EXECUTIVE SUMMARY

MARKET ENVIRONMENT

- The economic environment in the 2011 fiscal year had two distinct halves. The first half was marked by strong, if uneven, global expansion. However, the second half brought shocks and global slowdown with an increase in financial risk.

- The global growth projection for the 2011 calendar year is 4.3% but this reflects a two-speed world. Advanced economies, which need to deal with large structured deficits and financial sector imbalances, are projected to grow by only just over 2%. However, emerging economies, which generally have more fiscal headroom, are projected to grow by over 6.5%. Quantitative easing has held interest rates down, but monetary tightening will be necessary to avoid further increases in core inflation. Financial volatility increased significantly in the last quarter and it remains a complex picture for investors looking to preserve and grow capital while limiting downside risk. Overall, the environment has highlighted the benefits of alternative investment products.

- The six countries of the Gulf Cooperation Council ('GCC') showed healthy growth of 5% in the 2010 calendar year. Higher oil prices and higher levels of public spending are expected to underpin growth of 7.8% in the 2011 calendar year. In a change from one year ago, all of the individual economies of the GCC are performing well. The IMF estimates that oil revenues will generate a current account surplus of just over $300 billion for GCC countries in the 2011 calendar year. The regional wealth market remains strong with HNWI wealth in the Middle East growing faster than the world average.

- In the US and Europe, excessive government debt is the greatest risk to medium-term global growth. In Europe, financial markets are likely to reflect uncertainty and elevated perception of risk as they remain focused on the contagion risk and debt sustainability of peripheral Eurozone countries. Meanwhile, the US faces a combination of short term financial risks, a softening economy and long term fiscal pressures. US fiscal options are limited by the need to tackle the large jump in public debt to GDP, and there is little political consensus around tax or entitlement reform. For both the US and Europe, inevitable continuing fiscal tightening is expected to continue to weigh on the momentum of the recovery.

BUSINESS ENVIRONMENT

- The climate for our **corporate investment – North America & Europe** business and its target mid-sized investments has improved as M&A activity has revived, financing markets have been re-kindled and there has been improved earnings visibility and stabilized EBITDA in acquisition targets. However, prices for quality assets have risen due to the continuing industry capital overhang and tight supply. There has been a trend towards higher leverage as high-yield and leveraged loan investors have been lending at multiples close to 2007 levels and dividend recaps have returned. While the amount of financial leverage remains less than pre-crisis, leverage is once again available as a source of returns. For midmarket exits, there is a wider range of options as opportunities for secondary buyouts, strategic sales and IPOs in the US and Europe are all available, although the IPO market is still highly volatile. The coming year may see an increase in supply of assets as private equity firms need to turn over their portfolios and pricing becomes more realistic. While portfolio company performance has improved, owners will need to continue to drive value through operational improvements. Overall, therefore, the current environment continues to favor middle market investors.

- Our **corporate investment – technology** business has been seeing some positive trends as the technology sector continues to lead the economic recovery. Even with the general global economic outlook still uncertain, corporate technology spending is buoyant given the transformative role of IT in business growth. Consumers continue to want new and innovative products and services as mobile applications and social media create huge new markets at great speed. Mid-sized technology companies are expected to see revenue improvement in the 2011 calendar year and the technology sector is, like the mid-market sector overall, experiencing increasing M&A activity and higher valuation multiples. The technology IPO market remains volatile and unpredictable, but is generally improving, creating exit opportunities. At the same time, volatility in the public markets is creating an opportunity for private capital, especially for growth capital and expansion stage financing.

- Our **corporate investment – MENA** business is seeing an increase in private equity and institutional investment in the region as this form of financing is more readily available than alternative sources of capital. Tight credit markets mean debt financing is limited and raising money though regional stock market listings is currently hampered by low valuations, trading illiquidity and volatility as well as stringent new IPO qualification requirements. Current low valuations of GCC public equities are also providing favorably low benchmarks for investment. However, in the longer term, the robust regional macroeconomic trends are expected to support valuation levels and provide exits routes through public listings.

- The resilience of the **hedge fund** sector and investor confidence in its ability to deliver superior risk-adjusted performance was illustrated in FY11, when the second half year brought noticeable headwinds and weaker performance. This did not affect inflows. May 2011 was the 11th consecutive month of increased allocations to hedge funds globally and that month hedge fund assets reached $2.6 trillion, comfortably ahead of the 2008 peak of $1.9 trillion. One notable shift this year has been increasing investor focus on funds of under $1 billion rather than on larger funds of $5 billion and over. Previously, institutional money had been put into the largest funds, reflecting a desire for an institutional infrastructure. However, research shows that emerging funds have outperformed large funds on a risk-adjusted basis and that, as much of this outperformance came in 2008-2009, large funds proved unable to provide safety when it was most needed. A second trend has been the move towards separately managed accounts, as investors continue to seek more comprehensive transparency.

- Overall, the environment for our **real estate investment** business is still challenging but has been improving. Asset pricing in US commercial real estate has hit bottom in most major markets and there has been an initial, sustained improvement in operating performance for many assets. Nonetheless, the recovery is expected to be slow and tentative. Capitalization rates generally tightened in the 2010 calendar year, with ranges of 6-9%, depending on the market and asset quality. Senior financing is available for quality assets and attractive investment opportunities can be found by selective buyers. There are well priced quality assets in stable sub-markets, and investors can secure good credit investments in cash-generating properties with existing or newly underwritten debt. Difficulties in refinancing assets are also creating opportunities including mezzanine positions and equity stakes in the recapitalization of investments. Investing in speculative assets is still firmly out of favor but cash-flow assets are now attracting significant investor interest. Management of assets to create value remains crucial to maintain asset quality and value in a low growth environment.

FINANCIAL PERFORMANCE

- Investcorp's FY11 net income increased by 37% on FY10 to $140.3 million. This represents the third-best profit performance in the firm's history. Earnings per Ordinary Share doubled to $128 per share. Gross operating income increased 15% to $413.6 million, driven by an improvement in asset-based income as our three asset classes each produced solid positive returns.

- Gross fee income in FY11 was $197.4 million compared to $218.9 million in FY10. Management fee income declined to $93.2 million from $104.3 million, largely due to corporate investment exit activity that resulted in lower client AUM. Activity fee income was marginally lower, moving from $68.7 million to $65.7 million, as a 37% increase in placement income was offset by lower transactional fees on acquisitions and exits. Performance fees, at $38.5 million for FY11 against $46.0 million for FY10, were lower as a result of more normalized returns in hedge funds.

- Gross asset-based income, including the impact of mark-to-market changes in fair value of both corporate and real estate co-investments, increased by 52% to $216.2 million. Hedge fund returns were strong in the first half of the fiscal year, but there was some retrenchment in the second half in view of unstable market conditions during May and June.

- Operating expenses in FY11 were 14% higher, at $215.2 million, largely as a result of higher compensation accruals in line with the higher income earned in the year. Interest expense decreased by 3% to $56.0 million, as a result of low interest rates and further de-leveraging of the balance sheet.

- Total assets decreased from $3.4 billion at June 30, 2010 to $2.9 billion at June 30, 2011 as cash liquidity has been used to repay maturing debt net of amounts refinanced by committed forward start facilities. $490 million of cash used to repay medium-term revolvers remains available as a source of accessible liquidity. Co-investment assets increased marginally to $1.9 billion in FY11 as a result of fair value improvements and new acquisitions in corporate investment and real estate investment. Co-investments as a multiple of book equity remain unchanged at 1.8x.

- During FY11 we maintained comfortable levels of liquidity in immediately accessible form. Accessible liquidity, defined as cash plus undrawn facilities, was $0.9 billion at June 30, 2011, unchanged from June 30, 2010. Total liquidity at June 30, 2011, including $0.6 billion held in hedge fund co-investments, was $1.5 billion. The level of total liquidity is in excess of covenant threshold levels of $750 million, and exceeds the amount of term debt maturing over the next five years. Total liabilities decreased by 26% to $1.8 billion at June 30, 2011, primarily reflecting the repayment of revolving medium term debt facilities. Investcorp's credit ratings by Fitch Ratings, Capital Intelligence and Moody's Investor Service were not changed during the year.

- Net book equity (including fair value adjustments) at June 30, 2011 was $1.1 billion, a 7% increase from June 30, 2010 that primarily reflected the year's performance adjusted for the net impact of treasury share movements, the buyback of GDRs and dividend payments. With effect from October 4, 2010, Investcorp's GDRs were de-listed on the London Stock Exchange. Investcorp's shares continue to be listed on the Bahrain Bourse.

- The proposed appropriation for FY11 includes $9.3 million of ordinary share dividends (representing 6% of paid-up capital or $15 per share) and $61.4 million (12% per annum) in preference share dividends. Our capital adequacy ratio at June 30, 2011 has increased to 25.7%, comfortably in excess of the Central Bank of Bahrain's regulatory minimum requirement of 12%.

INVESTMENT AND REALIZATION ACTIVITY

- Throughout the year, we continued to show strong investment discipline as, while more opportunities are becoming available, the environment remains challenging. In corporate investment we invested $228 million in new and add-on investments, including an agreement to acquire a leading US specialty retailer, a direct investment in FleetMatics and the acquisition of a majority stake in eviivo Limited by the Investcorp Technology Partners III Fund. The Investcorp Gulf Opportunity Fund I completed the acquisition of a minority stake in Tiryaki Agro. We also undertook several attractively priced add-on investments and facilitated several add-on acquisitions for portfolio companies including Berlin Packaging, FleetPride, Redington Gulf and Veritext. We deployed $76 million in five new real estate investments, which were placed with clients in two portfolios, US Commercial Properties VI and US Diversified Properties IX, and we launched the innovative Investcorp Special Opportunities Portfolio, a portfolio of select investments in distressed credit and corporate restructurings in the United States and Europe.

- We delivered more than $1 billion in proceeds from realizations and other distributions this year, reflecting the high quality of our investment portfolio and our success in supporting and managing investments through the financial crisis in order to maximize value. In two successful exits we sold Moody International in a transaction valued at $729 million, and Associated Materials Inc. in a transaction valued at approximately $1.3 billion. There were three further corporate investment exits and five profitable real estate realizations.

PORTFOLIO COMMENTARY

- At June 30, 2011, the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $945 million across 17 portfolio companies. The total co-investment amount represented 49.3% of total balance sheet co-investments at June 30, 2011 and at June 30, 2010. The five largest investments represent 60.7% of the total portfolio and 54.1% of shareholders' equity at June 30, 2011. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – technology was $80 million at June 30, 2011. Technology Ventures Fund I and Fund II are fully invested. The $500 million Investcorp Technology Partners Fund III, raised in 2008, is currently 47% deployed. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – MENA was $24 million at June 30, 2011. The $929 million Investcorp Gulf Opportunity Fund I has 49% of its capital called.

- Investcorp's hedge funds co-investments, totaling $607 million, delivered returns of 6.8% during FY11. The unlevered return, after adjusting for the effects of non-recourse leverage, was 4.6%. Most of the return was generated in the first half of the fiscal year with some retrenchment in the second half as a result of unstable market conditions in May and June. Ballast Capital Management and Prosiris Capital Management were added to the single manager platform.

- At June 30, 2011, Investcorp's real estate balance sheet co-investments totaled $189 million. This represents 9.8% of total balance sheet co-investments at June 30, 2011. Investcorp currently has 23 active real estate investment portfolios. The $108 million US Mezzanine Fund I and the $176 million Investcorp Real Estate Credit Fund are both fully deployed. A third real estate debt fund is in fundraising.

FUNDRAISING

- In total, placement and fundraising activities in FY11 was $751 million. Fundraising in the Gulf was $517 million in FY11, up 67% from FY10. We placed Veritext, FleetMatics, the US Commercial Properties VI Portfolio, the US Diversified Properties IX Portfolio and the Investcorp Special Opportunities Portfolio. We also took $233 million in hedge fund subscriptions from institutional investors in the Gulf.

- Total assets under management, including balance sheet co-investments, decreased to $11.8 billion at June 30, 2011 compared to $12.7 billion at June 30, 2010. Proprietary co-investments increased to $2.5 billion at June 30, 2011 from $2.4 billion at June 30, 2010. Client assets under management decreased by 8.4% to $8.9 billion, primarily as a result of realization activity in corporate investment and real estate investment.

- In open-end hedge funds, assets under management at June 30, 2011 were $4.7 billion, $3.7 billion of third party client assets and $1.0 billion of proprietary co-investments. 64% of client assets were from US institutional investors and 36% from Gulf HNWIs and institutions. 61% of client hedge fund assets are now invested through customized accounts while the percentage of assets in fund of fund products has decreased to 16%. Assets with single managers stand at 23%.

DISCUSSION OF RESULTS

NET INCOME

Net income consists of (i) **fee income** generated from transactional activity and managing client AUM; and (ii) **asset-based income** earned on Investcorp's corporate investment, real estate investment and hedge fund co-investments, as well as invested liquidity. Asset-based income includes the impact of unrealized changes in fair value of corporate investment and real estate co-investments.

Income ($m)	FY11	FY10	% Change B/(W)
Fee income	**197.4**	218.9	(10%)
Asset-based income	**216.2**	141.8	52%
Gross operating income	**413.6**	360.7	15%
Provisions	**(2.1)**	(11.7)	82%
Interest expense	**(56.0)**	(58.0)	3%
Operating expenses	**(215.2)**	(188.8)	(14%)
Net income	**140.3**	102.2	37%
Earnings per ordinary share ($)	**128**	64	100%

Gross operating income in FY11 was $413.6 million (FY10: $360.7 million). The 15% increase over last year was driven by an improvement in asset-based income as corporate investment, real estate investment and hedge funds all produced solid positive returns. Fee income was 10% lower than last year, mainly due to lower performance fees from hedge funds.

Operating expenses were 14% higher at $215.2 million (FY10: $188.8 million), largely as a result of higher compensation accruals in line with the higher income earned in FY11. Interest expense decreased by 3% to $56.0 million from a further de-leveraging of the balance sheet.

The overall net income increased by 37% to $140.3 million, up from $102.2 million in FY10, and is the third best performance in Investcorp's three-decade history, continuing the rebound to profitability and growth which started in FY10.

Earnings per ordinary share doubled from $64 in FY10 to $128 in FY11.

FEE INCOME

Fee income earned in FY11 decreased by 10% to $197.4 million compared to $218.9 million for FY10. Management fee income fell largely as a result of several profitable corporate investment and real estate realizations in H2 FY10 and H1 FY11 that lowered AUM. Activity fee income, in aggregate, declined marginally by 4% from $68.7 million to $65.7 million. Improved placement activity and the resulting 37% increase in placement income was offset by lower transactional fees on acquisitions and exits. Performance fees were lower than last year as a result of lower returns in hedge funds.

Summary of fees ($m)	FY11	FY10	% Change B/(W)
Management fees	**93.2**	104.3	(11%)
Activity fees	**65.7**	68.7	(4%)
Performance fees	**38.5**	46.0	(16%)
Fee income	**197.4**	218.9	(10%)

ASSET-BASED INCOME

Gross asset-based income, including the impact of unlevered changes in fair value of corporate investment and real estate co-investments increased by 52% to $216.2 million (FY10: $141.8 million), mainly due to a rebound in real estate investment returns from the valuation declines seen in FY10 and FY09. This was offset by a decline in hedge fund returns from the above-target performance of last year, as the market uncertainty of May and June 2011 impacted returns.

Asset-based income ($m)	FY11	FY10	% Change B/(W)
Corporate investment	**121.7**	122.3	(1%)
Hedge funds	**39.5**	91.3	(57%)
Real estate investment	**40.6**	(89.9)	>100%
Treasury and liquidity income	**14.5**	18.1	(20%)
Gross asset-based income	**216.2**	141.8	52%

Treasury income includes interest income earned on invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk. The decline in treasury and liquidity income reflects the year-on-year fall in average money market yields as well as lower average levels of carried liquidity following the net repayment of $814 million of maturing debt and drawn revolvers during the year.

The table below shows the average balance sheet co-investment yield (absolute) for each of the last six half year periods. FY09 represented a particularly negative environment for asset valuations. Corporate investment yields began a turnaround in FY10 that has continued in FY11. The positive momentum has shown signs of increasing in H2 FY11 with a 9.5% absolute return for the six months. Real estate asset yields declined in both FY09 and FY10. However, we have seen a rebound in performance in FY11 which also strengthened in the second half of the fiscal year. Hedge fund returns were strong in the first half of the year, but there has been some retrenchment in the second half of the year given unstable market conditions during May and June.

