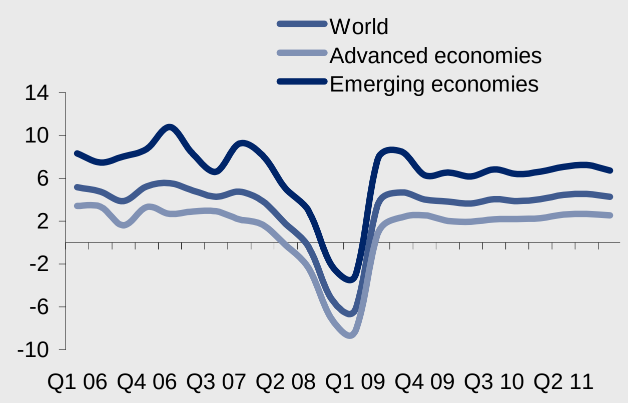
EXECUTIVE SUMMARY

Business Environment

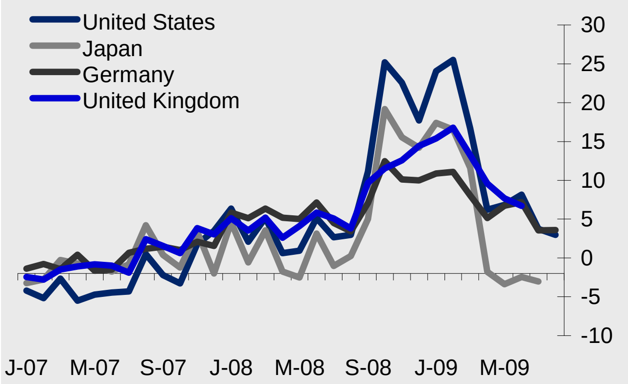
There are signs of recovery from the deepest global recession resulting from the biggest financial and economic dislocation since the 1930s. In the six months ended December 2009, credit and equity markets rallied, world trade and industrial production improved and the IMF's forecast for world output in 2010 has been revised up to 4%. Consensus estimates suggest that developed economies will gradually recover and emerging and developing economies will grow strongly.

Global GDP Growth
(%, quarter over quarter, annualized)



Source : IMF WEO January Update

Financial Stress Indicators



Source : IMF World Economic Outlook October 2009

Financial stress indicators consist of seven financial market variables

Although the pace and strength of economic recovery into 2011 is still somewhat uncertain, the enormous amount of government fiscal and monetary support and a globally coordinated approach to dealing with the cause and effect of the credit crisis makes it likely that the global economy will revert to sustainable growth. The US Fed appears committed to completing its program of credit easing, keeping rates at current low levels for an extended period of time, and only moving to a more hawkish monetary approach when a positive economic outlook is more visible and the spectre of deflation is not a concern anymore.

This positive picture is tempered by the continued challenges of high unemployment and high fiscal deficits in advanced economies. In addition to further deleveraging and credit rationing by a financial sector that continues to slowly recapitalize, the outlook is clouded by the prospect of inevitable regulatory changes affecting proprietary activities, capital composition and liquidity.

The problems that still exist in the financial sectors of many countries will likely mean that markets will look to alternative sources of capital from private equity, hedge funds and sovereign wealth funds.

Financial Performance

During its last fiscal year to June 2009 (FY09), Investcorp focused its energy on clients, capital and cash through a concentrated program of client meetings, a successful deleveraging of its balance sheet and maintaining high levels of liquidity. Management’s priority for the current fiscal year-end in June 2010 (FY10) is to return the Company to profitability.

Investcorp earned net income of $60.2 million for the first half of FY10 (H1 FY10), marking a strong turnaround compared to a net loss of $511.1 million in the same period of the previous fiscal year (H1 FY09). This quick rebound to profitability following the large one-off losses of FY09 is a strong message to stakeholders that Investcorp is progressing firmly upon a trajectory of recovery in its profitability and growth, following the difficult economic and financial conditions of last year.

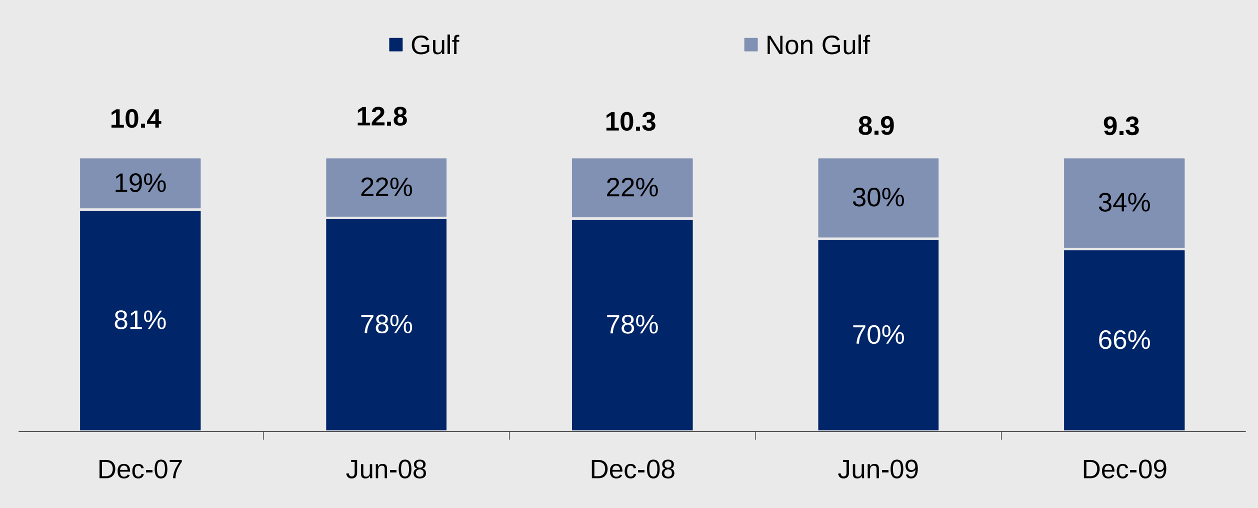
Net operating income (excluding unrealized fair value changes) for the period was $57.4 million, reflecting a continuation of the improving period-over-period trend compared to net operating losses of $369.2 million in the first half of Fiscal 2009 (H1 FY09) and of $63.4 million in the second half of Fiscal 2009 (H2 FY09).

Transactional flow in US and Europe has started to pick up but continues to be muted relative to earlier years. Deal flow in the Gulf has been strong with the Gulf Growth Capital team making its third investment, Gulf Cryo, in November 2009. Activity fee income of $17.7 million in H1 FY10 was also buoyed by new offerings to Gulf clients, including the placement of an additional investment in Moneybookers, one of the successful investments within the Technology Private Equity portfolio. The success of this offering is evidence of an increasing appetite from investors in the Gulf for attractive investment opportunities, on a risk-adjusted basis.

Investment activity in H1 FY10 is fully discussed in the **Investment Business Review** section.

New hedge fund mandates helped client assets under management (AUM) grow by more than $400 million from $8.9 billion at June 2009 to $9.3 billion at December 2009. The proportion of non-Gulf AUM is now 34%.

Client Assets Under Management (in US$ billions)



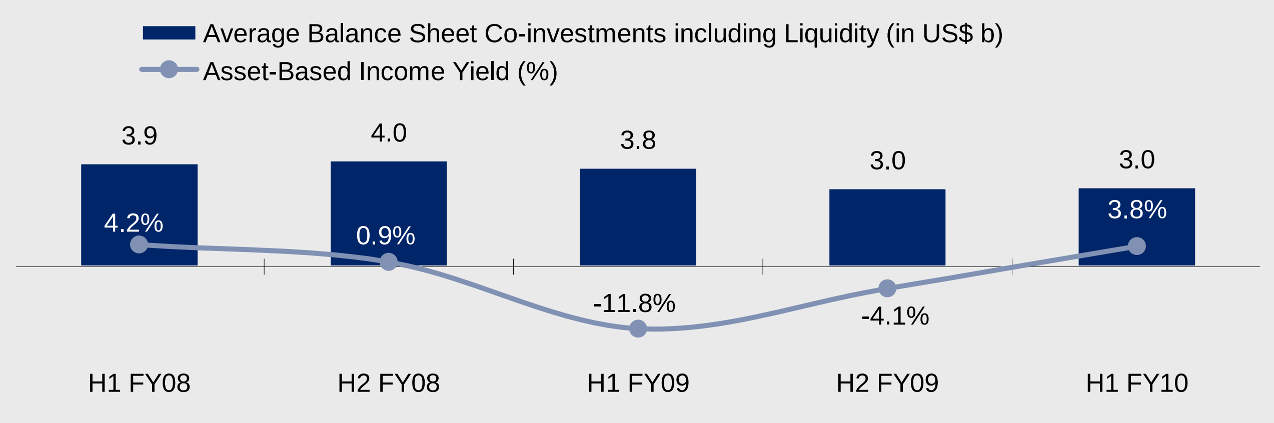
Client activity in H1 FY10 is fully discussed in the **Client Business Review** section.

