(5,225)	(486,767)
Cash and cash equivalents at beginning of the year	353,044	839,811
Cash and cash equivalents at end of the year	347,819	353,044
Cash and cash equivalents comprise:		
Cash and short-term funds	28,583	24,649
Cash in transit	127,669	-
Placements with financial institutions and other liquid assets	191,567	328,395
	347,819	353,044
Total accessible liquidity comprises:		
Cash and cash equivalents	347,819	353,044
Placements with financial institutions and other liquid assets (non-cash equivalent)	3,000	13,000
Undrawn revolvers	297,404	536,250
Total accessible liquidity*	648,223	902,294
Additional cash flow information		
Interest paid	(55,111)	(61,079)
Interest received	17,180	20,443

* In addition to the above, the group has \$414.1 million (June 30, 2011: \$607.4 million) in hedge funds, which also forms a part of the Group's total liquidity.