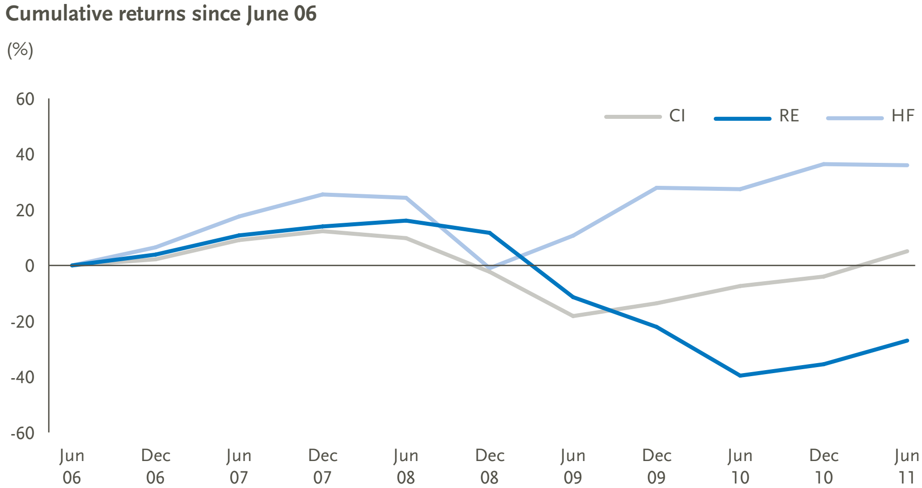
Asset yields	H1 FY09	H2 FY09	H1 FY10	H2FY10	H1 FY11	H2 FY11
Corporate investment	(11.1%)	(16.2%)	5.6%	7.2%	**3.6%**	**9.5%**
Real estate investment	(3.8%)	(20.7%)	(12.1%)	(22.5%)	**6.9%**	**13.1%**
Hedge funds*	(20.4%)	11.9%	15.5%	(0.4%)	**7.1%**	**(0.3%)**
Average co-investment yield**	(11.8%)	(4.1%)	3.8%	0.9%	**3.8%**	**4.9%**

*Non $ weighted returns

**Includes treasury and liquidity income

The chart below illustrates the cumulative returns for each asset class since June 2006 on a non-dollar weighted basis.

Cumulative returns since June 06



Hedge funds, with a cumulative return of 36.1%, have more than recovered the value lost during the period June 2008 to December 2008. With strong returns over the last half year, corporate investment is now back to a positive cumulative return. Real estate investment reached a trough decline of 39.6% in June 2010, but has rebounded in FY11 to a cumulative loss of 27.1%.

ASSET-BASED INCOME BY ASSET CLASS

The tables below summarize the primary drivers of asset-based income for corporate investment (CI), hedge funds (HF) and real estate investment (RE):

CI asset-based income KPIs ($m)	FY11	FY10	% Change B/(W)
Asset-based income	**121.7**	122.3	(1%)
Average co-investments (excluding U/W)	**931.9**	958.9	(3%)
Absolute yield for period	**13.1%**	12.8%	0.3%

HF asset-based income KPIs ($m)	FY11	FY10	% Change B/(W)
Asset-based income	**39.5**	91.3	(57%)
Average co-investments	**607.4**	606.0	0%
Non $ weighted returns	**6.8%**	15.0%	(8.2%)

RE asset-based income KPIs ($m)	FY11	FY10	% Change B/(W)
Asset-based income	**40.6**	(89.9)	>100%
Average co-investments	**201.8**	263.2	(23%)
Absolute yield for period	**20.1%**	(34.2%)	54.3%

INTEREST EXPENSE

Total interest expense of $56.0 million in FY11 was 3% lower than in FY10. Although the average cost of funds increased due to the progressive drawdown of refinancing arranged in FY10, the average level of debt has continued to decline in line with Investcorp's balance sheet deleveraging plans.

Interest expense ($m)	FY11	FY10	FY11 vs FY10 H/(L)
Average short-term interest-bearing liabilities	**337**	277	60
Average medium and short-term interest-bearing liabilities	**1,622**	2,002	(380)
Average interest-bearing liabilities	**1,959**	2,279	(320)
Interest expense	**56.0**	58.0	(2.0)
Average cost of funding	**2.9%**	2.5%	0.4%

In aggregate, average US$ LIBOR and EURIBOR rates increased year-on-year. Investcorp's paid margins also increased slightly due to the progressive drawdown of new higher-cost medium term debt refinanced in FY10. The impact of an increase in the average cost of funds on total interest expense was mitigated by further deleveraging.

The table below breaks down the impact on interest expense from these two components.

Interest expense variance ($m)	FY11 vs FY10 H/(L)
Due to lower average interest-bearing debt	8.2
Due to increase in average cost of funding	(6.2)
Total variance	**2.0**

OPERATING EXPENSE

Operating expenses increased by 14% from $188.8 million in FY10 to $215.2 million in FY11. The increase largely reflects higher compensation accruals in line with the higher income generated during the period. Staff compensation represented 61% (FY10: 59%) of total operating expenses.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees paid to external advisors and service providers, travel and business development, and administration and infrastructure costs. Other expenses increased by 9% to $85.0 million in FY11, primarily as a result of increased professional fees relating to acquisition due diligence activity. The aggregate cost-to-income ratio improved to 61% from 65% in FY10.

Opex metrics ($m)	FY11	FY10	Change
Staff compensation	**130.2**	111.2	17%
Other opex	**85.0**	77.6	9%
Total opex	**215.2**	188.8	14%
Full time employees (FTEs) at end of period	**300**	320	(20)
Staff compensation per FTE ('000)	**434.0**	347.6	86.5
Other opex per FTE ('000)	**283.2**	242.5	40.7
Total staff comp/total opex	**61%**	59%	2%
Opex/(net income + opex)	**61%**	65%	(4%)

INCOME BY SEGMENT

The following table summarizes the revenue contribution of each business segment, showing fee income and asset-based income earned by each business unit.

	Fee income			Asset-based income			Total		
Summary by business unit ($m)	FY11	FY10	Change	FY11	FY10	Change	FY11	FY10	Change
Corporate investment	**133.8**	156.1	(14%)	**121.7**	122.3	(1%)	**255.5**	278.4	(8%)
Hedge funds	**45.0**	43.5	3%	**39.5**	91.3	(57%)	**84.4**	134.8	(37%)
Real estate investment	**18.6**	19.3	(4%)	**40.6**	(89.9)	>100%	**59.2**	(70.6)	>100%
Corporate support	**–**	–	–	**14.5**	18.1	(20%)	**14.5**	18.1	(20%)
Revenue contribution	**197.4**	218.9	(10%)	**216.2**	141.8	52%	**413.6**	360.7	15%
Operating expenses	**(159.8)**	(149.4)	(7%)	**(55.4)**	(39.4)	(41%)	**(215.2)**	(188.8)	(14%)
Interest expense	**–**	–	–	**(56.0)**	(58.0)	3%	**(56.0)**	(58.0)	3%
Provision for impairment	**–**	–	–	**(2.1)**	(11.7)	82%	**(2.1)**	(11.7)	82%
Net income	**37.6**	69.5	(46%)	**102.7**	32.7	>100%	**140.3**	102.2	37%

Revenue contribution across all business units was positive in FY11 driven by strong returns in all asset classes. Fee revenues in hedge funds and real estate investment were steady. Fee revenues in corporate investment declined due to lower transactional activity and also a decrease in client AUM as a result of high realization activity, which consequently reduced management fees earned on AUM. Total hedge fund income in FY11 was significantly lower than in FY10, as both performance fees and investment income reflected a lower level of returns this fiscal year following much higher than normal returns in FY10. Total income for real estate investment showed a significant improvement as negative investment returns rebounded and turned strongly positive in FY11.

BALANCE SHEET

Key balance sheet metrics are shown in the table below.

Balance sheet metrics	FY11	FY10
Total assets	**$2.9 billion**	$3.4 billion
Financial leverage*	**1.7x**	1.6x
Liabilities/equity	**1.7x**	2.4x
Shareholders' book equity	**$1.1 billion**	$1.0 billion
Co-investments/book equity	**1.8x**	1.8x
Regulatory risk asset ratio (Basel II)	**25.7%**	22.9%
Residual maturity – medium and long term facilities	**67 months**	68 months

*Adjusted for transitory balances

ASSETS

At June 30, 2011, total assets were $2.9 billion, a decrease of $0.5 billion from the previous fiscal year end (June 30, 2010: $3.4 billion). Cash liquidity has been used to repay maturing debt net of amounts refinanced by committed forward start facilities. $490 million of cash used to repay medium-term revolvers remains available as a source of accessible liquidity. Co-investment assets have increased marginally, from $1.8 billion to $1.9 billion, as a result of fair value improvements and new acquisitions in corporate investment and real estate investment.

Assets ($m)	FY11	FY10	Change H/(L)
Cash and equivalents	**353**	840	(487)
Other liquid assets*	**13**	63	(50)
HF co-investments	**607**	537	70
CI and RE co-investments	**1,311**	1,270	41
Other (working capital and fixed assets)	**575**	707	(133)
Total assets	**2,859**	3,417	(558)
Co-investment assets	**1,918**	1,807	111

*Non cash equivalent

Co-investments in corporate investment, hedge funds and real estate investment as a multiple of book equity remain unchanged at 1.8x from FY10. Investcorp continues to be a significant co-investor alongside its clients in each of the lines of business, accounting for 21% of total AUM at June 2011. A gradual reduction of co-investment levels to under 10% of total AUM is targeted over the medium-term, with a focused growth in client AUM.

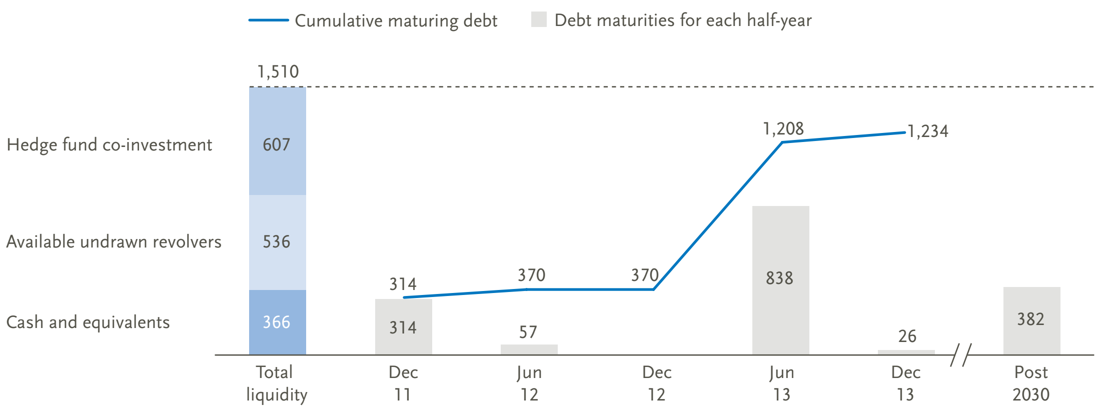
LIQUIDITY

During FY11, Investcorp maintained comfortable levels of immediately accessible cash invested in at-call money funds and short tenor money market assets. Total accessible liquidity (cash plus undrawn revolvers) at June 30, 2011 was $0.9 billion (June 30, 2010: $0.9 billion). The majority of revolving facilities which had been fully drawn throughout FY10 were paid down in H2 FY11. At June 30, 2011, $536 million of revolving facilities remains available for drawdown.

Total liquidity at June 30, 2011 was $1.5 billion, comprising $0.9 billion of cash and undrawn revolvers and $0.6 billion held in hedge fund co-investments. More than 70% of hedge fund liquidity is contractually available within a six month period. The level of total liquidity is in excess of Investcorp's borrowing covenant to maintain a minimum of $750 million liquidity and also exceeds the total amount of term-debt repayments due over the next five years.

Liquidity cover

($m)



LIABILITIES

Total liabilities decreased by 26% during FY11, from $2.4 billion at June 30, 2010 to $1.8 billion at June 30, 2011, primarily reflecting the repayment of medium term debt facilities, including revolving facilities that remain available for drawdown.

Liabilities ($m)	FY11	FY10	Change H/(L)
Client and other deposits	**318**	247	71
Medium-term debt and deposits	**524**	617	(94)
Medium-term revolvers – drawn	**157**	795	(638)
Long-term debt	**575**	592	(17)
Other	**225**	172	54
Total liabilities	**1,798**	2,423	(624)

CREDIT RATINGS

Below is a summary of Investcorp's public credit ratings.

Agency	Rating grade	Comment
Capital Intelligence	BBB+ Stable outlook	Rating and outlook confirmed in Mar-11
Moody's Investors Service	Ba2 Negative outlook	Rating and outlook unchanged in Mar-11
Fitch Ratings	BB+ Negative outlook	Rating and outlook confirmed in Feb-11

Fitch and Capital Intelligence affirmed our credit ratings and issued detailed credit opinions, citing solid capital, a strong return to profitability and diversified sources of funding. Moody's credit rating also remained unchanged following the release of their credit opinion.

BOOK EQUITY

Net book equity (including unrealized fair value adjustments) at June 30, 2011 was $1.1 billion. The 7% increase from June 30, 2010 primarily reflects the fiscal year net income adjusted for the net impact of treasury share movements, the GDR share buyback and dividend payments.

The proposed appropriation from net income includes dividends of $9.3 million for ordinary shareholders ($15 per share or 6% of paid-up capital) and $61.4 million (12% per annum) for preference shareholders.

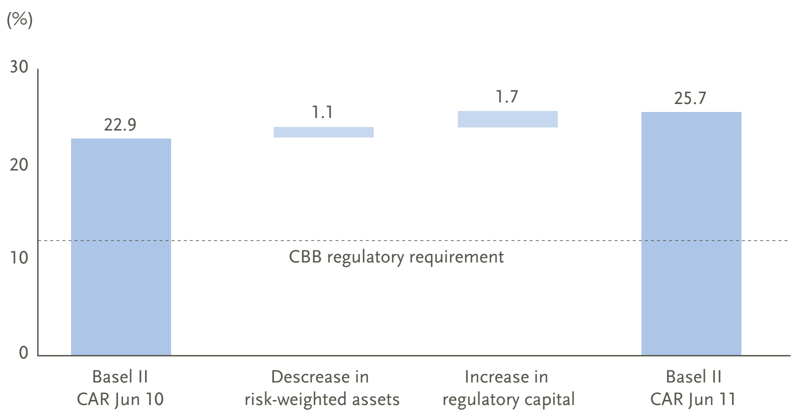
Equity ($m)	FY11	FY10	Change H/(L)
Ordinary shareholders' equity	**443**	400	43
Preference share capital	**511**	509	3
Proposed appropriations	**75**	57	17
Fair value and revaluation adjustments	**31**	28	2
Net book equity	**1,060**	994	66

With effect from October 4, 2010, Investcorp's GDRs were no longer listed on the London Stock Exchange. During H1 FY11, 6.3 million GDRs, representing 7.9% of issued share capital, were repurchased, predominantly through a voluntary tender offer. Following the cancellation of the London listing, Investcorp's shares continue to be listed on the Bahrain Bourse (formerly the Bahrain Stock Exchange). The remaining GDRs that were not tendered have either been converted to ordinary shares or are being held as unlisted GDRs. Holders continue to have the option to convert their unlisted GDRs into ordinary shares listed on the Bahrain Bourse at any time.

REGULATORY CAPITAL UNDER BASEL II

The Basel II capital adequacy ratio ('CAR') at June 30, 2011 increased to 25.7% (June 30, 2010: 22.9%), reflecting both a reduction in risk-weighted assets and an increase in regulatory capital. The reported CAR is comfortably in excess of the Central Bank of Bahrain's ('CBB') regulatory minimum requirement of 12%.

Regulatory capital adequacy ratio



The Basel Committee on Banking Supervision has issued new Basel III proposals to strengthen the resilience of the global banking sector. These proposals focused on the quality and amount of capital, tighter leverage ratios, a minimum 30-day liquidity coverage ratio and principles for enhancing corporate governance. If the proposals are implemented in their current form by the CBB, we do not believe that they would impose additional requirements on Investcorp's liquidity.

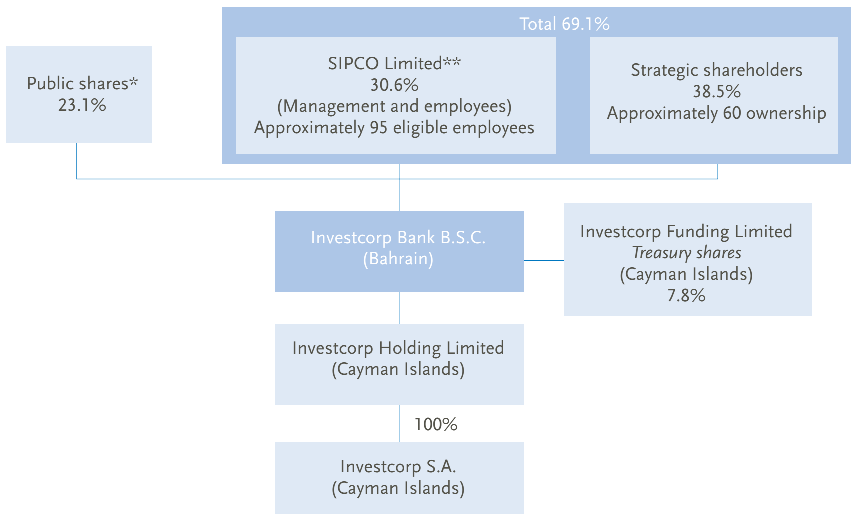
The relevant risk weights across each asset category, applied at June 30, 2011 are summarized below and have not changed during the fiscal year.