Returns in Investcorp's hedge funds program were very strong in H1 FY10 at 15.0% equivalent to 30.0% per annum, resulting in higher income on Investcorp's balance sheet co-investment in hedge funds, higher performance fees from clients' hedge fund AUM and success at winning new mandates for Investcorp's hedge fund platform. Management fee income increased in line with the growth in AUM to $49.0 million in H1 FY10.

Unrealized gains related to mark-to-market valuations of Investcorp's private equity and real estate co-investments amounted to $2.8 million compared to unrealized losses of $141.9 million in H1 FY09 and $206.2 million in H2 FY09. This reflects a stabilization of, and turnaround in, private equity valuations in line with the trends seen in public equity markets and within the private equity industry overall. Investcorp continues to maintain a conservative valuation profile for its real estate co-investments in line with current dynamics within the US commercial real estate market.

The upturn in average yields on balance sheet co-investments reflects strong hedge fund returns and stabilization of valuations in private equity, offset by a cautious outlook on the US real estate environment.

Average Yield on Balance Sheet Co-Investments

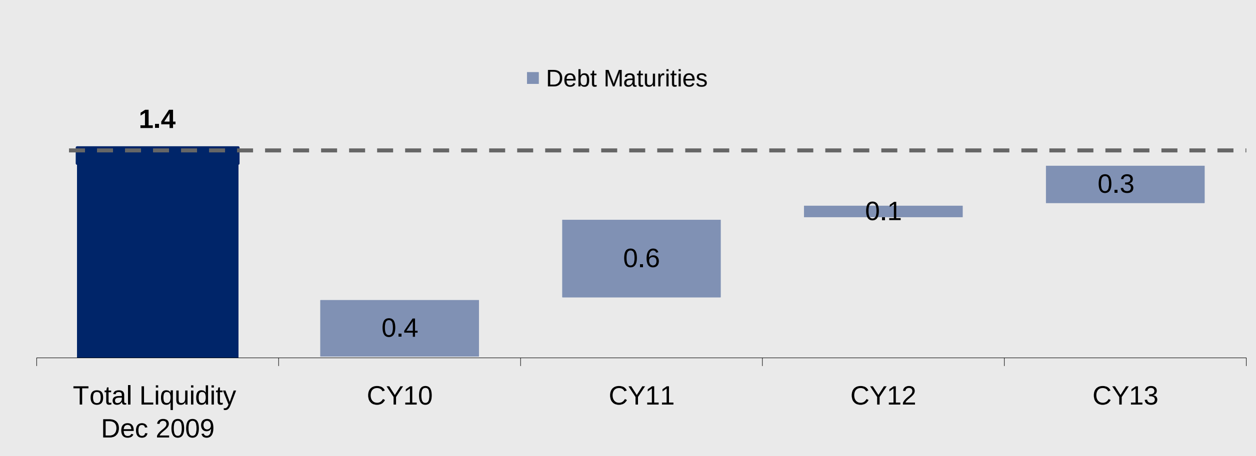


Total operating expenses inclusive of accruals for incentive compensation were $100.7 million. Management's focus on reducing operating costs and the resulting improved operating efficiencies have led to a 23% decrease in fixed operating expenses from $89.5 million in H1 FY09 to $68.6 million in H1 FY10. Interest expense has declined $33.3 million from $62.1 million in H1 FY09 to $28.8 million in H1 FY10 in line with lower LIBOR levels and the continued deleveraging of Investcorp's balance sheet.

Total assets declined from $3.6 billion at June 2009 to $3.2 billion at December 2009. This reduction was largely driven by the repayment of $502 million of medium- and long-term facilities in line with overall de-leveraging objectives, reducing financial leverage (adjusted for transitory balances) from 1.7x at June 2009 to 1.5x at December 2009. Following the debt repayments accessible liquidity (cash plus undrawn revolvers) at December 31, 2009 was $0.8 billion (vs. $1.1 billion at June 30, 2009).

Total liquidity of $1.4 billion, inclusive of Investcorp's co-investment in hedge funds, remains adequate to cover all debt maturing over the next four years.

Liquidity / Debt Maturity Cover (in US$ billions)



Total balance sheet co-investments remained relatively stable at $1.8 billion. Total shareholders' equity increased from $895 million to $960 million and the capital adequacy ratio also increased from 20.0% at June 2009 to 21.4% at December 2009, well in excess of the CBB mandated 12% minimum. Investcorp will continue to focus on the prudent management of its balance sheet with the objective of maintaining comfortable level of accessible liquidity and an adequate economic capital cushion.

With this positive start to the first half of this fiscal year, Investcorp believes that it is on track to return to respectable levels of profitability in FY10, consistent with its historical track record and franchise strength.

DISCUSSION OF RESULTS

Net Income

Revenues consist of (i) **fee income** generated from transactional activity and managing client AUM; (ii) realized **asset-based income** earned on Investcorp's private equity, real estate and hedge fund co-investments as well as invested liquidity; plus (iii) the impact of **unrealized fair value adjustments** on private equity and real estate co-investments.

The following discussion analyzes performance in H1 FY10 versus performance in both H1 FY09 and in H2 FY09. This has been done to show the effect of the financial crisis on Investcorp in FY09 and Investcorp's subsequent rebound from the lows seen in H2 FY09.

Net (Loss) Income (in US$ millions)	H1 FY10	H2 FY09	H1 FY09
Fee Income	79.7	43.4	86.0
Asset-Based Income	113.2	82.7	(301.0)
Gross Operating (Loss) Income	**192.9**	**126.1**	**(215.1)**
Provision For Impairment	(6.0)	(19.7)	(2.6)
Interest Expense	(28.8)	(52.9)	(62.1)
Operating Expenses	(100.7)	(116.8)	(89.5)
Net Operating (Loss) Income	**57.4**	**(63.3)**	**(369.2)**
Unrealized FV Adjustments	2.8	(206.2)	(141.9)
Net (Loss) Income	**60.2**	**(269.5)**	**(511.1)**

Gross operating income in H1 FY10 was $192.9 million (H2 FY09: $126.1 million) reflecting continued strong returns in hedge funds and a modestly improving operating environment. Strong hedge fund performance helped both asset-based income earned on Investcorp's co-investment in hedge funds and income from the performance fees earned on clients' investments. Fee income further benefited from the return of some transactional and placement activity compared to the dearth of activity seen in H2 FY09.

Unrealized mark-to-market adjustments in the fair value of private equity and real estate investments stabilized and were slightly positive at $2.8 million after the aggregate downward adjustment of $348.1 million in FY09.

Operating expenses of $100.7 million increased 13% from $89.5 million in H1 FY09, reflecting a decrease in fixed operating expenses of 23% offset by higher variable compensation accruals in line with the positive net income of H1 FY10.

Interest expense, having already decreased 15% from H1 FY09 to H2 FY09, continued its downward trend, decreasing a further 46% to $28.8 million in line with lower LIBOR levels and the continued deleveraging of Investcorp's balance sheet.

The overall net profit in H1 FY10 of $60.2 million reflects a strong turnaround from the losses of $511.1 million in H1 FY09 and $269.5 million in H2 FY09. This quick rebound to profitability following the large one-off losses of Fiscal 2009 is a good indication that Investcorp has embarked on a trajectory of recovery in its profitability and growth, following the difficult economic and financial conditions of last year.

Fee Income

Fee income in H1 FY10 was $79.7 million, 7% lower than the $86.0 million reported for H1 FY09, but significantly higher than the $43.4 million in H2 FY09. Management fees fell 21% to $49.0 million from $62.0 million in H1 FY09 as a result of the fall in hedge fund client AUM in the last quarter of calendar 2008, when investors rushed to access liquidity from whichever source was available. Management fee income has subsequently stabilized and was up 8% over the $45.4 million earned in H2 FY09. Activity fees of $17.7 million are small compared to pre-crisis levels, but are now on an upward trend following the lows seen in H2 FY09. Performance fees of $13.0 million reflect the strong performance in hedge funds over the last six months.

Summary of Fees (in US$ millions)	H1 FY10	H2 FY09	H1 FY09
Management Fees	49.0	45.4	62.0
Activity Fees	17.7	(4.4)	26.1
Performance Fees	13.0	2.4	(2.1)
Fee Income	**79.7**	**43.4**	**86.0**

Asset-based income

Asset-based income, excluding the impact of fair value adjustments on private equity and real estate co-investments, was $113.2 million, continuing the upward trend which commenced in H2 FY09 ($82.7 million income) after the large losses of H1 FY09 ($301.0 million loss).

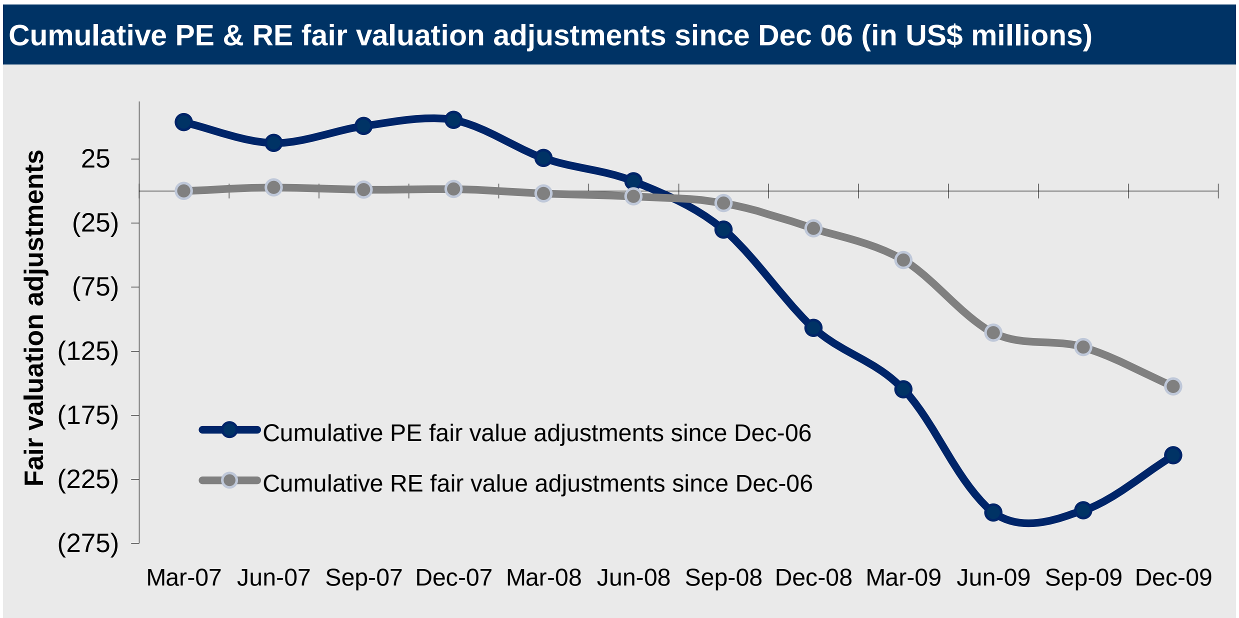
The significant increase in gross asset-based income in H1 FY10 was primarily due to continued strong returns on hedge fund co-investments. Returns were positive in every month yielding a non-dollar weighted return of 15.0% on Investcorp's hedge fund co-investments.

Asset-Based Income (in US$ millions)	H1 FY10	H2 FY09	H1 FY09
Private Equity	8.2	(9.4)	21.8
Hedge Funds	96.4	74.3	(398.1)
Real Estate	8.4	8.1	12.0
Treasury and Liquidity Income	0.2	9.6	63.3
Asset-Based Income	**113.2**	**82.7**	**(301.0)**
Unrealized FV Adjustments	2.8	(206.2)	(141.9)

Unrealized fair value adjustments

Unrealized gains related to mark-to-market valuations of Investcorp's private equity and real estate co-investments amounted to $2.8 million compared to unrealized losses of $141.9 million in H1 FY09 and $206.2 million in H2 FY09. Carrying values for private equity co-investments increased by $44.6 million reflecting a stabilization of, and turnaround in, private equity valuations in line with the trends seen in public equity markets and within the private equity industry overall. Real estate co-investments continue to be valued conservatively in line with the current dynamics within the US commercial real estate market resulting in a reduction in carrying values by $41.8 million.

The chart below shows the trend in cumulative fair value adjustments since December 2006. It illustrates the steep declines in private equity valuations from December 2007 and in real estate valuations from June 2008. The trough for private equity valuations was reached in June 2009, while the impact of a difficult market for US commercial real estate continues to affect real estate valuations. The cumulative unrealized fair value adjustments for real estate represent a 43% net decline from the original cost of the portfolio and anticipate continued difficult market conditions in the near-term.



The table below shows the average balance sheet co-investment yield for each of the last six half year periods. The negative environment for asset valuations began in the second half of calendar 2007 (H1 FY08) and has impacted asset-based income yield adversely through the end of Fiscal 2009. In the last six months hedge funds has continued the strong performance which commenced in H2 FY09 and private equity yields have returned to positive territory for the first time since H1 FY08. Although the overall yield was positive, the fair value declines in real estate have kept it well below long-term targets of 8-10%.

Asset Yields	H2 FY07	H1 FY08	H2 FY08	H1 FY09	H2 FY09	H1 FY10
Private Equity	6.8%	2.9%	(2.2%)	(11.1%)	(16.2%)	5.6%
Real Estate	6.6%	2.9%	1.9%	(3.8%)	(20.7%)	(12.1%)
Hedge Funds*	10.4%	6.7%	(0.9%)	(20.4%)	11.9%	15.0%
Average Co-Investment Yield	**7.4%**	**4.2%**	**0.9%**	**(11.8%)**	**(4.1%)**	**3.8%**

* Non $ Weighted Returns

Asset-based income by asset class

The tables below summarize the primary drivers of asset-based income for PE, hedge funds (HF) and RE:

PE Asset-Based Income KPIs (in US$ millions)	H1FY10	H2 FY09	H1 FY09
Realized Asset-Based Income	8	(9)	22
Unrealized FV Adjustments	45	(125)	(117)
Average Co-Investments (Excluding U/W)	946	826	857
Absolute Yield for Period	6%	(16%)	(11%)

HF Asset-Based Income KPIs (in US$ millions)	H1 FY10	H2 FY09	H1 FY09
Asset-Based Income	96	74	(398)
Non $ Weighted Returns (Absolute)	15%	12%	(20%)
Average Co-Investments	631	881	1,800

RE Asset-Based Income KPIs (in US$ millions)	H1 FY10	H2 FY09	H1 FY09
Realized Asset-Based Income	8	8	12
Unrealized FV Adjustments	(42)	(81)	(25)
Average Co-Investments	276	353	340
Absolute Yield for Period	(12%)	(21%)	(4%)

Interest expense

Total interest expense declined by $9.2 million from H1 FY09 to H2 FY09 and by a further $24.1 million in H1 FY10. The average level of debt has steadily declined over the last year in line with the continued planned de-leveraging of Investcorp's balance sheet.

Interest Expense (in US$ millions)	H1 FY10	H2 FY09	H1 FY09
Average Short Term Interest-Bearing Liabilities	248	468	670
Average Medium & Long Term Interest-Bearing Liabilities	2,173	2,267	2,362
Average Interest-Bearing Liabilities	**2,420**	**2,735**	**3,032**
Interest Expense	28.8	52.9	62.1
Average LIBOR (1 month)	0.3%	0.4%	2.6%
Spread to LIBOR (1 month)	2.1%	3.5%	1.4%
Cost of Funding	2.4%	3.9%	4.0%

US$ LIBOR rates fell by more than 2% year-on-year with interest rates currently at a low and close to zero.

The benefit of low absolute rates was somewhat offset by the impact of higher funding margins to LIBOR, which increased to 2.1% in H1 FY10 (H1 FY09: 1.4%). Spreads had increased to as high as 3.5% in H2 FY09. This spike reflected dislocations in the funding markets during this period when actual interbank rates were between 50bps and 100bps higher than the LIBOR benchmark rate-set and the LIBOR index was, temporarily, no longer valid as a correct market reference rate.

The table below breaks down the change in interest expense into its component parts.

Interest Expense Variance (in US$ millions)	H1 FY10 vs H2 FY09	H1 FY10 vs H1 FY09
Due to Difference in Level of Average Interest-Bearing Debt	6.1	12.5
Due to Difference in Base LIBOR Rates	2.1	28.9
Due to Difference in Funding Spreads	15.9	(8.1)
Total Variance	**24.1**	**33.3**

Operating expense

Fixed operating expenses (operating expenses excluding accruals for variable incentive compensation) declined by 23% from H1 FY09 to H1 FY10 but increased by 6% from H2 FY09. The overall decrease from H1 FY09 is a result of the cost management initiatives implemented throughout FY09. The small increase from the previous half year reflects a higher level of transactional activity and investments in new business initiatives.

Staff compensation excluding variable compensation accruals represented 44% of total fixed operating expenses, consistent with levels seen in FY09 (H1 FY09: 42%, H2 FY09: 46%) and compensation costs decreased by 20% year-on-year as a result of headcount reductions associated with the cost management initiatives implemented in December 2008.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees, travel and business development, and administration and infrastructure costs. These expenses are down 25% year-on-year reflecting the greater operating efficiencies resulting from the cost management initiatives undertaken last year.

Total operating expenses of $100.7 million are up 13% year-on-year due to higher variable compensation accruals associated with the higher income earned in H1 FY10.