Asset class/segment	Basel II methodology June 2011	Basel II risk weight FY11
Corporate investment	Standardized approach ('STA')	**150%**
Real estate investment	Standardized approach ('STA')	**200%**
Hedge funds	Banking book	**150%**
CI and RE underwriting	Standardized approach ('STA')	**100%**
Operational risk	Basic indicator approach ('BIA')	**15%**

SHAREHOLDER BASE

At June 30, 2011, Investcorp remains a management controlled company, with management controlling the voting of 69.1% of Investcorp's ordinary shares in concert with strategic shareholders. The public float of 23.1% is split between owners holding 22.8% in ordinary shares on the Bahrain Bourse, and 0.3% of beneficial ownership in the form of unlisted GDRs.

Ownership structure



* Includes 0.3% beneficial ownership held in the form of unlisted Global Depository Receipts.

** Includes 14.7% in shares that are held for future sale to management and 3% shares allocated but not vested under the Employee Share Ownership Plan. The Group has approval from the Central Bank of Bahrain (CBB) to hold up to 40% of shares for the Employee Share Ownership Plan. On the balance sheet these shares are accountd for as the equivalent of treasury shares.

MARKET CONTEXT

The first half of Investcorp's 2011 fiscal year was marked by strong, if uneven, global expansion, on the back of inventory rebuilding, fiscal stimuli, and growth in emerging markets. The second half, however, brought a variety of shocks and a noticeable global slowdown, with financial risks increasing significantly.

The Japanese earthquake has had a marked impact on global growth. The disaster heavily impacted Japanese industrial production and consumer spending, while US growth also weakened, due to high commodity prices, the end of the inventory cycle, housing weakness and supply chain effects from the earthquake.

In addition, oil prices have risen by over 30% since January, due to heightened political risk as a result of events in the MENA region and elsewhere. The oil output loss is however substantially smaller than the main oil shocks of the last four decades. In June oil prices fell back as the economic outlook weakened and the IEA made the decision to release reserves to counter supply disruption, with GCC countries also raising output. Broader commodity prices have also fallen back from their highs, while food prices have also stabilized after weather-related supply shocks.

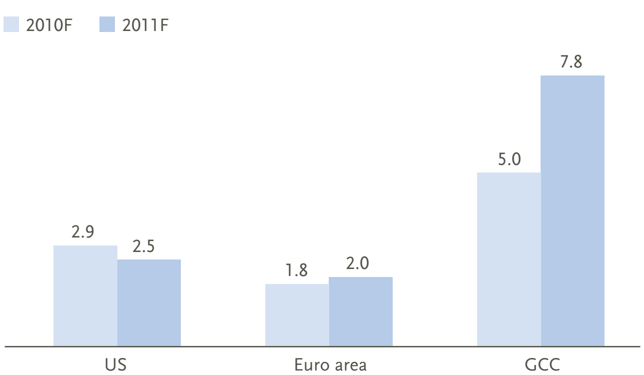
Recent global growth projections for 2011 of 4.3% are broadly unchanged from January, but conceal shifts between countries and regions, emphasizing the uneven nature of the expansion. While advanced economies are projected to grow by an anemic post-recession pace of just over 2%, emerging economies are projected to grow by over 6.5%. While risks have increased, growth is likely to reaccelerate in the second half of 2011, with prospects for 2012 still seen as positive by most commentators. Advanced economies should quicken their pace slightly, led by a rebounding Japan, with emerging economies fractionally slowing.

The developed world's growth in 2012 will be dominated by the need to deal with large structural deficits and financial sector imbalances. The speed of jobs recovery will be the key to consumer spending in the West. Leading emerging economies have generally much more fiscal headroom, but need to tighten macro-economic policies. In early 2011 inflation rose significantly to an average of 2.6% in developed economies, but in emerging economies it jumped from 6.1% in 2010 to 6.9%. While inflationary pressures are likely to ease as raw material price rises are absorbed, core inflation has increased in several major economies and leading emerging economies. The ability of local policymakers to steer the Brazilian and Chinese economies into a soft landing is of critical importance for the global outlook. Interest rates have been held down so far by quantitative easing, but in 2012 the global economy may have to contend with the additional headwinds of some monetary tightening undertaken to avoid further increases in core inflation.

The picture therefore indicates a continuation of the two-speed world we have seen since the global financial crisis, with limited progress made on tackling global imbalances.

GDP growth forecast for US, Euro area and GCC

(%)



Source: IMF

Volatility increased significantly in the last quarter of this fiscal year, with higher correlations across risk assets as markets swung from 'risk-on' to 'risk-off' trades and back. Unprecedented low interest rates had underpinned equity markets, but these have increasingly struggled over the last six months, exhibiting higher uncertainty.

Overall this remains a complex period for investors looking to preserve and grow capital while limiting downside risk. While risks are high and the direction of major assets classes uncertain, the prolonged period of negative real interest rates forces investors into different asset class and risk decisions in order to generate a real yield. Investor preferences in both the Gulf and the West have, not surprisingly, oscillated. Our experience suggests that investors are increasing their allocations to non-correlated alternative assets, as reflected in the recent World Wealth Report, which forecasts that alternatives will comprise 8% of HNWI financial assets in 2012, compared with 5% in 2010.

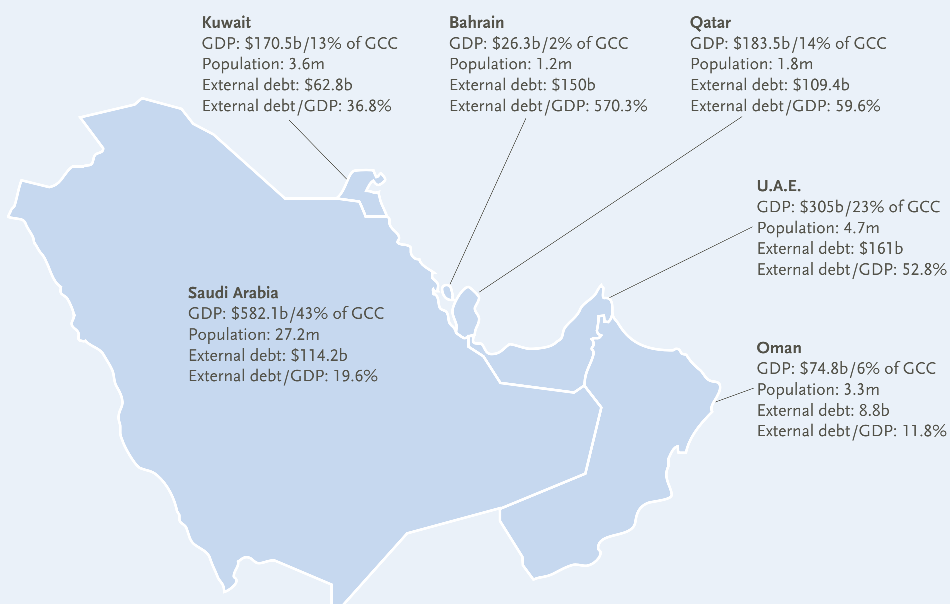
Overall the current investment environment demonstrates the benefits of rigorously selected alternative investments as part of a diversified portfolio delivering alpha while minimizing tail risk. Post-crisis, three themes have moved to the core of investor thinking. First, investors are seeking opportunistic investments giving them exposure that is uncorrelated to the macro environment, where returns are less driven by multiple arbitrage or market timing and more based on operational and investment-specific skills. Second, following some high profile 'blow ups', there has been a step change in the level of transparency investors seek, in terms of both risk profile and especially the alignment of interest with their investment advisor. Third, recent years have given investors very powerful lessons in the trade-offs between risk adjusted-return and liquidity, so they are seeking more asset mix flexibility within alternative investments, as well as strong risk management.

As a result, investors are putting their trust in investment providers who fully meet these requirements, who can be partners with a rock-solid alignment of interest and the demonstrable ability to deliver strong risk-adjusted performance in this complex environment.

THE GULF

Following healthy growth of 5% in 2010, the six Gulf Cooperation Council ('GCC') countries are forecast to experience rapid expansion of 7.8% in 2011, underpinned by a higher oil price and high levels of public spending.

Overview of the six Gulf Cooperation Council countries for 2011F



Source : IIF, IMF and CIA World Factbook
All 'GDP' refers to nominal GDP
Map not drawn to scale

Protests were seen in parts of the MENA region in the first few months of 2011. In response, GCC governments have sought to tackle priority social investment needs and higher oil revenues have helped fund increased government spending. The Saudi Arabian government approved a new $135 billion stimulus package, focused on housing and healthcare, while the GCC approved a $20 billion economic aid package for Bahrain and Oman.

In a signal of positive international market perceptions, credit spreads on the debt of all GCC governments have dropped substantially from the highs seen earlier in the year.

Reflecting higher GCC government spending, the breakeven oil prices needed to balance government budgets have risen significantly, ranging in 2011 from $60-65 for Qatar, $65-70 for Abu Dhabi, $80-85 for Saudi Arabia to $100-105 for Bahrain. This compares with $30-40 for the main GCC states in 2005-6.

Unlike a year ago, the individual economies of the GCC are all performing well. The Saudi Arabian economy is predicted to power ahead with 7.5% growth in 2011. The latest Saudi Arabian spending package comes on top of its ongoing five-year $400 billion public investment program. In 2011 it is predicted that government spending will increase by 31%, but Saudi Arabia's fiscal balance will remain healthy, due to higher oil prices and a 5% increase in crude export volumes. Saudi Arabia is however firmly on a path to higher government spending over the coming years, as a considerable portion of the current stimulus is likely to prove permanent, given that it is generally difficult to withdraw social benefits once introduced.

The UAE economy is forecast to grow by 3.3% in 2011. The federal government is utilizing its fiscal headroom to support the economy and social investment. Trade and tourism are performing strongly, with Dubai in particular benefiting from the broader stimulus underway across the GCC. While real estate loan losses are still working their way through the banking system, the successful debt restructuring of Dubai World and the recent return of the Dubai Government to the international bond markets, have clearly marked a turning point.

GDP growth in GCC countries

%	2009	2010F	2011F
Bahrain	3.1	4.1	3.1
Kuwait	(5.2)	2.0	5.3
Oman	1.1	4.2	4.4
Qatar	8.6	16.3	20.0
Saudi Arabia	0.6	3.7	7.5
UAE	(3.2)	3.2	3.3

Source: IMF

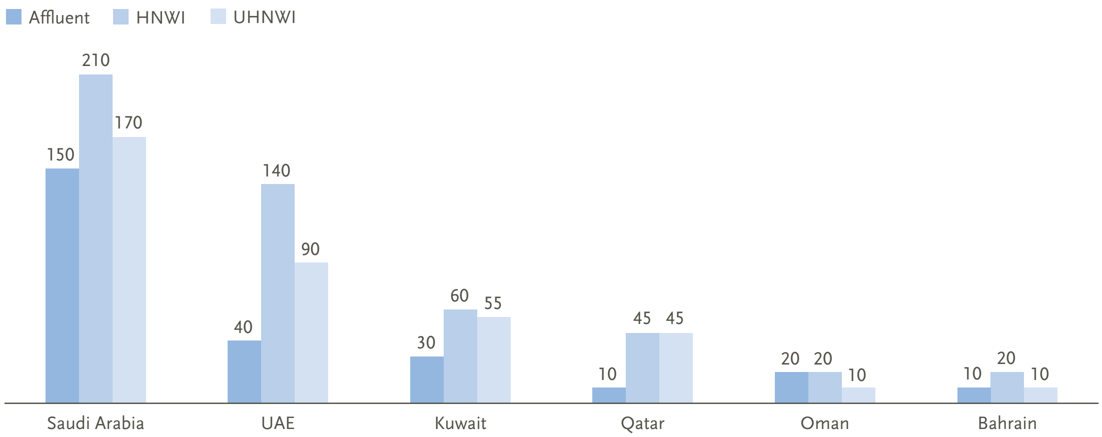
Qatar's increasing gas production is projected to keep its GDP growth in double digits, with 20% expansion expected in 2011. While the additional government expenditure for the World Cup is estimated at $65 billion, the country is expected to remain a strong net external creditor over the years to come. Kuwait is forecast to grow by 5.3% in 2011, more than double its 2010 performance. The government has instigated additional spending measures, including increased public sector wages and lower utility costs. Bahrain's economy was affected by the unrest in early 2011. However, there are now clear signs of business revival, with the country expected to grow at a solid 3.1% in 2011. Bahrain's economy is supported by the country's positive net international investment position, which exceeds 70% of GDP. The three month State of National Safety ended on schedule in June, with the focus moving on to a national dialogue.

Global oil demand remains firm, expected to grow by 1.6% in 2011 and by 2.3% in the developing economies. This followed an increase of 3.2% in 2010, the fastest in 15 years. GCC oil production is forecast to increase to 12.7 million barrels per day during the remainder of the calendar year, up on 11.5 million in 2010. Economic forecasts and futures markets are predicting an average oil price of $106 in 2011 and $105 in 2012, compared with $105 in 2010. Based on an average oil price of $107 per barrel, the IMF estimates that the strong growth in oil revenues will generate a current account surplus of just over $300 billion for GCC countries in 2011. Projected oil revenues give Gulf decision-makers a good window in the coming two years in which to advance the economic liberalization agenda, seeking growth in the non-oil economy and strengthening the private sector.

HNWI wealth in the Middle East grew by 12.5% in 2010, faster than the world average of 9.7%. The Gulf wealth market continues to be marked by strong fundamentals which make it attractive for well positioned advisory firms. Saudi Arabia has the highest proportion of Ultra High Net Worth ('UHNW') households in the world (18 per 100,000 households), with Kuwait fifth, Qatar seventh and the UAE tenth. GCC high net worth investors are now often at the cutting edge of international investment trends, not least because the Middle East has the youngest HNWI population in the world, with 21% of its HNWI population under 45 years old.

Assets per segment in 2010

($b)



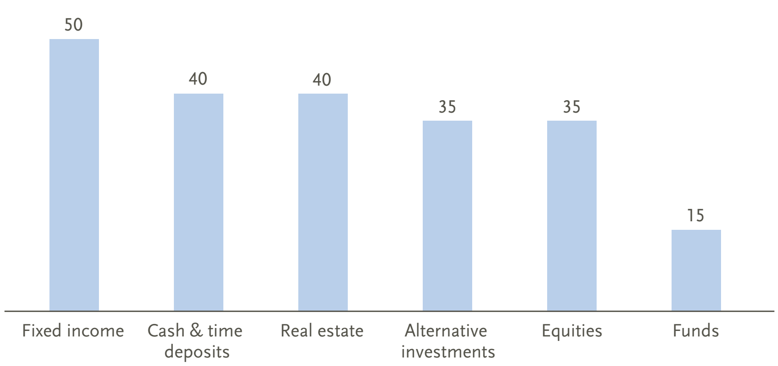
Source: Booz & Company GCC Private Banking Study Middle East 2010
Figures are rounded

Gulf equity markets remain volatile, reflecting risk and liquidity concerns. 2011 has re-confirmed some deep-seated changes in the investment preferences of Gulf investors post-crisis, both in terms of products and providers. Investors seek products that provide current yield and better capital preservation, with balanced exposure to both MENA and developed markets. In addition, a high level of transparency, strong risk management and robust reporting have become indispensable in serving Gulf investors – alongside the high-touch service and trust-based relationships that they have always sought from their investment providers.

According to a Booz & Company GCC Private Banking Study in 2010, this is validated by most private bankers who say that alternative investments are gaining momentum again in attracting capital.