Opex Metrics (in US$ millions)	H1 FY10	H2 FY09	H1 FY09
Staff Compensation	30.2	29.7	37.9
Other Opex	38.4	34.7	51.6
Fixed Opex	**68.6**	**64.4**	**89.5**
Incentive Compensation Accural	32.1	52.4	-
Total Opex	**100.7**	**116.8**	**89.5**
Full Time Employees (FTEs) at End of Period	**315**	**317**	**339**
Staff Compensation Per FTE	95.9	93.7	111.7
Other Opex Per FTE	121.8	109.5	152.3
Total Staff Cost / Total Opex	69%	77%	52%
Opex / (Net Income + Opex)	63%	n.m.	n.m.

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.

Summary by Business Units (in US$ millions)	Fee Income			Asset-Based Income & Unrealized FV Changes			Total		
	H1 FY10	H2 FY09	H1 FY09	H1 FY10	H2 FY09	H1 FY09	H1 FY10	H2 FY09	H1 FY09
Private Equity	47.6	21.8	57.3	52.8	(134.2)	(95.2)	100.4	(112.4)	(37.9)
Hedge Funds	25.1	14.5	23.6	96.4	74.3	(398.1)	121.5	88.8	(374.5)
Real Estate	7.0	7.1	5.0	(33.4)	(73.2)	(12.9)	(26.4)	(66.1)	(7.9)
Treasury & Liquidity	-	-	-	0.2	9.6	63.3	0.2	9.6	63.3
Revenue Contribution	**79.7**	**43.4**	**86.0**	**116.0**	**(123.5)**	**(442.9)**	**195.7**	**(80.1)**	**(357.0)**
Operating Expenses	(72.5)	(98.5)	(70.8)	(28.2)	(18.3)	(18.7)	(100.7)	(116.8)	(89.5)
Interest Expense	-	-	-	(28.8)	(52.9)	(62.1)	(28.8)	(52.9)	(62.1)
Provision For Impairment	-	-	-	(6.0)	(19.7)	(2.6)	(6.0)	(19.7)	(2.6)
Net Income	**7.2**	**(55.1)**	**15.1**	**53.0**	**(214.4)**	**(526.3)**	**60.2**	**(269.5)**	**(511.1)**

Revenue contributions in private equity and hedge funds were positive in H1 FY10. Despite the lower than usual levels of transactional income, private equity benefited from a rebound in fair values. Strong hedge fund returns helped both asset-based income and fee income through the performance fees earned on client AUM. Revenue contribution from real estate continued to be negative as a result of continued muted transactional activity and further fair value declines on the co-investment portfolio.

Balance Sheet

Key balance sheet metrics are shown in the table below.

Balance Sheet Metrics	Dec-09	Jun-09
Total Assets	$ 3.2 billion	$ 3.6 billion
Shareholders' Book Equity	$ 1.0 billion	$ 0.9 billion
Financial Leverage*	1.5x	1.7x
Liabilities / Equity	2.3x	3.0x
Co-investments / Equity	1.9x	2.0x
Capital Adequacy Ratio (Basel II)	21.4%	20.0%
Residual Maturity - Medium & Long Term Facilities	72 months	61 months

* Adjusted for Transitory Balances

Assets

At December 2009, total assets were $3.2 billion, a decrease of $0.4 billion from the previous fiscal year end (June 2009: $3.6 billion). High levels of liquidity resulting from last year’s successful preference share capital raise have been used to pay down $502 million of medium and long-term debt maturing during the period. Co-investment assets have remained steady at $1.8 billion.

Assets (in US$ millions)	Dec-09	Jun-09	Change H/(L)
Cash & Equivalents	774	1,129	(356)
HF Co-Investments	578	614	(37)
PE and RE Co-Investments	1,244	1,187	57
Other (Working Capital & Fixed Assets)	619	690	(71)
Total Assets	**3,214**	**3,620**	**(406)**
Co-Investment Assets	**1,822**	**1,801**	**20**

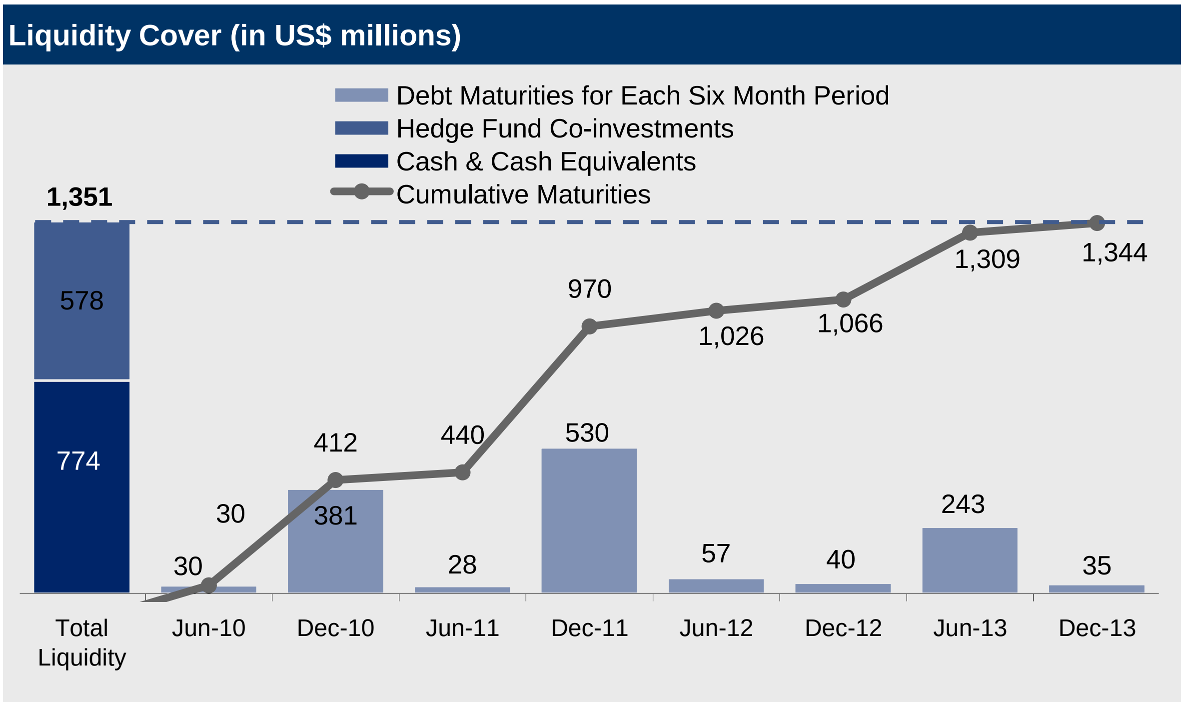
Co-investments in private equity, hedge funds and real estate as a multiple of book equity fell from 2.0x to 1.9x. Investcorp's co-investment accounted for nearly 20% of total AUM of $11 billion at December 2009. A gradual reduction of co-investment levels to under 10% of total AUM is targeted over the medium-term.

Liquidity

Investcorp continues to maintain a very conservative approach to liquidity with high levels of immediately accessible cash invested in high quality money market assets.

Accessible liquidity (cash plus undrawn revolvers) at December 31, 2009 was $0.8 billion (June 2009: $1.1 billion). The change in accessible liquidity since June 2009 primarily reflects cash generated from operating activities less the repayment of $502 million of medium and long-term debt. Total liquidity at December 31, 2009 was $1.4 billion, comprising $0.8 billion of accessible liquidity and $0.6 billion held in hedge fund co-investments. More than two-thirds of hedge fund liquidity is contractually available within a six month period.

Total liquidity remains adequate to cover all debt maturing over the next four years.



Liabilities

Liabilities (in US$ millions)	Dec-09	Jun-09	Change H/(L)
Client & Other Deposits	321	305	16
Medium Term Debt & Deposits	426	921	(495)
Medium Term Revolvers - Drawn	798	798	-
Long Term Debt	570	578	(8)
Other	139	124	16
Total Liabilities	**2,254**	**2,726**	**(471)**

Total liabilities decreased by 17% during H1 FY10 from $2.7 billion at June 2009 to $2.3 billion at December 2009, reflecting the repayment of debt over the period. These repayments have resulted in an increase in the weighted average residual maturity of liabilities to nearly six years.

Financial leverage, defined as liabilities adjusted for transitory balances divided by equity, was 1.5x at December 2009 (June 2009: 1.7x) and remains well below covenant threshold ratios of 3.55x.

Credit ratings

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

Agency Rating		
Capital Intelligence	Moody's Investors Service	FitchRatings
BBB+	**Ba2**	**BB+**
Stable Outlook	**Negative Outlook**	**Negative Outlook**
Rating and outlook confirmed in March 2009	Rating and outlook confirmed in Sept 2009	Rating and outlook confirmed in Oct 2009

In September 2009, Moody's downgraded Investcorp one notch to Ba2, primarily due to the agency's ongoing concerns about the macro economic outlook.

Fitch Ratings affirmed Investcorp's rating at BB+ in October and at the same time removed the Rating Watch Negative they had placed in May 2009. Fitch noted that an increase in client AUM and a further reduction in balance sheet leverage and co-investment levels would lead to positive ratings momentum.

All the rating agencies are positive about Investcorp's deleveraging actions, its liquidity profile and its extremely strong Gulf franchise.

Economic capital

Investcorp uses a risk-based capital allocation approach as the main tool to manage internal economic capital. As the credit crisis has evolved over the last two years, Investcorp has been enhancing its economic capital methodology to take into account the increased risk premium, volatility and correlation for all asset classes. In designing the risk capital methodology, Investcorp maintains a risk capital allocation that is independent of any specific market recovery expectations, accounting rule changes and correlation assumptions. The economic capital charge, which is updated quarterly, is based on current market inputs of volatility, risk premiums and correlations. Also, Investcorp continues to use the conservative assumption of 100% correlation between asset classes to provide an embedded cushion for protection against model and tail risk (low probability, high loss events).

This conservative approach to economic capital takes into account the illiquid nature of the underlying portfolios of PE/RE co-investments. The economic capital allocation is the linear sum of independently assessed risk capital charges for each business line, non co-investment assets (loans, advances etc.) and the positive impact of any tail risk hedging strategies executed for the Investcorp balance sheet.

In FY09, the $1.6 billion reduction in balance sheet co-investments and the $500 million preference share capital raise helped to maintain a positive equity cushion despite substantial declines in asset values. H1 FY10 performance has further strengthened the equity cushion back to Investcorp's target levels. The economic capital cushion provides full flexibility for underwriting deals and implementing new business initiatives.

Investcorp uses two complementary approaches to determine economic capital:

- Economic capital over one year : The aggregate Economic Capital ('EC') requirement over a one-year horizon given by a 99th percentile VaR risk approach which is based on multifactor and credit models for private equity and real estate and a Monte Carlo simulation for hedge funds
- Long-term economic capital: Dynamically modeled by considering organic business objectives and capital requirements to support these. Based on a Monte Carlo based proprietary Long Range Plan ('LRP') model which estimates the equity cushion at the 99th

Book Equity

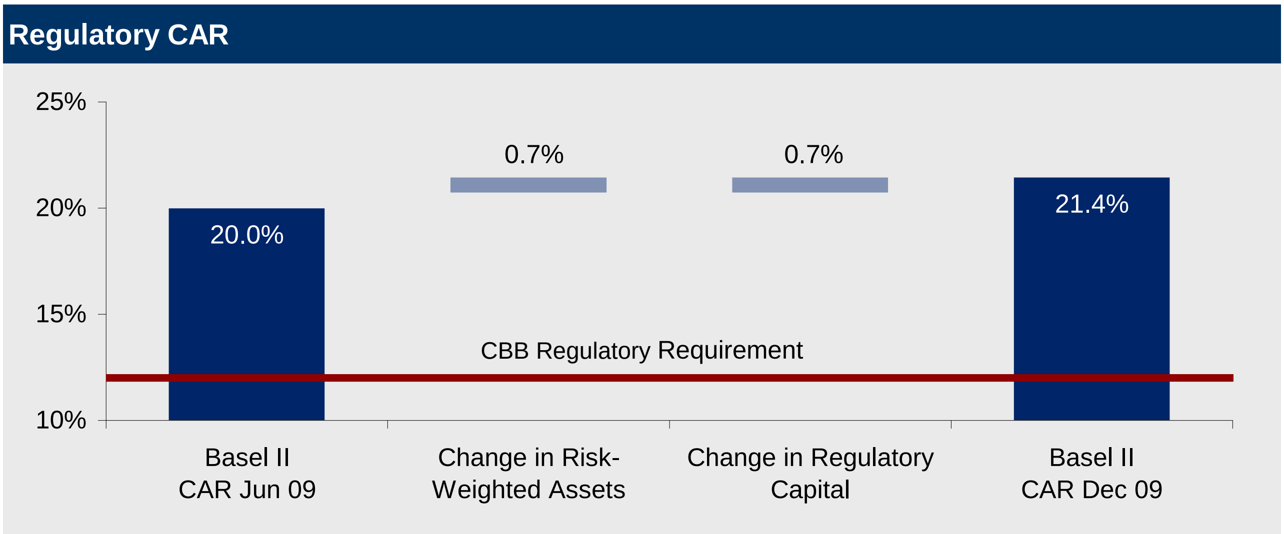
Equity (in US$ millions)	Dec-09	Jun-09	Change H/(L)
Ordinary Share Capital	732	671	61
Preference Share Capital	505	500	5
Fair Value & Revaluation Adjustments	(277)	(277)	-
Net Book Equity	**960**	**895**	**65**

Net book equity at December 31, 2009 was $960 million. The increase from June 30, 2009 reflects the positive performance during the period and a $5 million increase in issued preference share capital.

Investcorp received commitments in excess of the $500 million of preference shares that could be issued under its Memorandum and Articles of Association. An amendment approved by the shareholders at an Extraordinary General Meeting held in September enabled Investcorp to issue additional preference shares to cover this oversubscription, as well as to issue shares to employees. Additional preference shares for a total of $15 million were issued, including $12 million for employees. $10 million of shares issued to employees were un-vested as at December 31, 2009, and hence not included in net book equity in the above table.

Regulatory capital under Basel II

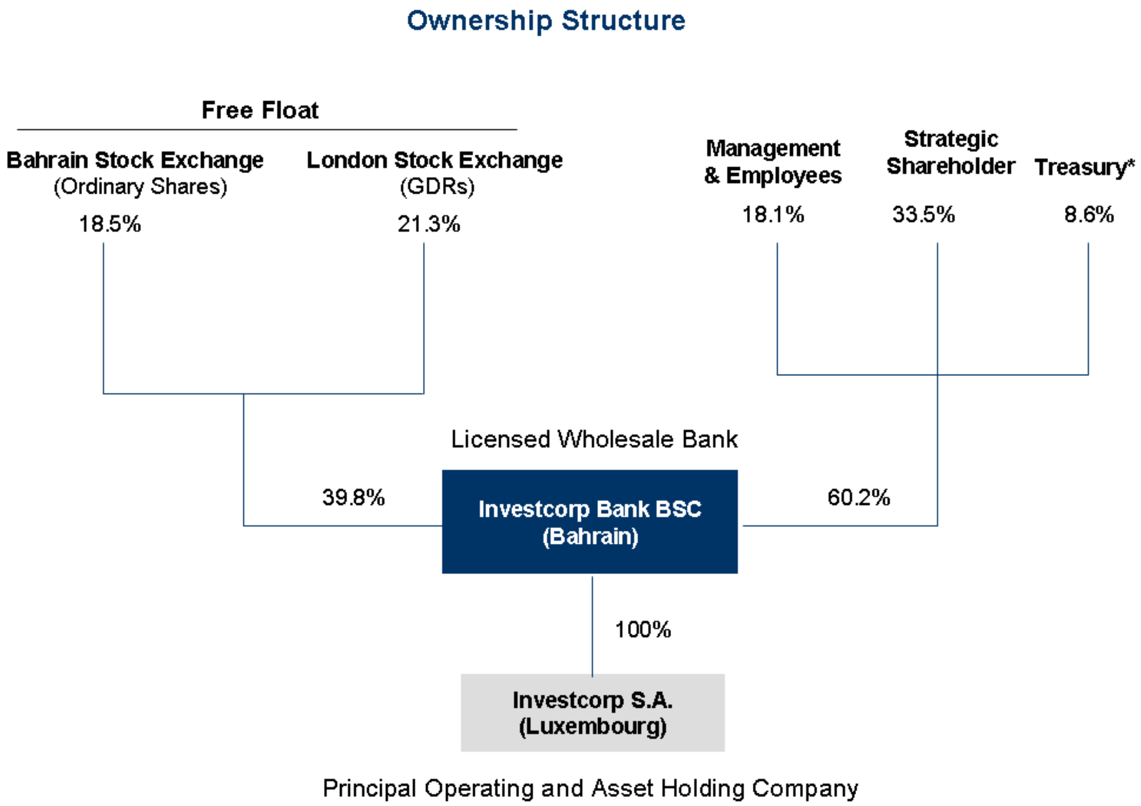
The Basel II Capital Adequacy Ratio ('CAR') at December 31, 2009 was 21.4% (June 2009: 20.0%), comfortably in excess of the Central Bank of Bahrain's regulatory minimum requirement of 12%. The increase in CAR reflects a reduction in risk-weighted assets associated with the overall reduction in assets and the increase in book equity.



The relevant risk weights across each asset category, applied at December 31, 2009, are summarized below and are unchanged since June 30, 2009.

Asset Class / Segment	Basel II Methodology Dec '09	Basel II Risk Weight Dec '09
Private Equity	Standardized Approach ("STA")	150%
Real Estate	Standardized Approach ("STA")	200%
Hedge Funds	Banking Book ("STA")	150%
PE & RE Underwriting	Standardized Approach ("STA")	100%
Operational Risk	Basic Indicator Approach ("BIA")	15%

Shareholder base



* Treasury shares include a portion that is held for future sale to management under the SIP Plan. The Group has the approval from CBB to hold up to 40% of the shares for the SIP Plan.