Most preferred asset classes post-crisis (survey response)

(%)



Source: Booz & Company GCC Private Banking Study Middle East 2010

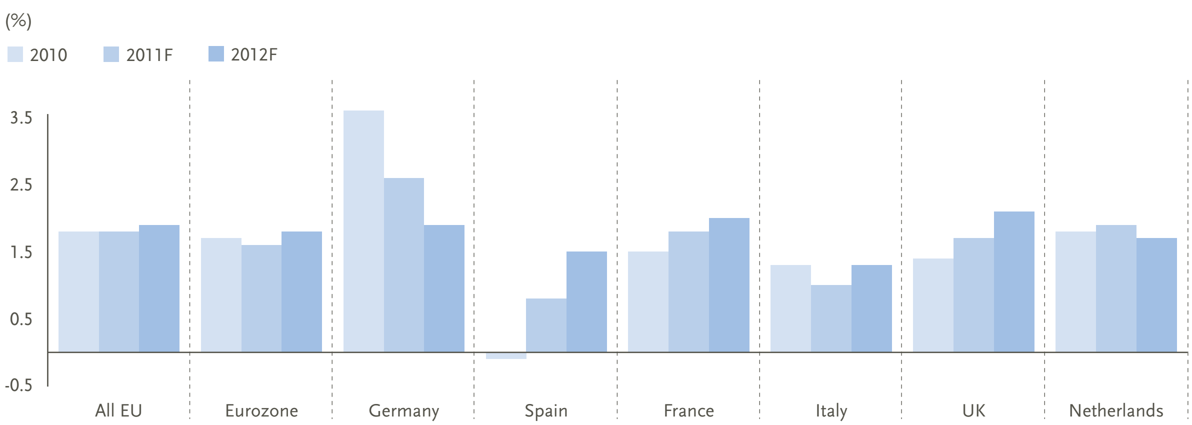
THE US AND EUROPE

Excessive government debt across the developed world represents the biggest risk to medium-term global growth, and the contagion risk represented by the highly indebted peripheral Eurozone countries has crystallized as the single most acute risk to financial markets, with EU/IMF agreements made with Greece, Ireland and Portugal in the past year.

Some form of broader restructuring by Greece is widely seen as inevitable, whatever the precise course of events in coming months. The focus of financial markets will likely remain fixed on contagion and the debt sustainability of peripheral Eurozone countries, with highly volatile and stressed market conditions continuing to reflect uncertainty and risk perceptions. In contrast to the difficulties at the periphery, the core European economies have been enjoying growth, with Germany predicted to grow by 3.2% this year, before a moderate slowdown to 2% in 2012. The strength of the core Eurozone recovery, driven by Germany, France and the smaller northern nations is an often overlooked fundamental fact when considering European investment. The strong growth this year is based on construction and a revival of retail spending, as well as exports to the developing world.

Tax and deficit discipline is also starting to make an impact in core Europe. The consumer revival is projected to slow down next year, but the business climate in the core Eurozone countries looks more attractive than for some years, though further structural reforms remain important. Unemployment in Germany reached a post-unification low in January, compared with a 20 year high in several peripheral countries including Ireland, Greece and Portugal.

Growth outlook for Europe



Figures show annual change in GDP %
All EU is 27 European countries and Eurozone is 16 countries
Source: Eurostat

In contrast to the bifurcated European economic outlook, the US economy faces a combination of short term financial risks, a softening economy and long-term fiscal pressures, underlined by the Fed's downgrading of its forecast for 2011 growth. US consumer spending in May rose at its lowest level for 11 months, weighed down by a still falling housing market, high gasoline prices, high indebtedness, rising inflation and persistently high unemployment. US consumption is forecast to rise 2.8% in 2011 and 3.2% in 2012 – partly because unemployment is expected to drop only slightly from 9.6% in 2010 to 8.3% in 2012.

The US's fiscal options are limited by the fact that a large near-term fiscal adjustment needs to be tackled, as public debt to GDP jumped 16% in 2010 to 62%. There is little consensus around tax or entitlement reform to underpin a credible medium-term consolidation plan. If further setbacks to the US economy do occur, they may inevitably have a serious impact on financial markets and credit market conditions for banks and corporations worldwide. For both the US and Europe, the headwinds from inevitable continuing fiscal tightening will increasingly weigh on the momentum of the recovery as soon as monetary tightening starts in both Europe and the US.

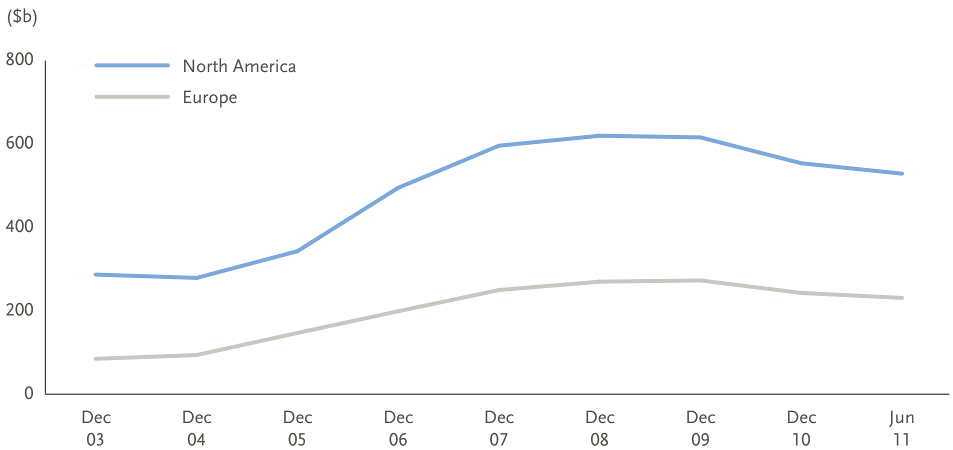
Institutional investors in the West are well aware of the unprecedented nature of current macro-economic conditions, with negative real interest rates, and they, like Gulf investors, are increasing their allocations to investments de-linked from the macro environment, in particular with a low correlation to public equities. These challenging economic conditions are also producing value-creating investment opportunities in alternative assets in both the US and Europe. Seasoned investors are looking to pick situations with strong fundamentals rather than chase yield in poorer quality assets.

BUSINESS ENVIRONMENT

Corporate investment – North America & Europe

The past year has seen a revival of M&A activity, with strategic buyers returning as a result of the strength of many corporate balance sheets, although activity remains well below historical peaks. The attractiveness of high-yield bonds to many yield-starved investors has rekindled the financing market and fostered a positive climate for mid-sized transactions, even though bank finance is still difficult, especially in the US. The return of financing, together with the continuing existence of a huge capital overhang – $485 billion in the US – of available equity ('dry powder') has generally pushed prices up for quality assets.

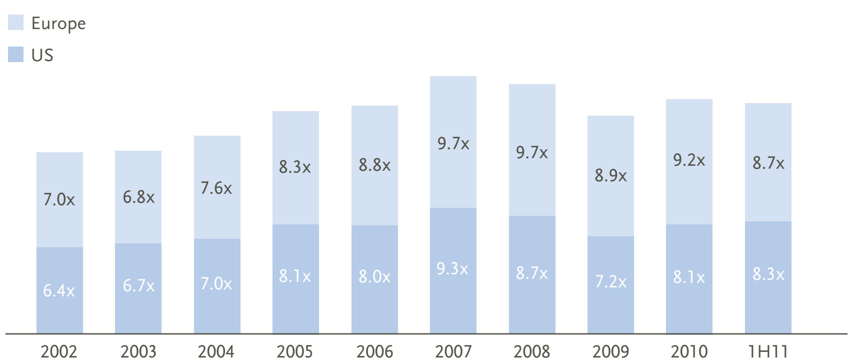
'Dry powder': committed but unspent private equity volume by region of focus



Source: Preqin

The fall in high-yield rates and the availability of bond finance has meant that leverage is once again available as a source of returns. While the total amount of financial leverage is still much less than pre-crisis, high-yield and leveraged loan investors have recently been lending at higher multiples, not much below 2007 levels. The equity percentage used in buyouts under $1 billion has, however, held relatively steady at 51% in 2010, down slightly from 53% in 2009 but still well up on 41% in 2006. A noticeable development in the last year was the return of dividend recaps, totaling at least $13 billion since July 2010, again demonstrating the trend to higher leverage.

Purchase price multiples in US and European buyouts



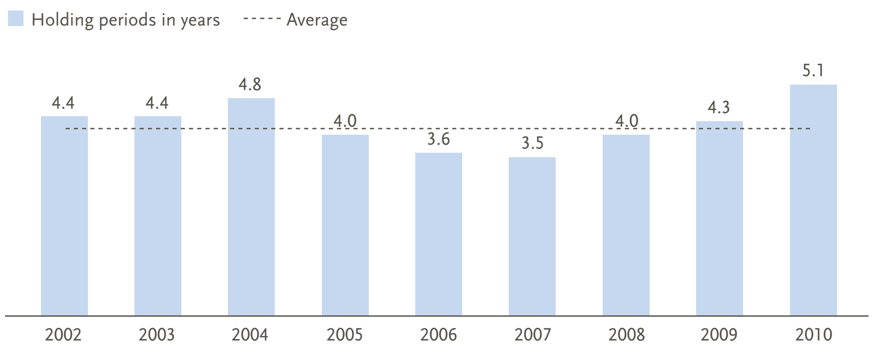
Source: S&P US and Europe LBO Quarterly Reviews

2010 saw the lowest level of fundraising in private equity globally since 2004, clearly lagging the economic recovery. However market analysts continue to predict fundraising of up to $350 billion in 2011 compared with $225 billion in 2010, as institutional investors start to see expanding investment opportunities.

The market for exits developed strongly, with IPO and private placement markets in the US and Europe being generally open for private equity-owned transactions, although with a high degree of volatility in the IPO market. While exit routes

– including secondaries and strategic sales – were open in 2010, it is noticeable that industry holding periods grew to an average of just over five years, the longest for the last decade.

Median holding periods of exits



Source: Pitchbook

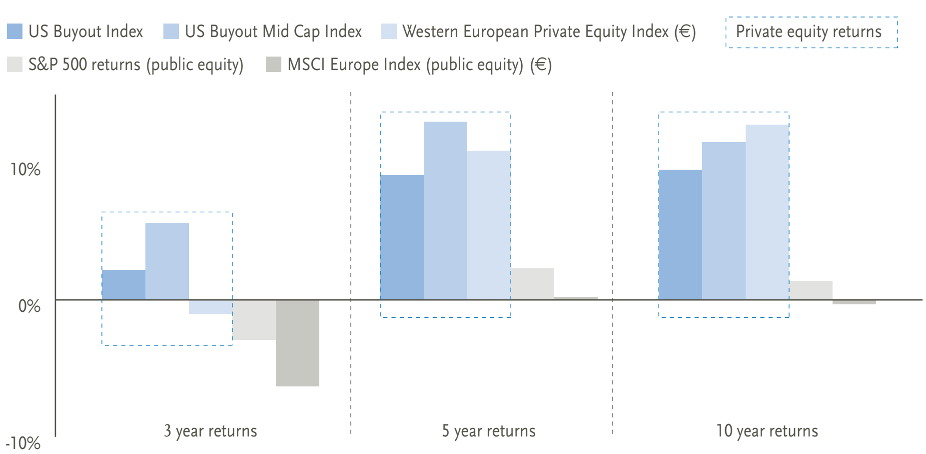
Economic expansion has resulted in improved earnings visibility and stabilized EBITDA in acquisition targets. However, many potential sellers are still demanding high prices, or are holding assets until performance has improved in order to get the prices they want. This has kept the supply of attractive assets for sale relatively tight.

The next year may increase the flow of private equity exits and corporate portfolio sales, as firms need to turn over portfolios and as the price/supply imbalance created by the capital overhang starts to unwind, though predicting the timing of this has proved difficult. By and large, portfolio companies' performance has stabilized and improved, although weak consumer and housing activity in many markets means private equity firms will need to continue working to maximize value in their existing portfolios.

Performance data continues to show that the private equity asset class, while cyclical, has consistently outperformed public markets over the long-term. We believe it is therefore a powerful model for generating attractive returns, provided there is a controlling active owner with a deep understanding of the investment who can make the necessary operational improvements to drive value.

The current environment continues to favor middle market investments, which can perform better in a market where value creation comes from operational improvements, as there are more opportunities to implement these in companies of this scale. Financing is available for midmarket deals and there is a wider range of exit options.

Private equity outperforms public markets



Source: Cambridge Economics. Data as of December 31, 2010

Recent experience shows that successful private equity players must be equipped to source, finance, complete and exit investments in adverse and uncertain conditions. They may need to deploy more flexible deal structures, and be willing to be more opportunistic on investment and exit timing. They must also understand how to create value during the investment holding period, in an environment where the length of holding period needed may be impossible to predict.

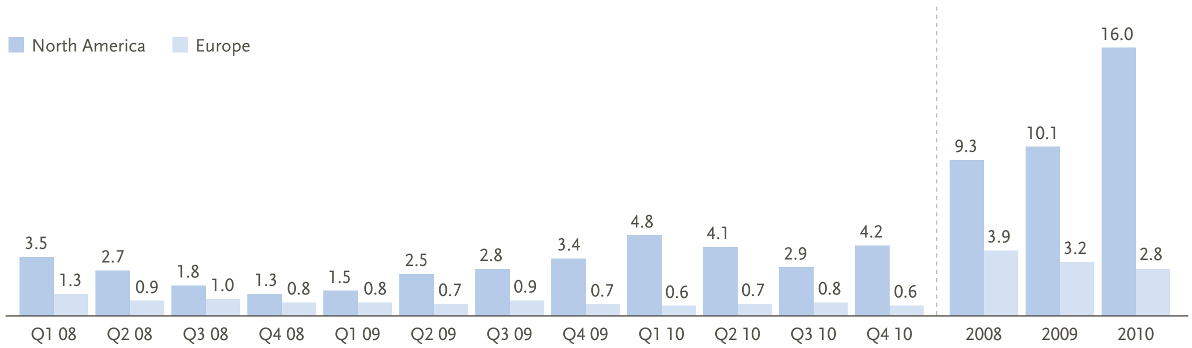
Corporate investment – Technology

The technology sector continues to lead the economic recovery, with information and communications technology enabling productivity enhancements and increased efficiency in business models. Internet-enabled business models in particular are growing rapidly, for both business and consumer applications. While the general global economic outlook is still uncertain, the environment is positive for technology spending. Though corporate capital budgets remain tight, IT spending often takes priority over other capex needs given the powerful transformative role it can play in business growth. Consumers are still seeking new and innovative products and services, with mobile applications and social media, for example, creating huge new markets at great speed. Midsize technology companies have already seen revenue improvement in 2010 and are poised to exploit higher IT spending in 2011.

Valuation multiples in the technology sector have increased over the last 12 months. M&A activity increased significantly in 2010, with, according to Calibre One research, an increase in North American technology M&A volume of 58% over 2009. Financial investors are paying high, competitive entry multiples for quality technology assets.

Technology M&A transaction volume

($b)



Source: Calibre One Index (2011 data not available)

The technology IPO environment has been volatile but generally improving, creating an attractive exit environment for a number of high quality growth companies. In particular, investors are seeking strong online and social media related companies, and there is still a strong backlog of companies that have filed to go public but are not yet listed. The absolute number of technology IPOs in both North America and Europe has been increasing. Calendar year 2010 saw 40 IPOs compared with 18 in 2009. There were 24 technology IPOs in the first half of calendar year 2011, so if the current run rate were to continue, we would expect an increase in calendar 2012 as well. Nevertheless, IPO conditions remain volatile and unpredictable, with a number of new issues trading below their issue price and institutional buyer sentiment subject to rapid change.

The volatility in the public markets has created an opportunity for providers of private capital, especially for growth capital and expansion stage financing. Specifically, for smaller and mid-sized technology companies in North America and Europe, closing a private transaction can take much less time and effort and provide more certainty. However, to be successful in closing appropriate technology investments in today's competitive environment, investors require specialist experience in undertaking complex transactions, as well as a true niche focus and understanding of the specific technology products and fast changing end markets. At a time when valuations of some companies' IPOs have started once again to display bubble-like multiples, successful technology investors must remain highly selective in acquisitions and focus on investing in sustainable businesses that are appropriately priced.

Corporate investment – MENA

Private equity and institutional investments in the MENA region increased from an estimated 26 in FY10 to 30 in FY11. Exits also increased slightly during this period from 10 to 11. The recovery of the private equity industry in the region is a result of this form of financing compared with alternative sources of capital. Debt financing has been limited as credit markets for mid-market companies remained tight. Furthermore, the short-term prospects for listing companies on regional stock markets has diminished owing to depressed valuation levels, trading illiquidity, share price volatility and recently introduced stringent IPO qualification requirements.

Valuations of public equities in the GCC have remained attractive and traded at a discount to emerging market peers thereby setting favorably low valuation benchmarks for those seeking investment opportunities. In the longer term, valuation levels and exits through public listings are supported by the robust regional macroeconomic trends, by the anticipated easing of foreign direct investment in Saudi Arabia and the expected upgrade in classification of the United Arab Emirates and Qatar by MSCI from 'frontier markets' to 'emerging markets'.

The competitive landscape has lessened as local private equity firms have been constrained by balance sheet and liquidity issues, portfolio performance and business model challenges. In addition, some global players who had expanded into the region have now retrenched.

Hedge funds

The 2010 calendar year was a broadly healthy year for hedge funds. The first half of calendar 2011 however brought noticeable headwinds, although it demonstrated the industry's resilience in asset growth and its ability to deliver superior risk-adjusted performance.