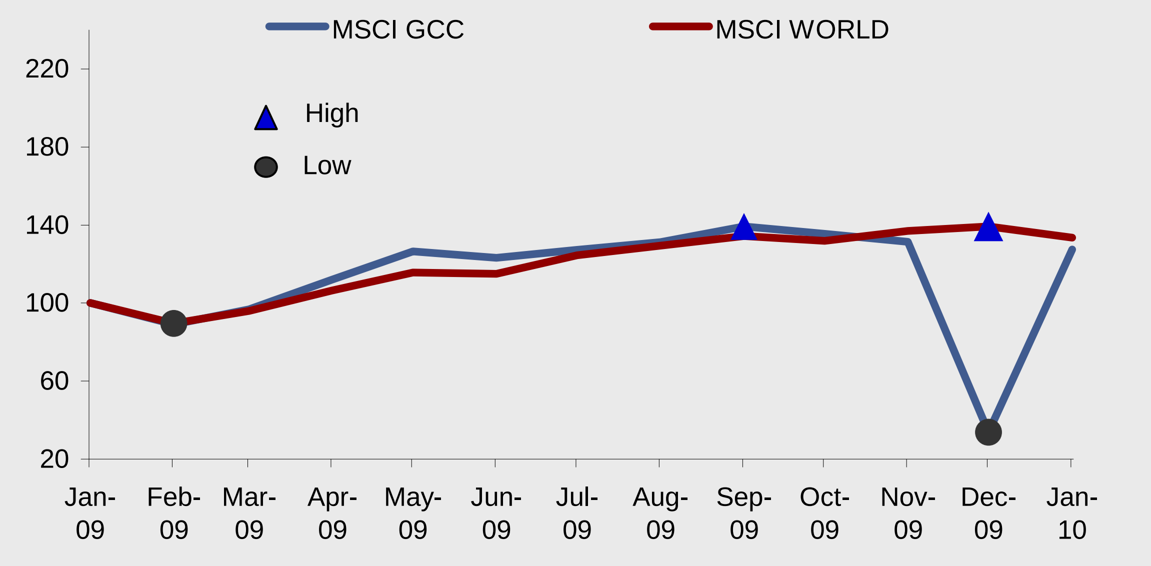
At December 2009, Investcorp remains a management controlled company, with management controlling the voting of 60.2% of Investcorp's ordinary shares together with strategic shareholders. The public float of 39.8% is held between owners holding 18.5% in ordinary shares on the Bahrain Stock Exchange, and those holding 21.3% represented by GDRs on the London Stock Exchange.

Client Business Review

Market Environment in GCC

Calendar 2009 was generally a poor year for the region, as average growth across the GCC fell to almost zero and stock markets fell sharply towards the end of the year before staging a sharp recovery in January.

Performance of Major Regional Indices

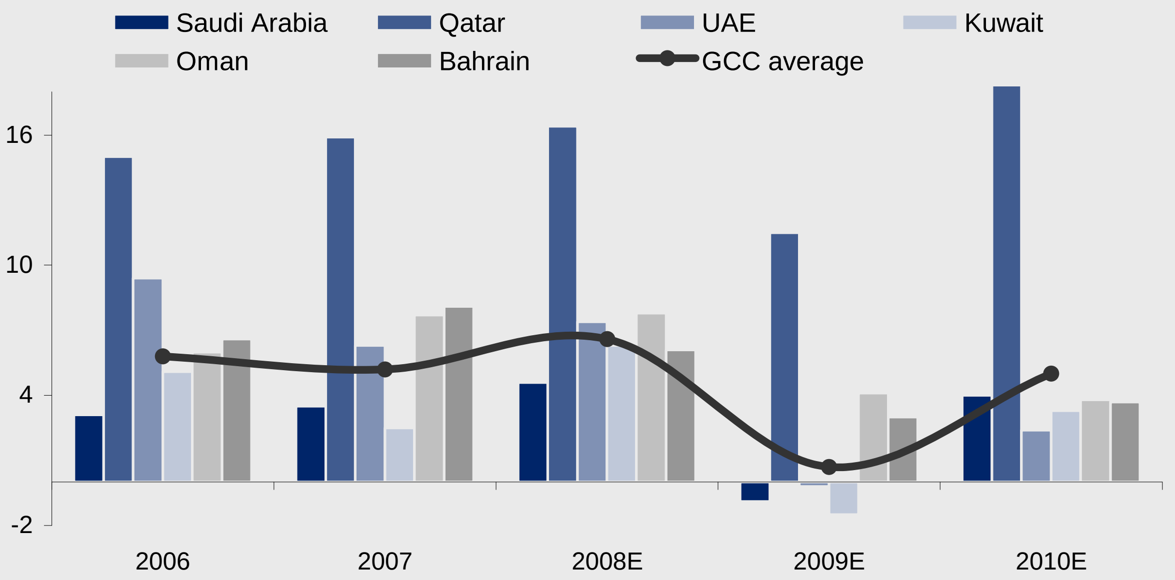


Source : Bloomberg
All indices are taken at a starting point of '100' as of Jan 2009

The concern about contagion risk and further falls in the real estate market has somewhat abated following further financial support from various Governments across the region.

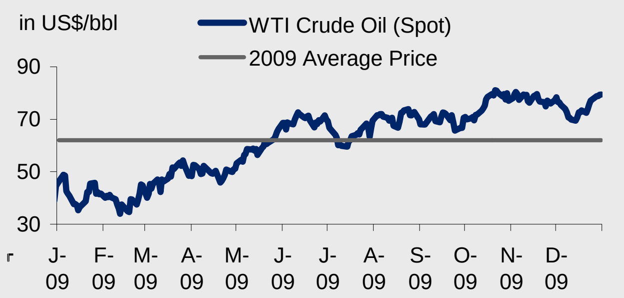
The major GCC economies are now expected to return to both current account and fiscal surpluses by 2010. Although production levels remain constrained by OPEC quotas, the region is getting a boost from rising oil prices and the expectation that current price levels are unlikely to force downward pressure.

Percentage Growth in Real GDP for GCC Countries



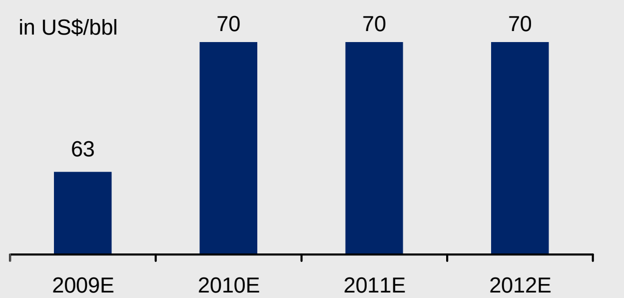
Source : IMF

WTI Crude Oil Prices



Source : Credit Suisse Research

WTI Crude Oil Prices (Estimates)



Source : Credit Suisse House Estimates

Expansionary policies can now be accommodated with more comfort and sustainability through calendar 2010, supporting government fiscal spending and helping to provide support to banks and state owned corporates. Saudi Arabia, OPEC's largest exporter and the region's largest economy, has been more resilient to the global turmoil. It has a $400 billion five-year fiscal plan and announced an annual budget approaching $150 billion for 2010, a 14% increase over calendar 2009, and the largest in the Kingdom's history.

With oil prices forecast to stay above $70 a barrel in 2010 compared to budget estimates that assumed $40 - $50 a barrel, most Gulf countries will run surpluses despite high expenditure plans. According to the IMF, total GCC medium-term project investment in real estate, infrastructure and oil and gas stood at $2.2 trillion in 2009. Increased oil and gas revenues have also helped the general level of confidence and buoyed external market perceptions of the GCC. The stimulus impact of budget spending in Saudi Arabia and Qatar is particularly significant.

Direct government measures and the recovery in oil prices have also improved the amount of liquidity in the region, despite a decline in foreign investment capital caused by significant deleveraging across the US and European banking sector.

Placement and fundraising

The sentiment of private clients through late 2008 and early 2009 was severely impacted by the steep decline in values of all assets and the rush to preserve liquidity and defer new investment activity. There was a general uncertainty about the outlook for alternative asset classes, particularly following the hedge fund drawdowns in late 2008.

Investcorp is now seeing evidence of a gradual improvement in the mind-set of its client base. Clients are starting to selectively deploy investment capital to take advantage of opportunities that now exist following the market dislocation with lower asset prices and an improvement in the regional and international economic outlook.

The Placement & Relationship Management team spent much of the first quarter of FY10 with clients, re-iterating Investcorp's value-added investment model, providing transparent analysis of portfolio performance and introducing product ideas. The importance of long-standing relationships in the region, together with the placement team's historical focus on a regular schedule of client meetings, is critical. It is undoubtedly a key ingredient in retaining the level of trust with clients that has supported their increasing willingness to approach new investment opportunities that now present themselves.

Total placement and fundraising activities in H1 FY10 raised $0.5 billion, compared to $0.4 billion in H1 FY09.