The Dow Jones/Credit Suisse Hedge Fund Index finished 2010 up 11.0%. Over the 2010 calendar year, equity strategies outperformed fixed-income funds in general, but mortgage-related strategies were among the best-performing. The volatility of hedge fund performance also declined in 2010 as markets continued to stabilize.

In the first six months of the calendar 2011 year however, the HFRI Fund of Funds Composite Index returned -0.3%. This period – particularly in May and June – saw a range of volatile macro events which led to unstable market conditions. This resulted in a number of strongly-performing strategies, such as CTA/managed futures, energy and technology-focused equity, going into reverse, reflecting the heightened financial risk in the markets.

Significantly however, weaker performance since January has not affected inflows and May 2011 represented the 11th consecutive month of increased allocations to hedge funds globally. Net inflows of $55 billion in 2010 represented the highest net inflows since 2007. In May 2011, hedge fund assets reached $2.6 trillion, comfortably ahead of the industry's previous peak of $1.9 trillion in 2008. 2011 overall is now predicted to see inflows of $210 billion, nearly four times the amount of 2010.

One notable shift in 2011 has been investors' focus on medium and smaller sized funds, after a period when investors were focused on the very largest funds of $5 billion and over. According to the Deutsche Bank 2011 Alternative Investment Survey, 65% of institutional investors consider that the average size of fund to which they will allocate in 2011 will be under $1 billion. It is estimated that over 90% of all institutional money put into hedge funds in recent years has gone into the largest funds, reflecting the desire for an institutional infrastructure, for example in terms of reporting and risk control. However, Investcorp's proprietary research – Emerging Hedge Funds: a Source of Alpha – which compared the performance of funds of $5 billion and over and emerging funds (less than three years old), shows that over the last seven years, emerging funds not only outperformed large funds on a risk-adjusted basis, but that most of this outperformance came in 2008-2009. Thus large funds have proved unable to provide 'safety' when it was needed most.

Over the coming year we believe that investors will continue to seek more comprehensive transparency, and the trend towards separately managed accounts will accelerate. Investors will also expect greater alignment with the fund manager, with the level of co-investment by the manager being an important factor. We also believe that successful hedge fund providers in the coming years will be those who can consistently deliver clear added value through alpha generation. This must be supported by high quality research designed to quantify hedge fund alpha, substantiating how it is generated and systematically tracking investment opportunities.

US real estate

Overall the environment for US commercial real estate is improving and asset pricing has finally hit bottom in most major markets. Nevertheless, values still have a very long road to recovery in comparison with the market peak. The softening in the US economy, and the challenges of high public sector and private debt, represent a significant barrier to anything but a slow and tentative real estate recovery. Asset values are still generally between 10% and 30% lower than at the market high.

Investor demand is strongest for high quality assets in first tier markets (New York, Washington DC, Boston and San Francisco), though some secondary markets are now gaining more interest. Speculative investing is still firmly out of favor. Cash-flow assets are however now attracting significant investor interest, and transactional volume was much stronger in 2010 versus 2009.

An initial, sustained improvement in operating performance is now observable for many commercial assets. Leasing activity continues to improve in many primary markets, but generally it remains an attractive market for tenants in terms of rental rates and lease concessions. Leasing is strongly correlated to the job market and in the current economy relatively few tenants are expanding. Hotel performance improved over 2009, suggesting the beginnings of a business recovery.

Capitalization rates generally tightened in 2010, with target ranges of 6-9%, depending on the market and asset quality. Generally, office capitalization rates have been tightening more than retail ones. Levels of new supply remain low, and over time tight supply conditions are expected to benefit the recovery. Attractive senior financing is available for quality assets. The CMBS market has come back to life, although still at very low volumes, and industry estimates are projecting $30-40 billion of US CMBS issuance in calendar 2011, a substantial increase on 2010's $10 billion. Volatility in credit spreads and regulatory uncertainty are limiting growth in the structured finance marketplace.

This challenging backdrop does provide some selective investment opportunities. Attractively priced quality assets can be acquired in stable sub-markets, and investors can secure good credit investments in cash-generating properties with existing or newly underwritten debt. Difficulties in refinancing assets are also expected to create attractive opportunities: some of the $2.2 trillion of commercial real estate debt maturing by 2017 will be challenging to refinance. A lack of available financing for certain assets is making available good opportunities for mezzanine positions and equity stakes in the recapitalization of investments by distressed borrowers who require capital to de-lever and support debt re-financing. Weakness in real estate debt markets should therefore generate good risk-adjusted investment opportunities.

The coming year will bring further challenges in parts of the commercial real estate market, with supply continuing to exceed demand in some overbuilt markets. Value-creating asset management therefore remains critical, securing expense savings, retaining existing tenants, maximizing revenue and maintaining asset quality and value in a low growth environment.

OUTLOOK

The evidence we see suggests that our clients, particularly in our core Gulf market, recognize the attractive opportunities in alternative assets in an environment characterized by patchy economic conditions, negative real interest rates and continuing elevated financial risks. Investors want to work with providers who can be trusted to put their interests first, and who have demonstrated deep knowledge of alternative assets and a long track record of successful investing through market cycles. The post-crisis environment in the US and Europe is providing selective appealing opportunities for our investment businesses in these markets. Continuing strong economic growth in the Gulf, underpinned by a buoyant oil price, is also supportive both of our placement capacity and of our corporate investments in the region.

At Investcorp we are fully cognizant of the challenges involved in investing successfully and preserving value in the current testing environment, and with our three decades of experience we understand the specialist skills and experience that providers of alternative investment assets need to deploy to identify and exploit the best opportunities.

INVESTMENT ACTIVITY

In FY11, we have maintained strong discipline when making investments within an economic and investment climate that continues to pose challenges. We continue to believe that alternative investments will generate alpha in a portfolio through long-term value creation and that alternatives meet the requirements of our clients for superior risk-adjusted returns. Careful assessment is still required to find those investments that will ultimately deliver results, given the current environment and outlook.

Corporate investment – North America & Europe. We continued to target European and North American businesses in the middle market that have strong cash flow characteristics and are leaders in high growth sub-sectors. We also looked for opportunities to support growth of businesses in our current portfolio, and completed various add-on acquisitions. While we saw an increasing number of interesting opportunities that met appropriate risk thresholds, it has remained a seller's market and strongly performing companies remained highly valued. This fiscal year Investcorp agreed to acquire an investment for $145 million in a transaction that closed in July 2011.

Corporate investment – Technology. We continued to seek control-oriented investments in profitable and growing small to medium-sized European and North American technology companies through growth buyouts, recapitalizations or take private transactions. We have also supported inorganic acquisition-driven growth of businesses in our current portfolio companies. The technology investment market has been active as competition for good deals has been heated and multiples have been increasing. We saw a number of opportunities that fit our investment criteria. However, despite the higher level of activity in the industry, we have assessed opportunities with particular scrutiny, to identify sustainable businesses that are priced appropriately. Overall, in this sector Investcorp deployed $83 million during FY11.

Corporate investment – MENA. We continued to originate, evaluate and structure minority and majority investment opportunities in the MENA region, looking at opportunities mainly in Saudi Arabia, the United Arab Emirates and Turkey. We have been particularly discriminating and rigorous in our investment approach. We targeted defensive industries with proven business models and growth prospects, particularly in agro products, healthcare, transportation, logistics and retail. We also created value in our portfolio companies by evaluating and executing add-on acquisitions. Overall during FY11, the Investcorp Gulf Opportunity Fund I completed an investment for $50 million.

Real estate investment. We continued to look at investments in commercial properties in sectors and markets in the US where we felt good risk-adjusted returns remained achievable and we found buying opportunities in both equity and debt. In equity investment, we targeted high quality and stable assets where these were attractively priced. In debt investment, we investigated opportunities to originate or acquire mezzanine debt and subordinated debt that can deliver attractive risk-adjusted returns. There is a lingering effect of the economic crisis on investment but there have been further signs of stabilization and real estate recovery, albeit slow. Selective investment opportunities have been available, and the exit environment has also improved. Overall, in this sector Investcorp deployed $76 million of acquisition capital during the fiscal year.

INVESTMENTS

In September 2010, the Investcorp Gulf Opportunity Fund I completed its fourth investment, a $50 million investment in **Tiryaki Agro**, the leading trader and supply chain manager of agro commodities in Turkey. The company was founded in Gaziantep, Turkey, in 1965 by the Tiryakioglu family and, today, sources, processes, stores and trades grains, pulses, oil seeds, feed stuff and nuts. Tiryaki Agro is domiciled in Turkey and is therefore strategically situated between agro exporting regions such as Russia, Central Asia and the Black Sea and agro importing countries such as Asia and the MENA region. It has a broad customer base including food processors, retailers, governmental agencies and other agro wholesalers. The agro industry is highly resilient, driven by population and income growth as well as by changes in dietary preferences, and an integrated company such as Tiryaki Agro has distinct competitive advantages in sourcing, logistics and processing. This acquisition was another example of the high quality investment opportunities available in the MENA and wider region in partnership with leading local family businesses in the region.

In August 2010, Investcorp made a $7 million investment, through the Investcorp Technology Partners III Fund, in its portfolio company **FleetMatics**, the leading US provider of fleet management solutions to small and medium-sized businesses, to enable it to acquire SageQuest, a smaller competitor with a complementary subscriber base and a complementary focus on the highly specialized communications and utility enterprise market. In November 2010, Investcorp made an additional direct investment of $45 million in FleetMatics to increase its equity stake and provide capital to the company for potential future add-on investments. This direct investment was placed with clients in the Gulf.

There were two other investments through the Investcorp Technology Partners III Fund during the year. In March 2011, the Fund made a $25 million investment to acquire a majority stake in **eviivo Limited**. eviivo's software enables small and medium-sized hotels (such as bed & breakfasts or boutique hotels) to manage their online and offline bookings, to allocate inventory and allow for flexible pricing, and to invoice and process payments. In April 2011, **CSIdentity** completed the purchase of IdentityTruth Inc. CSIdentity provides proprietary software solutions and data-sets for the identity theft protection market in the United States. CSIdentity funded the acquisition from existing company resources and an additional investment of $3.5 million from the Investcorp Technology Partners III Fund. Also during the year, the corporate investment – technology team invested $2.5 million in three follow-on investments for the Investcorp Technology Ventures II Fund.

In June 2011, Investcorp agreed to acquire a leading US specialty retailer for $145 million in a transaction that closed in July 2011.

During December 2010, Investcorp made a real estate investment with the purchase of **Princeton Forrestal Village**, a 549,328 square foot mixed-use office and retail center located in Princeton, New Jersey. Princeton Forrestal Village was built in 1987 and was significantly remodeled in 2007 with improvements to the exterior and landscaping that have attracted new retailers, services and restaurants. It is a high quality and stable asset in a significant location in a market that has seen relatively less impact from the economic downturn of the past few years. In February 2011, we made two real estate investments in retail properties. These were **Coral Palm Plaza**, a 135,672 square foot shopping center located in Coral Springs, Florida, and **Shops at Tech Ridge**, a 332,845 square foot retail power center in Austin, Texas. The three assets were combined to form the **US Commercial Properties VI Portfolio**, which was placed with clients.

Two further real estate investments were made in the fiscal year. **Residence Inn Manhattan Beach**, a Marriott-brand 176-room extended stay hotel located in Manhattan Beach, California, was purchased in April 2011. **Broadway-Webster Medical Plaza**, a 98,565 square foot medical office complex in Oakland, California was acquired in June 2011. These two assets were combined to form the **US Diversified Properties IX Portfolio**, which was placed with clients.

In April 2011, we launched the innovative **Investcorp Special Opportunities Portfolio** – a portfolio of select investments in distressed credit and corporate restructurings in the United States and Europe. In partnership with best-in-class specialist managers Monarch Alternative Capital LP and Strategic Value Partners LLC, Investcorp carefully identified investment positions in specific companies that have strong franchises, attractive assets and excellent growth potential. The portfolio was placed with clients.

Several companies in our corporate investment portfolio made add-on acquisitions to grow value as part of consolidation-driven value-generating investment strategies. These add-on acquisitions enabled the companies to grow revenues in various ways, by developing larger market share, by finding new markets, by providing improved services or by extending their product range.

In December 2010, **Berlin Packaging** acquired Continental Packaging Solutions, a Chicago-based supplier of glass and plastic containers and closures and other value-added services such as assembly, warehousing and logistics management. The acquisition enabled Berlin to extend geographic reach and expand resources available to its customers. Berlin operates in a sector that is expected to see continued growth as its end markets have underlying demand that tends to be stable and recession resistant. No additional equity from Investcorp or investors was required to complete the acquisition.

Between August 2010 and June 2011, **FleetPride**, the US's largest independent distributor of aftermarket heavy duty truck and trailer parts, took advantage of still-attractive pricing in the present economic environment to make eight add-on acquisitions across the US, adding $95 million in aggregate sales and $11 million of run-rate EBITDA. FleetPride operates in a highly fragmented industry and its market leadership makes it the natural consolidator in its sector. FleetPride is performing better than its competitors and has been well positioned to benefit as the recovery gathers pace. No additional equity from Investcorp or investors was required to complete the acquisitions.

In October 2010, **TelePacific Communications**, a leading provider of integrated voice and data telecommunications services to the small and medium-sized business market in California and Nevada, acquired the customer base and various network assets of 01 Communications. As a result, TelePacific gained approximately 1,000 business customers and enhanced network assets in California. In December 2010, TelePacific acquired Covad Wireless, a broadband fixed wireless internet service provider operating in California and Nevada, gaining approximately 3,500 broadband fixed wireless business customers in California, Nevada and suburban Chicago and expanding TelePacific's services into the fixed wireless market. No additional equity from Investcorp or investors was required to complete the two acquisitions. In Q4 FY11, TelePacific signed agreements to make three further acquisitions, expected to close in Q1 FY12.

In November 2010, **Redington Gulf**, the Dubai-based IT distributor and supply chain solutions provider to the Middle East and Africa closed the acquisition of a 49.4% equity stake in Arena, the second largest distributor of technology and related IT products in Turkey. Arena is a complementary business, having a customer base of more than 8,000 dealers and retailers in Turkey. The $43 million investment was financed by Redington Gulf's cash position, which was made possible due to the initial $65 million capital invested by the Investcorp Gulf Opportunity Fund I in November 2008.

In January 2011, **Veritext** acquired Renillo Deposition & Discovery, a market-leading court reporting company serving northeastern Ohio. This will spearhead further add-on acquisitions in the Midwest region. No additional equity from Investcorp or its investors was required to complete this acquisition.

In April 2011, **Polyconcept** acquired Trimark, a leading Canadian apparel supplier identified by Polyconcept as an ideal partner as part of the company's long-term goal of expanding into the apparel category in North America. Trimark has a proven management team, an innovative product range and is a clear leader within the Canadian promotional market. No additional equity from Investcorp or its investors was required to complete this acquisition.

In June 2011, **Icopal** acquired Wolfin, a high-end German synthetic membrane player. This acquisition has strengthened Icopal's position within the European membrane landscape. No additional equity from Investcorp or its investors was required to complete this acquisition.

REALIZATION ACTIVITY

In corporate investment – North America & Europe, we made five exits during the year. Total realization proceeds to Investcorp and its clients were $783 million.

In September 2010, Investcorp sold **Associated Materials Inc**. (AMI) a leading manufacturer of exterior residential building products across North America. It was sold in a transaction valued at approximately $1.3 billion. As a result of operational and cost structure improvements, AMI had delivered exceptional operating performance throughout the economic cycle and gained market share during the downturn, demonstrating the worth of Investcorp's distinctive value enhancement model. AMI was acquired by Investcorp in December 2004.

In October 2010, **Aero Products International**, the US based designer and marketer of high-end inflatable beds, was sold to strategic buyer Jarden Corporation. The transaction valued Aero at an enterprise value of $70 million. This demonstrated our ability to act opportunistically in a difficult environment to exit a more challenged investment. Aero was acquired in December 2002.

In February 2011, Investcorp sold **Avecia's** Oligo Medicines business. Avecia was acquired by Investcorp and Cinven in 1999 and this was the last of the Avecia businesses to be sold, completing the controlled breakup strategy initiated in 2002.

In April 2011, technical services company **Moody International** was sold to Intertek in a transaction that valued Moody at an enterprise value of $729 million. Moody was acquired in 2007 and under Investcorp's ownership, we significantly improved the strategic and competitive positioning of the business. The commercial proposition of the business was improved with the introduction of consulting, training and in-service inspection capabilities through add-on acquisitions identified by Investcorp. In addition the service offering was enhanced through the introduction of elements such as key account management and hand held electronic reporting tools. These improvements to the business, together with a strong trading environment, resulted in an approximate doubling of the profitability of Moody during our ownership period.

In June 2011, **PlayPower** completed an out of court restructuring of its debt with its creditors. Investcorp had previously written down its investment in PlayPower.

There were five profitable real estate realizations during the year. Total proceeds, together with distributions made to Investcorp and clients from income generating properties, were $282 million. These profitable exits were achieved even though the majority were acquired when the market was at its peak. This is a result both of the selection of high quality properties and active management during ownership.

In September 2010, Investcorp sold its stake in the **Maritime Plaza** office complex in Washington DC to Corporate Office Properties Trust Inc. for $119 million. Maritime Plaza is a two-building Class A office complex of 362,000 square feet adjacent to the Washington Naval Yard that Investcorp acquired in 2005. Investcorp and its partner Brickman Associates added 16,000 square feet of additional space, pared operating costs and obtained full lease capacity.

In October 2010, we sold our stake in **Bravern Office Commons** in Bellevue, WA, part of our investment in The Bravern complex made in 2007, for $410 million. Bravern Office Commons is a 750,000 square foot office complex in two high-rise towers recently leased in full to Microsoft. Investcorp originally invested in The Bravern as a joint venture with Schnitzer West to develop a 1.6 million square foot premium mixed-use development complex. In addition to the office space, the complex includes two luxury residential towers and a retail shopping center anchored by Neiman Marcus. Investcorp retains its stake in the two residential rental towers and the 305,000 square foot luxury retail space.

In March and April 2011, two debt investments, the **GSC Loan Portfolio** and the **Manhattan 8th Avenue Portfolio**, jointly owned by the US Mezzanine Fund I and the Investcorp Real Estate Credit Fund were sold profitably, for $141 million.

In June 2011, we sold our interest in **Desert Passage** in Las Vegas, NV for $13 million. Desert Passage is a 480,000 square foot retail mall that was acquired by Investcorp and its operating partners in December 2003. In October 2004, a portion of Investcorp's equity interest was sold concurrent with a refinancing that fully returned our equity investment with handsome profits thereon. The sale of the minority interest resulted in additional profits for Investcorp and its clients.

We also, in May 2011, recapitalized the **280 Park Avenue** office property with two major New York City office landlords injecting substantial amounts of new equity. The recapitalization effectively ends Investcorp's active role in the ownership of the property, however Investcorp still holds a minimal residual investment in the form of new preferred equity and a future profit participation.

PORTFOLIO COMMENTARY

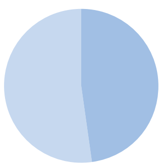
CORPORATE INVESTMENT

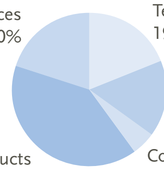
Corporate investment – North America & Europe. At June 30, 2011 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $945 million (17 companies) compared with $890 million at June 30, 2010 (21 companies). The total co-investment amount continues to represent 49.3% of total balance sheet co-investments at June 30, 2011, the same percentage as at June 30, 2010. Please refer to the table in Note 9(a) of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the June 30, 2010 and June 30, 2011 carrying values by vintage years.

The portfolio is balanced between North America and Europe and is well diversified by sector.

Corporate investment – North America & Europe portfolio

At June 30, 2011





The five largest investments represent 60.7% of the total portfolio and 54.1% of shareholders' equity at June 30, 2011.

Portfolio company ($m)	Carrying value June 30, 2011	% of total portfolio	% of total S/H equity
TelePacific	182.0	19%	17%
N&W	139.3	15%	13%
Icopal	108.1	11%	10%
Berlin Packaging	93.1	10%	9%
Polyconcept	50.7	5%	5%
Five largest co-investments	573.3	61%	54%
Remaining co-investments	371.6	39%	35%
Total	**944.8**	**100%**	**89%**

The economic slowdown affected each of our portfolio companies. However, most returned to growth during 2010, with US companies a few months ahead of European companies. Aggregate EBITDA for the portfolio at June 30, 2011 was approximately $1.1 billion, an increase of 15% over the June 30, 2010 figure. Fourteen of our companies have either increased EBITDA or remained relatively flat since the end of 2010. Eleven grew more than 5%. At present, leverage is low and the average debt across the portfolio is relatively modest at 4.7x EBITDA.

More detailed information on all companies in the North American and European corporate investment portfolio can be found in the Portfolio Review section.

Overall, we believe the portfolio is well positioned, comprising companies that have competitive advantages and relative resilience as market leaders with strong cash flow characteristics. We believe that the original investment thesis for each company remains valid, although it may take longer to achieve. We also believe that our portfolio companies have performed meaningfully better than their competitors during this downturn due to the active management that is the hallmark of our longstanding value enhancement model.

Corporate investment – technology. The carrying value of Investcorp's balance sheet co-investment exposure in this sector was $80 million at June 30, 2011.

Corporate investment – technology funds	Fund I	Fund II	Fund III
Fund size	$230 million	$300 million	$500 million
Vintage year	2001	2005	2008
% of commitments drawn	100%	99%	47%
Investcorp co-investment	$43 million	$24 million	$61 million
No. of investments	24	12	6
No. of exits*	21*	6*	0
Returned capital	$206 million	$42 million	$0 million
DPI (distributions over paid-in capital)	**90%**	**14%**	**0%**

*Includes partial exits

In corporate investment – technology, Investcorp's clients have the opportunity to participate on a portfolio basis through dedicated technology funds in which Investcorp is a co-investor as well as, in some situations, on a deal-by-deal basis. Investcorp has raised three funds. The $230 million Investcorp Technology Ventures Fund I was raised in 2001. It is fully invested and in harvest mode. The $300 million Investcorp Technology Ventures Fund II was raised in 2005 and is fully invested, with $297 million deployed and $3 million held in reserve for follow on investments to support the existing portfolio companies. The $500 million Investcorp Technology Partners Fund III was raised in 2008 and is currently 47% deployed.

Corporate investment – MENA. The carrying value of Investcorp's balance sheet co-investment exposure in this sector at June 30, 2011, was $24 million.

In corporate investment – MENA, Investcorp's clients have had the opportunity to participate on a portfolio basis through a dedicated fund in which Investcorp is a co-investor. The $929 million Investcorp Gulf Opportunity Fund I is near the mid-stage of its investment cycle with 49% of its capital committed. This puts the Fund in the advantageous position of having considerable dry powder available for investment at a time when GCC markets are demonstrating their resilience and when changes post-crisis have brought about an increased number of attractive opportunities for growth capital.

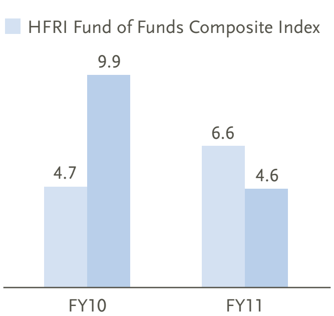
HEDGE FUNDS

Performance

Investcorp's hedge funds co-investment portfolio delivered returns of 6.8% during the fiscal year. The unlevered return on a gross basis, after adjusting for the effects of non-recourse leverage, was approximately 4.6%. The HFRI Fund of Funds Composite Index indicates that the industry generated 6.6% returns over the same period.

Investcorp HF performance vs HFRI

(%)



Source: HFRI

Most of the hedge fund returns were generated in the first half of the fiscal year with some retrenchment in the second half given unstable market conditions in May and June. Overall, the second half of the year witnessed a challenging and difficult market environment. Policy actions of central banks and governments and other cyclical factors frequently changed the direction of the markets. Short term factors such as the earthquake in Japan, the rise in commodity prices and the end of fiscal and monetary stimulus, contributed to the global slowdown. Markets also priced in secular issues such as debt deleveraging in developed markets and the European sovereign debt crisis. Managers in directional hedge fund strategies – long/short equities and macro, as well as equity oriented event driven managers – detracted from value.

Liquidity

Investcorp's hedge funds co-investment portfolio is constructed so that a significant part of it is available for monetization in a three to six-month window.

Time period	Cumulative % available for monetization
Within 1 month	27%
Within 3 months	62%
Within 6 months	70%
Within 12 months	83%
Over 12 months	100%

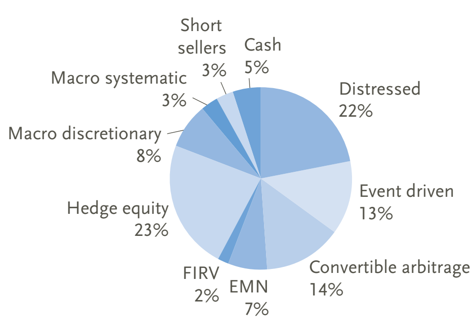
Client portfolios are also constructed with similar guidelines so that during a stress period, the liquidity needs of clients and Investcorp are both satisfied. At June 30, 2011, approximately 62% of Investcorp's hedge funds co-investment portfolio was contractually available for monetization within a three month window. The high availability of liquidity from our hedge funds co-investments is integral to Investcorp's overall liquidity contingency planning. A large portion of the portfolio is invested through separate accounts that, in turn, reduces gating risk.

Portfolio exposures

Our balance sheet hedge funds co-investment portfolio is invested in several external hedge fund managers, including six managers on Investcorp's seeding platform. Total gross exposure was approximately $1,010 million at June 30, 2011, of which $263 million was invested in the six seeded managers. $403 million of the gross investment was financed through non-recourse notes, giving a net balance sheet investment at June 30, 2011 of $607 million. While Investcorp's exposure is directed through several different vehicles, the portfolio is managed on a look-through basis at the strategy level, in order to keep the portfolio consistent with the views of the investment team. Investcorp adopts a top-down view of the investment strategies when designing its hedge fund portfolio.

Investcorp HF co-investment portfolio strategy allocations

At June 30, 2011



During FY11, Investcorp maintained an allocation of approximately 22% to distressed/credit strategies. We have continued to be positive on this strategy but have been moving exposure to late-stage restructurings and post restructured equities. During the course of the year, we increased our allocation to long/short equities by 8%; previously this strategy had been under allocated. This increase in allocation was offset by a decrease in allocation to relative value strategies: convertible arbitrage, equity market neutral and fixed income/relative value; these strategies dropped by about 8%. Allocation to macro strategies remained fairly constant. However, allocation to macro systematic managers increased at the expense of allocation to macro discretionary managers.

Portfolio outlook and positioning

Barring a major systemic risk event, we remain optimistic for hedge fund returns in the next fiscal year. We believe that event driven strategies will provide strong opportunities from corporate activity which is picking up as a result of high corporate cash balances and low interest rates. We expect distressed/credit managers to continue to produce attractive returns, particularly those involved in late-stage restructurings. While the outlook for hedge equities was positive six months ago due to attractive valuations and strong earnings, increased macro uncertainties have led us to a more neutral view. With market trends continuing to be choppy, our outlook on macro managers is neutral. Opportunities have diminished in relative value strategies and we have moderated our view to neutral on these strategies. Due to the exceptional level of long-term macro uncertainty, we expect to further increase our allocation to tail risk mitigation strategies.

Strategy	Outlook
Event	Positive
Distressed	Positive
Hedge equities	Neutral
Macro	Neutral
Convertible arbitrage	Neutral
Fixed income relative value	Neutral
Equity market neutral	Neutral

Source: Investcorp

Single manager seeding platform

Investcorp recently formed strategic partnerships with Ballast Capital Management and Prosiris Capital Management as the latest additions to its seeding platform. Ballast specializes in long/short equity and is one of the few managers that has shown the ability to add alpha on both the long and short side. The investment team at Ballast has more than 40 years of combined long-short equity experience and previously worked together at a multi-billion dollar hedge fund. Prosiris specializes in monetizing long and short investments within the structured credit markets. The team has extensive experience in structured credit trading, credit analysis, structured finance technology and legal and regulatory analysis of credit products. These partnerships bring the number of single manager funds offered to investors to six.

REAL ESTATE INVESTMENT

At June 30, 2011, Investcorp's real estate balance sheet co-investments totaled $189 million compared with $217 million at June 30, 2010. This consisted of $153 million of marked-to-market equity investments and $36 million of debt investments, held at cost less provisions for impairment. The total real estate co-investment amount represents 9.8% of total balance sheet co-investments at June 30, 2011, compared with 12.0% at June 30, 2010.

Carrying values for Investcorp's real estate co-investment by vintage year are shown below. Carrying values reflect the stabilization in real estate valuations as well as the impact of exits and deal placement during the period.

Investcorp co-investments by year ($m)	Carrying value as of June 30, 2011	Carrying value as of June 30, 2010	Change H/(L)
Vintage FY03	**1.1**	0.1	1.0
Vintage FY05	**10.7**	13.3	(2.7)
Vintage FY06	**25.8**	49.5	(23.7)
Vintage FY07	**40.4**	45.4	(5.0)
Vintage FY08	**42.7**	46.2	(3.5)
Vintage FY10	**13.0**	25.9	(12.9)
Vintage FY11	**32.3**	–	32.3
Others	**22.8**	36.3	(13.5)
Total	**188.8**	216.8	(27.9)

The hotel, office and opportunistic sectors have taken the brunt of valuation declines reflecting higher capitalization rates and the current cautious outlook for room rates in the hotel sector, leasing rates in the office sector and a fall in demand for east coast condominiums in the opportunistic sector.

Investcorp currently has 23 active real estate investment portfolios. At June 30, 2011, 10 of these were on or ahead of plan. The remaining 13 portfolios are weighted to those holding hotel, condominium developments and offices in struggling regions where the economic environment has generally slowed. As of June 30, 2011, the carrying value of the investments on or ahead of plan is $101 million and the carrying value of the challenging investments is $88 million.

The five largest co-investments are Commercial VI, Best Western Hotel, Diversified VII, W South Beach and The Bravern.

Portfolio company ($m)	Carrying value as of June 30, 2011	% of total portfolio	% of total S/H equity
Commercial VI	**18.1**	10%	2%
Best Western Hotel	**16.3**	9%	2%
Diversified VII	**15.5**	8%	1%
W South Beach	**15.2**	8%	1%
Bravern	**14.5**	8%	1%
Five largest co-investments	**79.6**	42%	8%
Remaining co-investments	**109.3**	58%	10%
Total	**188.8**	**100%**	**18%**

Overall, Investcorp has concentrated on preserving and/or regenerating value in current real estate assets through aggressive management and strategic capital investment. Our attention has centered on optimizing cash flow and capital reserve management, tenant retention and expense reduction programs to sustain or improve operating performance.

In addition to the deal-by-deal offering of equity and debt investments in US commercial real estate, Investcorp's clients have the opportunity to make debt investments through a fund format. We have raised two funds to invest in and originate commercial real estate debt, in which Investcorp is a co-investor. The $108 million US Mezzanine Fund I, created in FY07, is fully deployed. The $176 million Investcorp Real Estate Credit Fund, created in FY08, is also fully deployed. A third real estate debt fund is in fundraising.

Investcorp has continued to focus on income-producing commercial real estate with a broad diversification across US regions and property sectors and no meaningful exposure to the US residential housing sector. This diversification has been a longstanding and deliberate strategy to lower the overall risk profile of the portfolio, and has proved its value in this period of economic uncertainty.

Real estate portfolio

Investcorp co-investment by year	Properties original/ current	Sector (of remaining properties)	Geographic location (of remaining properties)*
Diversified II	7/3	Office & Industrial	W
Vintage FY03			
Commercial IV	12/2	Office	E
Diversified V	5/1	Office	E
W South Beach – Original	1/1	Opportunistic	SE
Opportunity I	3/1	Opportunistic	E
Vintage FY05			
Commercial V	3/1	Retail	SE
Retail III	8/8	Retail	MW
Retail IV	29/23	Retail	SW
Opportunity II	3/1	Opportunistic	W
Opportunity III	3/2	Opportunistic	E
Vintage FY06			
Diversified VI	2/2	Retail & Hotel	SE/SW/MW
Diversified VII	4/4	Industrial/Office/Hotel	E/MW
Hotel	9/9	Hotel	E/SE/SW/MW
Bravern	1/1	Opportunistic	W
Vintage FY07			
280 Park Avenue	1/1	Office	E
Diversified VIII	5/4	Office/Hotel	W/SW/MW/SE
Weststate	1/1	Opportunistic	W
Best Western	1/1	Hotel	E
Vintage FY08			
W South Beach – New	0/0	Opportunistic	SE
Retail V	1/1	Retail	SW
Vintage FY10			
Commercial VI	3/3	Retail & Office	E/SE/SW
Diversified IX	2/2	Office/Hotel	W
Vintage FY11			
Total	**72**		

*W = West, E = East, SW = Southwest, SE = Southeast, MW = Midwest

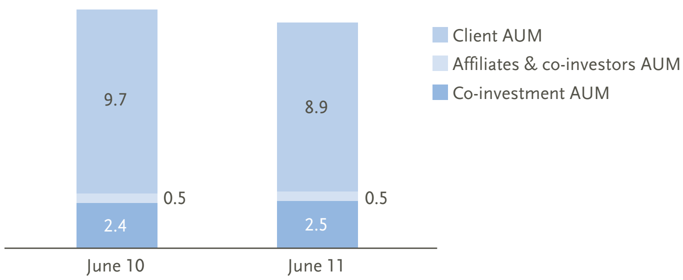
FUNDRAISING

ASSETS UNDER MANAGEMENT

Total assets under management including balance sheet co-investments decreased to $11.8 billion at June 30, 2011 (June 30, 2010: $12.7 billion). Co-investment assets increased slightly from $2.4 billion to $2.5 billion.