Fundraising (in US$ millions)	H1 FY10			H1 FY09			Change
	Gulf	Non-Gulf	Total	Gulf	Non-Gulf	Total	
Private Equity	36	-	36	40	25	65	(29)
Real Estate	9	-	9	6	-	6	3
Hedge Funds	16	446	463	1	316	317	146
TOTAL	**62**	**446**	**508**	**47**	**341**	**388**	**120**

The placement of Moneybookers, a technology company providing secure online payments, was launched in mid November. Despite the negative turn in market sentiment during that period and the high number of holidays in December, the $45 million offering was oversubscribed within a relatively short time. This transaction provides evidence of improving client appetite for deal-by-deal investment opportunities that present a strong risk-return story.

The pipeline for deal-by-deal placements in H2 FY10 includes debt and equity offerings for two private equity portfolio companies and a new US real estate transaction. The new MENA Mezzanine business is in final due diligence with institutional anchor investors and a formal launch for the business is expected in Q3 FY10, with a targeted size of $300 million.

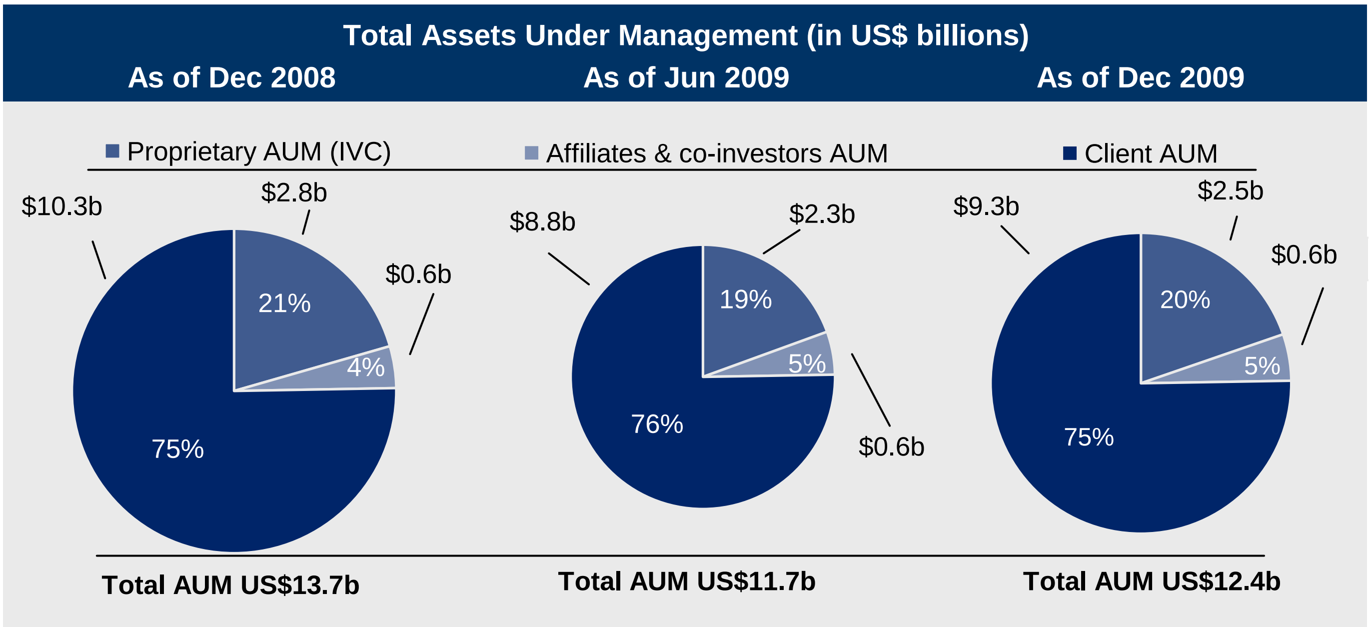
Investcorp maintained the momentum in hedge fund asset-raising that began in early 2009. Total assets raised from international institutional investors during H1 FY10 were approximately $450 million. This brought to $1.3 billion the total in new institutional mandates for the hedge funds business in calendar 2009.

The team won a $100 million mandate from the US, UK and Canadian pension fund of a major global corporation. It was also the first separately managed account that Investcorp has set up and actively managed for one of its single managers, demonstrating Investcorp’s strong expertise in setting up managed accounts, where portfolios are 'customized' for particular investors, in a way that manages risk carefully. There were three other significant mandates in H1 FY10, covering two US insurance companies and one other US pension fund.

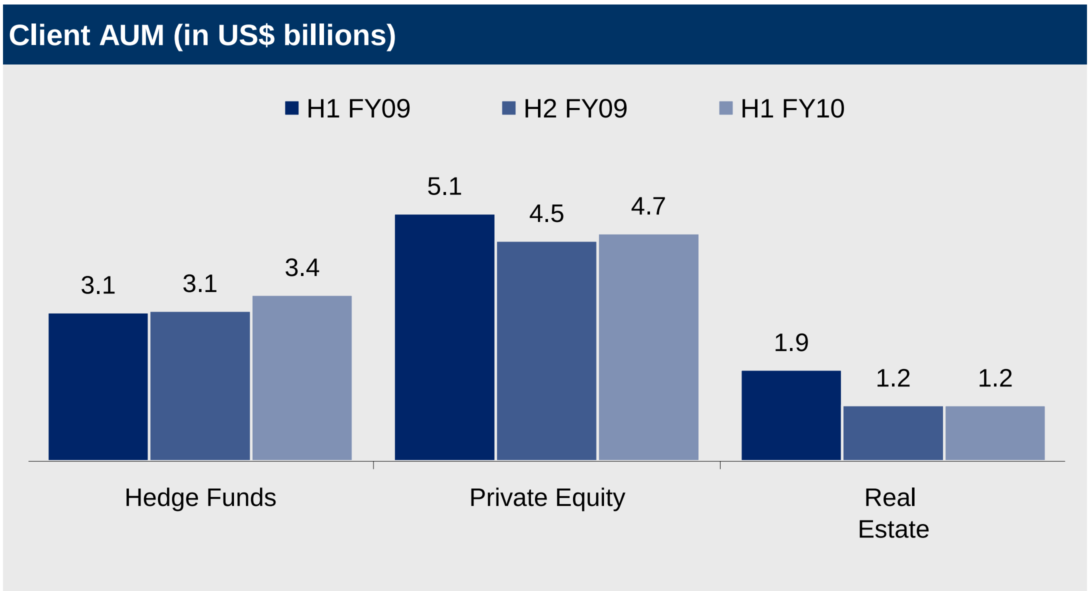
Investcorp also retains a strong pipeline in its hedge fund capital raising efforts in the Gulf.

Assets under management

Total AUM including proprietary co-investment increased from $11.7 billion at June 2009 to $12.4 billion in H1 FY10.



Client AUM increased by $454 million or 5.1% over the six month period, and approximately 70% of the increase is attributable to hedge funds.



Key AUM and fundraising performance indicators (by asset class)

PE Key AUM & Fundraising Indicators (in US$ millions)	H1 FY10	H1 FY09	% Change B/(W)
Client AUM			
Closed-end Committed Funds	1,759	1,873	(6%)
Deal-by-Deal Investments	2,696	3,010	(10%)
Closed-end Invested Funds	225	205	10%
Total Client AUM - At Period End	**4,680**	**5,088**	**(8%)**
Average Client AUM	4,600	5,161	(11%)
Management Fees / Client AUM	67 bps	59 bps	8 bps

HF Key AUM & Fundraising Indicators (in US$ millions)	H1 FY10	H1 FY09	% Change B/(W)
Client AUM			
Fund of Funds	1,726	1,356	27%
Structured and Levered Products	372	707	(47%)
Single Manager	1,319	996	32%
Total Client AUM - at Period End	**3,417**	**3,059**	**12%**
Average Total Client AUM	3,411	4,753	(28%)
Annualized Fee Yield (Management Fees)	73 bps	110 bps	(37 bps)
Annualized Fee Yield (Performance Fees)	74 bps	(10 bps)	84 bps

RE Key AUM & Fundraising Indicators (in US$ millions)	H1 FY10	H1 FY09	% Change B/(W)
Client AUM			
Client AUM - Closed Fund (Mezzanine)	253	953	(73%)
Client AUM - Deal-by-Deal	902	932	(3%)
Total Client AUM - at Period End	**1,155**	**1,885**	**(39%)**
Average Client AUM	1,155	1,882	(39%)
Management Fees / Client AUM	50 bps	30 bps	21 bps

INVESTMENT BUSINESS REVIEW

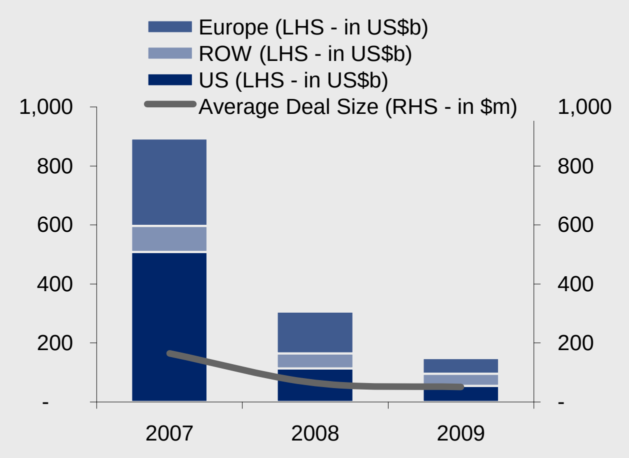
US and European buyouts ('buyout')

Business environment

Leading indicators suggest that both the US and Europe have started to emerge from the recession in the fourth quarter of calendar 2009. Despite the growing optimism for the beginning of a sustainable turnaround in the economy, market conditions remain both difficult and volatile and this is unlikely to change in the immediate future. A full economic recovery is expected to be long and bumpy. Unemployment rates in the US and Europe have increased dramatically and will take several years to fall back to pre-recession levels. Credit demand has improved but bank lending standards and consumer credit will remain tight. Massive monetary and fiscal stimulus is expected to be offset by a slowdown in consumer spending.