Total AUM

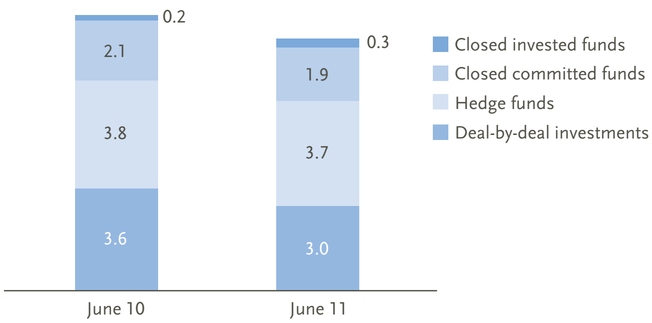
($b)



Client assets under management decreased by 8.4% to $8.9 billion from $9.7 billion primarily as a result of more than $1 billion of realization activity in corporate investment and real estate investment.

Total client AUM

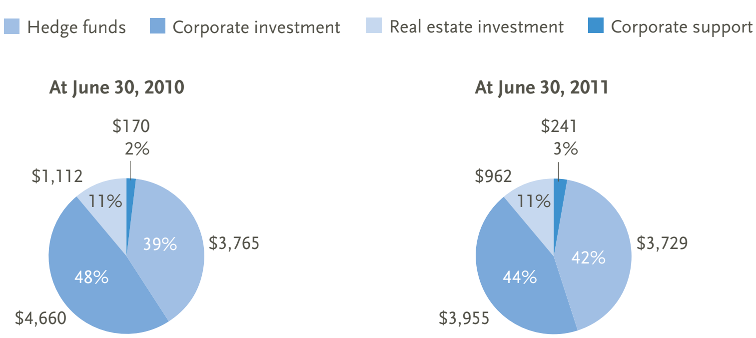
($b)



Corporate investment and hedge funds are the dominant components of client AUM. Corporate investment AUM has declined as a result of realization activity and hedge fund AUM has remained stable. Corporate investment represents 44% of client AUM.

Client AUM

($m)



New fundraising was offset by reductions in AUM from corporate investment and real estate investment exits and redemptions net of performance, resulting in a $0.8 billion decline in client AUM.

Key AUM and fundraising performance indicators (by asset class)

Corporate investment ($m)	FY11	FY10	% Change B/(W)
Client AUM			
Closed-end committed funds	**1,753**	1,853	(5%)
Deal-by-deal investments	**1,988**	2,598	(23%)
Closed-end invested funds	**214**	209	3%
Total client AUM – at period end	**3,955**	4,661	(15%)
Average client AUM	**4,256**	4,581	(7%)
Equity deployed	**228**	346	(34%)
North American and European corporate investment acquisitions deal size*	**236**	337	(30%)
Deal-by-deal placement	**226**	126	79%

* Excludes portion of deals attributable to co-investors on which no fees are earned by Investcorp

Hedge funds ($m)	FY11	FY10	% Change B/(W)
Client AUM			
Fund of funds	**2,648**	2,125	25%
Structured and levered products	**211**	351	(40%)
Single managers	**870**	1,289	(33%)
Total client AUM – at period end	**3,729**	3,765	(1%)
Average total client AUM	**3,862**	3,523	10%

Real estate ($m)	FY11	FY10	% Change B/(W)
Client AUM			
Closed funds (mezzanine)	**206**	253	(18%)
Deal-by-deal investments	**756**	859	(12%)
Total client AUM – at period end	**962**	1,111	(13%)
Average client AUM	**1,037**	1,134	(9%)
Equity deployed (excluding mezzanine debt)	**76**	69	11%
Deal-by-deal placement	**58**	54	8%

CLIENT PLACEMENT

Investcorp continued to provide alternative asset management solutions to clients who are predominantly private and institutional investors in the six GCC countries, but also include a number of international institutions.

In FY11 Investcorp displayed strong fundraising momentum in its core Gulf markets and in its core deal-by-deal placement business. Fundraising in the Gulf was $517 million in the period, up 67% from the $310 million raised in FY10. Corporate investment placement was $226 million, a 79% increase over the $126 million placed in FY10. We placed Veritext, which was acquired in May 2010, and FleetMatics, acquired in December 2010. In real estate investment we placed two portfolios: US Commercial Properties VI Portfolio and US Diversified Properties IX Portfolio. We also placed the new product, the Investcorp Special Opportunities Portfolio. We have also seen increased interest in our hedge funds platform from institutional investors in the Gulf, which contributed to new subscriptions into hedge funds from $24 million in FY10 to $233 million in FY11.

Outside the Gulf, most of our fundraising is investment made in hedge funds from institutional investors. In FY11 we saw a decrease in fundraising from the $2 billion raised in the previous two fiscal years as investors held back from committing to new mandates in the volatile markets of the first six months of calendar 2011. Fundraising outside the Gulf was $234 million in FY11 and the pipeline remains healthy. In total, placement and fundraising activities in FY11 raised $751 million compared to $1.4 billion in FY10.

We continued to focus on high touch client service with our Gulf clients. We increased coverage and frequency of meetings, providing clients with advice on asset allocation strategies in the continuing difficult markets and giving frequent updates on the valuations and performance of their portfolios. We also arranged meetings for clients with members of our product teams and portfolio company management teams.

In July 2011, we agreed a co-underwriting arrangement with a number of Gulf-based institutional partners who will provide a total of $250 million to co-underwrite corporate investment deals prior to placement.

CLOSED-END FUNDS

Investcorp continued fundraising for its third real estate debt fund. This Fund will be established to invest in and originate commercial real estate debt. Fundraising is targeting European and US institutional investors.

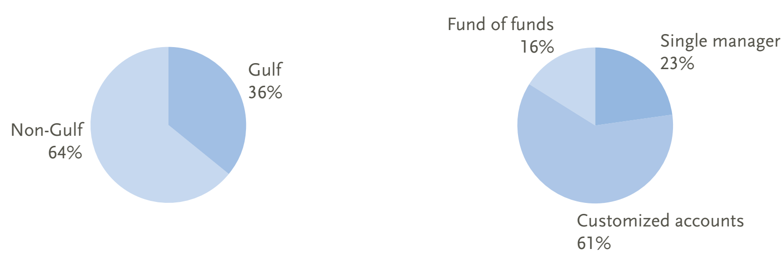
The foregoing information about closed-end funds is being provided to satisfy the requirements of the Central Bank of Bahrain. The provision of the foregoing information does not constitute an offer to sell or a solicitation of an offer to buy securities in the United States or any other jurisdiction. Interests in the foregoing funds have not been registered under the US Securities Act of 1933, as amended, or any US state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

OPEN-END HEDGE FUNDS

At June 30, 2011, hedge fund assets under management were $4.7 billion. $3.7 billion were client assets and $1.0 billion were co-investments.

Investcorp HF assets by region and product

At June 30, 2011



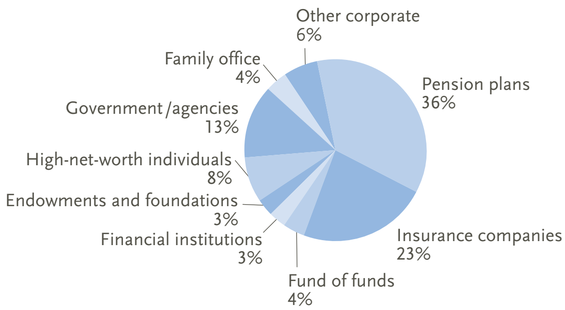
64% of client assets were from US institutional investors and 36% from Gulf HNWIs and institutions. 61% of client hedge fund assets are now invested through customized accounts reflecting the post-crisis trend towards this product. The percentage of assets in fund of fund products has decreased to 16% from 18%. Assets with single managers stand at 23%. Customized accounts and single managers remain an important component of our hedge fund growth strategy.

The percentage of assets from institutions remained stable during the fiscal year. At June 30, 2011, more than 90% of hedge fund assets represented a variety of institutional clients including pension funds, insurance companies, endowments and foundations, and fund of hedge funds. This high level of institutional clients has resulted in a more stable asset base.

During FY11, Investcorp continued several strategic initiatives designed to improve further its client servicing and delivery capabilities in hedge funds.

Investcorp HF assets by investor type

At June 30, 2011



Demystifying hedge funds

Investcorp prepared and launched to clients a series of White Papers based on research into demystifying hedge funds by investigating the sources of hedge fund alpha. This collection of work represents some of the most comprehensive and detailed research into the return drivers of major hedge fund strategies: merger arbitrage, convertible arbitrage, equity market neutral, distressed debt and fixed income relative value.

Hedge fund awards

Investcorp was recognized for its outstanding contribution to the hedge funds industry by Hedge Funds World Middle East. In an award ceremony in Dubai in March 2011, Investcorp won two awards: the 'Special Merit Award for Outstanding Industry Contribution' and 'Best Hedge Fund Manager' for its single manager, Silverback. These annual awards celebrate the leaders, innovators and pioneers in the hedge fund industry who have demonstrated an unparalleled record of success and continually set standards of excellence over the year.

PORTFOLIO REVIEW: CORPORATE INVESTMENT – NORTH AMERICA & EUROPE

Veritext is a leading national provider of deposition and litigation support services to law firms, Fortune 500 corporations and regulatory agencies in the United States. Veritext has its headquarters in New Jersey, USA. It operates in the stable and growing legal services industry through 30 locations across six geographic regions in the largest legal markets in the United States. The company's core product is the conversion of a witness or expert's spoken testimony under oath into a certified written transcript. This is a critical service for a lawyer or general counsel and is used to build the fact base of a case. Veritext's services can be used by both the plaintiffs and defendants in nearly every litigation proceeding. The company also provides other value-added services that capture additional information during the deposition and allow clients to manage the information more efficiently.

Since acquisition we have strengthened the senior management team with the appointment of a new Chief Executive Officer, Bob Cullen and a new head of Information Technology, Frank Licata. An M&A function was created for former private equity professional, Adam Friend. The next priority is to continue to gain market share in the growing deposition services market and expand Veritext's national footprint while pursuing and acquiring accretive tuck-in acquisitions such as Renillo. The acquisition closed in July 2010.

N&W is the only pan-European manufacturer of beverage and snack food vending machines. It offers a full product range in a market otherwise composed of smaller, regional participants. N&W is over four times larger than its nearest competitor, and operates four state-of-the-art production facilities in Italy, Denmark and China.

N&W represents an attractive long-term investment opportunity given its sustainable competitive advantage in the European vending machine market, favorable long-term industry dynamics and its ability to leverage market leadership to expand into adjacent businesses and new geographies. The industry has high barriers to entry and the management team has a track record of out-performance, operational excellence and successful acquisition integration, together with other upside potentials including cost efficiencies and add-on acquisitions.

As a result of the abrupt economic contraction in Europe in 2009, N&W customers reduced or postponed capital expenditure, negatively affecting revenues. Production efficiency and cost controls implemented that year were not sufficient to offset industry volume declines and in December 2009, Investcorp and Barclays Private Equity injected additional capital into N&W and secured lender consent to amend N&W's loan documentation favorably. This provided the company with additional liquidity and financial flexibility for the future. This investment took place following a strategic review that confirmed the company's long-term potential, given structural characteristics of the vending machine market that heighten N&W's competitive advantages.

During 2010, the company embarked on a rationalization of its entire manufacturing footprint, with a view to reducing the number of European plants over the next few years and to relocating a portion of its manufacturing to Eastern Europe over the next three to five years. The closure of the Danish Odense plant was completed in June 2011. Management is now committed to drive further operational efficiency measures such as pricing optimization, product range rationalization and increased low cost country sourcing for pre-assembly activities, as well as driving growth initiatives such as an international expansion strategy that will focus on Germany, the UK, Eastern Europe, South America and Asia.

Consistent with the overall economic sentiment in Europe, the confidence of N&W's customers started gradually to return at the beginning of calendar 2010 and resulted in a solid rebound in N&W's performance during that year. Despite this good recovery, N&W's end market still remains approximately 20% below pre-crisis levels. Customer interviews suggest that operators are only cautiously positive in their machine spend plans for 2011, suggesting that they will continue to focus on refurbishing and optimizing, rather than replacing, existing vending machines. Demand for new machines by European operators is expected to rebound as they see consumption levels increase and resume their expansion strategy. The acquisition closed in November 2008.

CEME is a leading manufacturer of fluid control components for household and industrial appliances such as espresso machines, steam ironing systems and gas boilers. Its main clients are well-established European manufacturers, but it is diversifying its customer base by expanding its distribution network in China, the Far East and North America.

The company's growth initiatives include maintaining market leadership in the coffee and steam markets through continued innovation, such as supplying Nespresso with pumps for the new PIXIE machine, launched in 2011. As the leading supplier to all international producers of portioned coffee, CEME is also benefiting from the growth of this market in the US and Japan. It is also benefiting from the growth of steam ironing in Latin America and Eastern Europe. CEME has demonstrated that it can apply its core solenoid technology to extend its product range to meet new applications in vending and industrial markets. For example it is supplying new micro-pumps dispensing concentrated ingredients in the new Coca-Cola freestyle vending machine. In addition, the company is actively seeking to identify acquisition targets in its core and adjacent markets.

CEME was strongly affected in 2009 by a difficult overall economic environment and, in particular, by a de-stocking in the supply chain for domestic appliances. However, it was able to mitigate the impact of lower sales volumes on profitability by significant cost reduction measures as well as through continuing productivity and efficiency improvements. This allowed the company to largely protect its EBITDA during the downturn. Gross margins increased by more than 8% during 2009 and through to mid-2010 and, despite the raw material price increase from mid-2010, gross margins are now about 3% higher compared to 2008 levels.

As an uncontested market leader, CEME has seen a significant increase in sale volume starting in 2010 throughout its three divisions. This has been driven by continued positive end market dynamics with strong espresso/capsule growth and generally a good retail performance of coffee and steam appliances in most European countries and increasing demand from the US and emerging markets. Sales in 2011 have returned to pre-crisis levels. Although higher raw material costs has put some pressure on gross margins in the last 18 months, the strong rebound in volume has more than offset margin pressure at an absolute profit level. Management has partially compensated for the effect of increased raw material prices by increasing prices in 2011 and expects medium-term growth trends in its end-markets to remain strong, as espresso and pad-filter machines take share from traditional filter coffee machines, and driven by the switch to steam generators from traditional irons. In addition, projects with key customers such as Nespresso, Coca-Cola and Keurig are expected to support top line development going forward. The acquisition closed in July 2008.

Asiakastieto is the leader in the Finnish credit information market having approximately 74% market share as the dominant personal credit information database owner. Asiakastieto's business is rooted in databases, which consolidate data gathered over decades from many sources to create Finland's most comprehensive historical business and credit information database and the country's only personal credit information database. Customers include financial institutions, telecom operators, consumer credit companies, wholesalers, retailers and debt collection agencies.

Asiakastieto's growth strategy is based on leveraging its leading market position, its well established customer relationships, its resilient cash flow characteristics and its experienced management team to drive growth both in its core risk management and credit information services market, as well as in adjacent market segments. Key value creation initiatives include the improvement of sales force effectiveness by penetrating existing customers better, improving transparency, objective setting and monitoring, and marketing tailored solutions to new customers. They also include ongoing investment in new product development, such as the new ID Theft Protection product, the Corporate Links of Persons in Charge service, and the new real estate offering, all of which were rolled out in the last 24 months. In addition, eight key projects were identified as strategic/high potential during an 'opportunities mapping exercise' in 2010. These will gradually be introduced into the market over the next two years.

The company has been performing very well over the past few years, showing resilience to the weaker economic situation in Finland, due to the nature of its business. Asiakastieto is working to counter potential adverse market conditions and improving its competitiveness by increasing the proportion of value-added products it offers rather than relying on pure transactional data to drive sustained sales growth. The acquisition closed in May 2008.

Randall-Reilly is a leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the United States. Its products include B2B trade publications – primarily qualified circulation titles that rank first or second in their sector – live events and trade shows, recruitment products and indoor advertising displays. In addition, its Equipment Data Associates (EDA) business is an industry-leading collector and aggregator of industrial equipment purchase data that provided subscription-based sales lead generation and market intelligence products to the industrial equipment markets.

Randall-Reilly aims to achieve organic revenue growth in excess of the market as a result of its strong market position and breadth of offerings to its advertiser customers, and by implementing a number of growth initiatives across its publishing portfolio. The company is aiming to generate additional revenue through the 'team selling' of bundled products to customers, leveraging its leading market position. The availability of corresponding lead generating data products through EDA gives the company a unique marketing advantage.

The economy in Randall-Reilly's markets continues to show signs of recovery and has rebounded from the 2009 downturn as trucking and infrastructure related construction remain central to the US economy. Trucking tonnage has improved considerably and supply constraints of truck drivers are expected to continue to drive growth in the driver recruiting segment. The construction market, however, remains soft due to a lack of residential and commercial building.

As freight has picked up in the recovery, there has been a lack of qualified truck drivers and this situation is expected to worsen as more drivers are lost in 2011 and 2012 as a result of regulatory changes. Consequently, the biggest turnaround has been Randall-Reilly's truck driver recruiting division which has continued to invest in digest books and online recruiting websites, with exclusive rights in four of the top five trucking rest stop chains. The driver recruiting division has driven the largest increase in sales for the company, as fleets continue to advertise aggressively to hire drivers.

Throughout the downturn, Randall-Reilly continued to invest in its business and completed several strategic acquisitions that have helped broaden the product portfolio and improved the company's presence in its core markets. Randall-Reilly continues to search for acquisitions that increase its scale and product diversification and offer high returns on invested capital. Randall-Reilly also continues to put significant resources into growing the data business and launching ancillary products for EDA that provide enhanced equipment ownership and risk data. Investcorp expects this effort to entrench EDA with its customers and to drive revenue growth in calendar 2011 and beyond. The acquisition closed in February 2008.

Berlin Packaging is a leading supplier of rigid packaging in the United States. From strategic locations throughout the US, the company supplies plastic, glass and metal containers, closures and dispensing systems to customers in the food and beverage, personal care, and healthcare end markets. Through its design division, Studio 111, Berlin also provides value-added services such as packaging design and consulting services, acting as a 'one-stop-shop' for all the packaging requirements of many customers.

Berlin has shown itself to be an attractive investment due to its leading market position, impressive management team, compelling value proposition to customers, growth-oriented culture and attractive industry structure. The company benefits from limited customer, product and geographic concentration, attractive free cash flow characteristics and 'best-in-class' operations and infrastructure. In addition, the company possesses several avenues for future growth such as expansion within existing markets through new customer wins and increased penetration of existing customers, through geographic expansion, by growing the presence of the company's catalog business, as well as through add-on acquisitions.

In February 2010, Berlin acquired All-Pak, a supplier of rigid packaging. Investcorp and Berlin management invested $51.5 million in additional equity. The acquisition significantly increased the company's scale and scope and improved its presence in the north-east US. In December 2010, Berlin acquired Continental Packaging Solutions, also a provider of rigid packaging solutions. This transaction did not require additional equity. The integration process of All-Pak and Continental has been successful with the timing and realization of synergies tracking at, or above, management's plan. Both acquisitions have strengthened Berlin's competitive position and overall scale in the marketplace, providing significant opportunities for synergies and cost reductions. Many potential targets have also noted Berlin's acquisition strategy and are interested in maintaining an open dialogue with Berlin in case the company wants to pursue additional add-on acquisitions in the future.

Berlin achieved strong growth in 2010 due to improvement in the general economic conditions, to new customer wins and to market share gains. The company further benefitted from tight cost controls and through realizing the benefits of synergies from acquisitions. Berlin remains well positioned for continued strong performance through growth, both organic and through acquisition, through the realization of synergies and through continuing cost control. The acquisition closed in August 2007.

Icopal is the leading European manufacturer and provider of roofing products and installation services. With headquarters in Denmark, Icopal currently has 30 manufacturing sites and 85 offices throughout Europe and North America. Icopal's products are used for waterproofing (flat roofs and civil engineering projects), building membranes, pitched roofing and roofing accessories, as well as specialized contracting services within flat roofing.

Icopal's business strategy is focused on developing and consolidating the company's market position in existing markets, complementing its product offering and further expanding in Eastern Europe to secure continued growth opportunities. In addition, management is preparing for a strong rebound when demand recovers, drawing upon an institutionalized 'fill-the-gap' planning process with more than 200 growth initiatives for the period 2010-2013. These include setting up an in-house manufacturing capacity for breather membranes, the continued development of green waterproofing solutions and the systematic penetration of synthetic segments, ultimately ensuring continued above-market performance.

While market conditions gradually improved during 2010 in terms of volume, the inflationary raw materials prices kept EBITDA flat. 2011 is expected to be a year of transition, on the one hand marked by structural improvements and select pockets of growth, on the other facing material raw material price inflation.

During the economic recession, management reduced emphasis on Icopal's strategy to grow through add-on acquisitions in order to focus on protecting the core business. Now that market conditions have stabilized and restructuring measures have been implemented, management has again started to look at acquisition opportunities, making four attractive add-ons over the last 18 months. These bolt-ons included leading Austrian-Hungarian bitumen membrane producer Villas and Wolfin, a German high-end synthetic player. This acquisition has strengthened Icopal's position within the European membrane landscape. The acquisition closed in July 2007.

Armacell is a major supplier of engineered foams and expanded rubber products used in construction, industrial, sports, leisure and recreation, automotive, packaging and a wide range of custom applications. The company is the undisputed global market leader in elastomeric insulation foams. Based in Germany, the company has a network of 18 manufacturing facilities in 12 countries.

Armacell is undergoing a significant business transformation, having formed two divisions, Global Insulation and Technical Foam, and adding significant talent (including a new top management team), as well as rationalizing its manufacturing footprint. The company is now positioning itself to leverage its economies of scale and scope, to develop and execute global programs and to respond to local market needs.

Industry activity levels in Armacell's traditional markets are currently showing a positive top line trend, although differences in performance exist for various countries and segments. Furthermore, management is implementing a number of sales initiatives both geographic and product focused. Armacell has also increased penetration of emerging markets, including new capacity in India and a joint venture with Zamil Industrial in Saudi Arabia. Armacell expects to achieve above-market growth through these initiatives, supported by R&D and product development in markets such as industrial, marine and petrochemical. Since the second half of 2010, the company is seeing strong inflationary pressure on raw material prices. To mitigate margin pressure from this, management has been increasing prices as well as introducing a program to reduce costs and complexity. These initiatives will underpin the company's long-term growth potential. The acquisition closed in January 2007.

FleetPride Corporation is the largest independent distributor of aftermarket heavy duty truck and trailer parts in the United States, with 220 distribution branches in 40 states. Since acquisition, the company has launched several key strategic initiatives to improve sales force and operational capabilities and to position itself for future growth. Areas of particular focus include rationalization of pricing policies, improving FleetPride's sourcing and supply chain, extending its national accounts and increasing private brands exposure. These initiatives have enabled FleetPride to realize market share gains. In addition to growing organically, management remains highly focused on pursuing strategic add-on acquisitions.

Over the past 18 months, FleetPride has completed 10 acquisitions, adding approximately $100 million in aggregate sales and $11 million in run-rate EBITDA. These included the recent acquisition of Midway Truck Parts in May 2011, the largest acquisition by FleetPride under Investcorp's ownership. In December 2009, FleetPride hired a new Chief Executive Officer with a strong operational background and a new Chief Financial Officer who have launched a number of operating initiatives necessary to improve profitability and general cash flow. Significantly, management has centralized supply chain management and established a national pricing department to change the national pricing model and better control margins. In 2010, FleetPride grew point of sales gross profit margins by approximately 100 basis points.

2010 represented a turning point for the aftermarket truck parts market, when pent-up demand started to convert to a pick up in volume. This trend has continued into 2011 and management expects industry levels to return to pre-crisis levels by 2012.

FleetPride will continue to focus on expanding market coverage, pursuing additional strategic acquisitions, developing its national accounts and private brand growth plans, and continuing to improve margins through rationalization of pricing policies and better purchasing and sourcing strategies. The company will continue to strengthen its organizational structure to be better positioned to drive its strategic plan. The acquisition closed in June 2006.

Orexad (formerly 'Orefi') was formed from the merger of Orefi and AD Industrie to create the largest distributor of industrial supplies in France. Orexad now has approximately 250 distribution outlets, including 67 distribution outlets acquired in 2007 from Anjac, the third largest competitor in the French market, with a presence across all regions of France.

Following a sharp decline in sales in calendar 2009 due to the economic environment, management implemented a broad set of commercial action plans, gross margin expansion initiatives and cost cutting measures. These achieved annual benefits in excess of €20 million. Sales recovered slowly in calendar 2010, but profits increased as a result of cost reductions.

In the first five months of calendar 2011, industrial production – the biggest driver for the industrial parts and supplies markets – was up approximately 6% in France. Orexad is benefitting from this industry momentum as well as leveraging its market leading position and best-in-class key account organization to continue taking share from competitors. The company is also continuing its strategy of improving gross margins through continued focus on sales force training, pricing initiatives and further improving the penetration by its own label brand. As a result, in the first half of calendar 2011, Orexad experienced strong sales momentum and growth across all networks and continued gross margin improvement. As a result, EBITDA is significantly above budget and previous periods.

Orexad is also focusing once more on its add-on acquisition strategy and is reviewing several European candidates. The acquisition closed in June 2006.

Autodistribution is the leading independent distributor of auto and truck spare parts in France, and is the largest independent auto parts distributor in Europe. The company supplies products to all types of garages, including an affiliated network of 2,200 garages and 400 body repair shops, as well as to truck repair shops and truck carriers and fleet managers.

Following the sharp downturn in 2009, activity stabilized in calendar 2010 and has been recovering slowly since the beginning of the year. However, the auto parts market remains soft. The restructuring of Autodistribution's balance sheet, which took place in March 2009, has provided the company with a stable and de-risked financial position.

Management has started the implementation of a far reaching Profit Improvement Plan targeting €30 million of cumulated improvements by the end of calendar 2013. These initiatives include rationalization of the regional organization, turnaround of the loss making subsidiaries, productivity improvements, improvements in transportation and logistics costs, and gross margin increases. The management team has been significantly strengthened and the company is on track to achieve its target. Since the beginning of calendar 2011 activity has been picking up and EBITDA is up significantly on last year.

Management is also carefully monitoring its international presence, seeking long term solutions for its Italian and Polish operations and reviewing strategically attractive acquisition opportunities. The acquisition closed in March 2006.

CCC Information Services is the market leader in the United States automotive insurance claims software and information solutions industry. It provides 'mission critical' information and software solutions to parties involved in the automotive insurance claims process. CCC's products are sold on a subscription or transaction basis under multi-year contracts, resulting in a recurring and highly predictable revenue stream.

Overall transaction volumes in the industry held up during the downturn as economic climate usually has limited impact on this type of business. With many key customer renewals completed, CCC is focused on future organic growth, with a particular emphasis on several new product introductions in calendar year 2010 that have started to show benefits and are expected to drive meaningful uplift in future years. In particular, growth in the autobody shop business is being driven by the successful introduction of a new shop management solution, CCC One.

In 2011, CCC started to make significant investments in product development. It hired a new Chief Technology Officer to upgrade new product development and to improve technology processes. It has expanded R&D spend on new product introductions and launched a wholly-owned subsidiary in China to develop a new product suite based on CCC technology using local development and sales teams. In addition to growing organically, management continues to pursue potential add-on opportunities to expand into new end markets and countries. The acquisition closed in February 2006.

Polyconcept is the world's largest supplier of promotional products, created by the combination of Polyconcept, Europe's leading generalist supplier of wearable and non-wearable promotional products, and Global Promo Group Inc., the number two non-wearable promotional product supplier in the US.

After facing difficult market conditions in 2009, Polyconcept has recovered well and experienced a return to healthy growth rates in 2010 and the first half of 2011. Management expects margins to improve as a result of new product development, of a more favorable product mix and of price increases to offset an inflationary outlook, especially in China. The company reacted promptly to the slowdown by adapting its business model and fixed cost base to the new environment. A number of operational initiatives, including rationalization of local offices, a shared services platform in the US and procurement centralization in Shanghai, resulted in significant cost savings. At the same time, Polyconcept has focused on strategic projects to foster the long term growth prospects of the group. It has set up a consolidated and harmonized sourcing platform across the group to capture synergies, adapt to new market conditions, develop scalability and build a commercial competitive advantage. The company has revised its product offering to address both the premium and the value segments and this has shown considerable success. Polyconcept has also invested in developing further its promotional branding capabilities in Europe.

In April 2011, Polyconcept acquired Trimark Sportswear Group, a leading Canadian apparel supplier. This transaction did not require additional equity. This marks Polyconcept's fourth acquisition since 2005 and its move into the promotional apparel category in North America. With the addition of Trimark, Polyconcept North America (PCNA) now becomes Canada's largest supplier of both apparel and hard goods under four industry leading brands (Leed's, Bullet, JournalBooks and Trimark).

Polyconcept benefits from leading market positions in Europe and the US, strong and resilient cash flow generation and a strong liquidity position. Polyconcept continues to focus on increasing market share by expanding or tailoring product offerings, by improving the positioning of individual companies within their markets using separate 'value' and 'premium' products and services, and by taking advantage of weak competition. The acquisition closed in June 2005.

SourceMedia, combining both the SourceMedia and Accuity businesses, is a leading provider of professional information for the banking, financial services and related technology markets. Its products include some of the leading titles in American business publishing, such as American Banker, The Bond Buyer, and Investment Dealer's Digest. Accuity is the premier provider of subscription-based data solutions that enable financial institutions and other organizations to facilitate accurate and efficient payment transactions and to manage their risk by ensuring that they and their clients are in regulatory compliance.

Conditions in SourceMedia's end markets have begun to stabilize and improve. However, the transformational shift from print to online in the publishing industry has continued to reduce overall advertising demand. The company continues to shift from traditional advertising-based print publishing to a community and content-focused enterprise that will deliver products to its customers in both print and electronic formats and has had some success in introducing new products and revenue streams in the past year. The restructuring of SourceMedia's cost base has removed significant costs and the flow through to bottom line revenues is expected to be very high given the operating leverage in the business. Accuity has experienced strong revenue growth in calendar 2010. It has benefitted from increased regulation in the financial services industry which has driven customers to focus on efficiencies that Accuity's solutions provide. Accuity has also invested significant resources in continued international expansion and new product introductions and has begun to see the benefits in its top and bottom lines.

Overall SourceMedia and Accuity's core businesses, market positions and brand awareness remain strong and both companies remain very well positioned to take advantage of the improving outlook. The company will continue to evaluate, selectively, opportunistic add-on acquisitions in support of a diversification strategy, a unified customer database and an enhanced position in the marketplace. The acquisition closed in November 2004.

TelePacific is a facility based Competitive Local Exchange Carrier (CLEC) providing telecommunications services to small and medium sized businesses in California and Nevada and has its headquarters in Los Angeles. TelePacific is the leading CLEC and the largest alternative telecommunications provider to AT&T and Verizon in its market.

Despite the lagging economic recovery in TelePacific's markets, which has slowed new customer growth and reduced telecommunication usage by existing customers, the company has been successful in growing revenue and performing very strongly relative to its peer group. TelePacific has reduced its industry-leading customer churn rates through superior customer care initiatives, has grown sales and has maintained strong profit margins.

Over the past decade, TelePacific has enjoyed attractive growth and in fiscal 2011, it grew revenues through organic market share gains as well as acquisitions. Recently, attractive acquisition opportunities have emerged that have provided revenue growth, additional scale and/or a strategically important platform. In the last year, TelePacific has acquired or agreed to acquire five companies including the small and medium sized business unit of 01 Communications, a California-based CLEC; Covad Communications' Covad Wireless unit, a fixed wireless broadband data services company; TeleKenex, a provider of Hosted VoIP and managed data solutions to small businesses nationwide; and OCiX Data Center, a data center located in Orange County, CA. In June 2011, TelePacific entered a very promising new geographic region by agreeing to acquire Tel West, a Texas-based CLEC. All of these transactions were financed through a combination of cash on hand and additional debt. These investments will help TelePacific broaden its product options, build scale and reduce its cost structure to continue to succeed in the competitive telecommunications industry.

In addition to the acquisitions, TelePacific has made a significant investment in the rollout of Ethernet-over-Copper (EoC), which provides customers high bandwidth product offerings in a more cost effective way. Overall, the company has improved its competitive position over the last year through new technological platforms in order to provide higher bandwidth with less cost. TelePacific has also broadened its product offering with products such as data centers and hosted VoIP, deepened its presence in existing markets and entered a new geographic market with attractive growth and profitability characteristics. TelePacific's outlook remains positive as it has positioned itself to compete and succeed in its market. The acquisition closed in April 2000.

Stratus Technologies is a global solutions provider focused exclusively on helping its customers achieve and sustain the availability of information systems that support their critical business processes. Based upon its 30 years of expertise in server and services technology for continuous availability, Stratus is a trusted solutions provider to customers in manufacturing, life sciences, telecommunications, financial services, public safety, transportation and logistics, and other industries. The acquisition closed in February 1999.