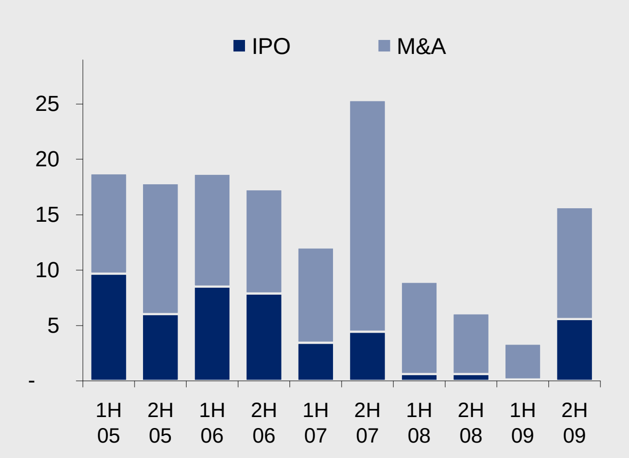
Within the context of a cautious outlook for economic recovery, the dynamics for the private equity industry are beginning to improve. Capital markets have been positive and credit markets have improved sufficiently to make LBO transactions viable. The M&A market is showing signs of life, the IPO window is open and strategic buyers are coming back into the market, albeit with caution. Despite improvements in deal flow particularly in the fourth quarter of calendar 2009, the industry continued to see significant declines in buyout transaction volumes and deal sizes in calendar 2009.

Global Private Equity Deal Volume & Avg Deal Size (in US$ billions)



Source : Zephyr published by BvDEP

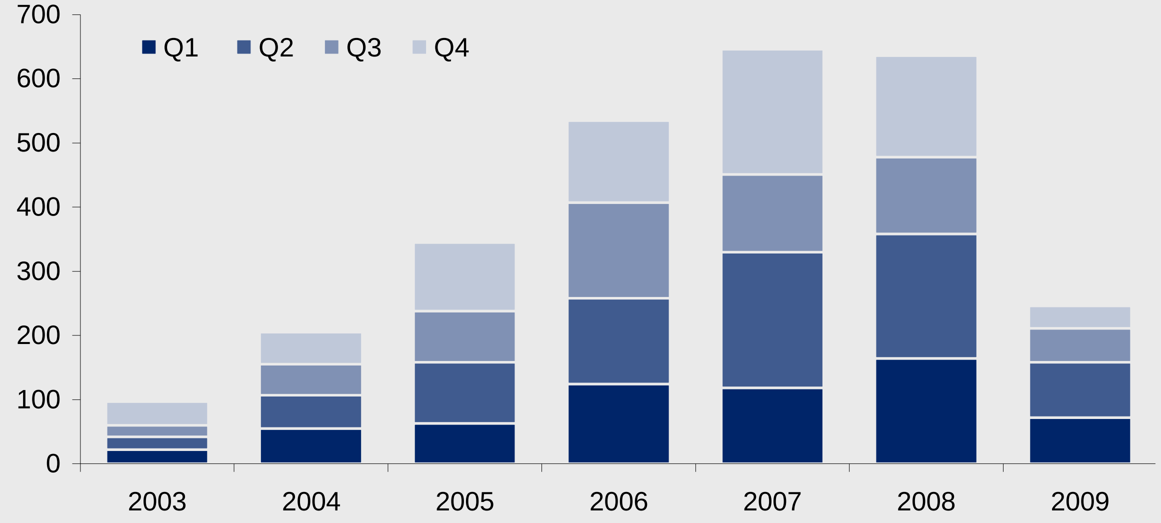
Deal Volume in Buyouts Sector for US & Europe (in US$ billions)



Source: VentureXpert

Global PE fundraising in Q4 09 was at its lowest in more than five years and the fundraising total for 2009, at $250 billion was at its lowest level since 2004. The adverse market conditions in 2008 and 2009 have led to a reduction in the number of exits of portfolio companies for private equity firms and resulting cash distributions, which is a major contributor to the slow-down in the fundraising market.

Quarterly Global Private Equity Fundraising (in US$ billions)



Source : Preqin

However, many private equity funds are reporting a stabilization in portfolio performance and exit opportunities are likely to emerge over the next 12 -24 months for better performing companies so long as capital markets remain supportive. Investment opportunities are increasing again with the historic needs for capital remaining and new needs for capital emerging. Despite these positive dynamics, the investment environment is likely to witness an ongoing period of volatility and confront a longer period of slower, more volatile, growth.

To address these challenges and opportunities, the private equity industry will transform over the next few years. 'Value-added' equity and operational expertise has become a prerequisite. Deals will likely be fewer and smaller with longer holding periods and conservative deal structures. According to S&P LCD, the average debt-to-EBITDA ratio of deals launched in 2009 was a full turn lower than 2008 at 4.1x, similar to 2002 levels and very close to the all-time low of 4.0x in 2001.

The average equity contribution rose to 53% in 2009, an all-time high, from 45% in 2008 and 34% in 2007.

There will be fewer marginal bidders, largely because of the inability to access capital and performance. The private equity firms that survive will need to show the ability to source, finance, complete and exit investments successfully in what remains a challenging environment. Fewer marginal players in the industry, however, should help pricing discipline and support higher risk-adjusted rates of return for private equity owners, particularly those who have clear control, a clear post acquisition agenda, are visible and active owners and have demonstrated value creation in up and down cycles.

US and European buyouts – Investcorp's Value Enhancement Model

Investcorp has a proven strategy of investing in middle-market companies that are market leaders in attractive industries in both the US and Europe, have meaningful performance upsides and can benefit from execution of the Value Enhancement Model (VEM). Investcorp has successfully pursued this strategy since 2001, and its foundations are Investcorp's international platform and Investcorp's focus on active management of the portfolio to achieve operational improvements.

Investcorp's model has an institutionalized investment approach:

- Invest in middle-market companies with approximately \$0.2 billion to \$1.0 billion in transaction value. Middle-market businesses typically have more opportunity for operational improvements, and have historically benefited greatly from the VEM.

- Focus on market leaders (typically first or second in market share) in attractive and less cyclical industries. This mitigates the inherent risks associated with smaller middle-market businesses, which are sometimes considered more likely to fail than larger ones.

- Capitalize on market leading positions in their respective industries and pursue add-on acquisitions or other attractive opportunities to position companies for growth and increased profitability.

- Maintain a deep knowledge of international markets to ensure that portfolio companies remain competitive, and to support evaluation of new investments. Investcorp has offices in both the US and Europe and 27 years of experience in transatlantic investing.

- Use a transatlantic footprint and an understanding of international markets and business practices to create advantages in due diligence, deal execution and the identification of value creation initiatives. Position portfolio companies to be a catalyst for, and a beneficiary of, economic globalization.

- Use skills and resources to effectively execute active portfolio management by implementing value creation plans. Portfolio operational improvements are crucial to value creation in an environment of reduced financial leverage and contraction of multiples. VEM was launched in 2001 and was the cornerstone of this strategy long before the current financial crisis.

- Focus on both revenue and cost focused initiatives as well as building portfolio companies using the team's high level of operating experience and management resources.

Acquisition and portfolio activity

With respect to new investments, the team has had a disciplined but active new investment focus and has maintained a strong underwriting discipline during what has been the most volatile market conditions ever experienced in the industry. As capital needs increase over time so will the corresponding deal flow and the team is beginning to see more interesting opportunities that meet appropriate risk reward thresholds.

During the first half of fiscal 2010, the PE buyouts team has been focused on adding value to the existing portfolio through the continued execution of the VEM as well as add-on acquisitions. In October 2009, Moody International, the global provider of technical inspection and related services to the oil and gas industry, acquired PetroSpect Inspection Services, Ltd. PetroSpect, based in Texas, is a highly regarded technical inspection and engineering support services provider to the US refining and chemical processing industry. The transaction is an example of how the PE team pursues strategies, even in a challenging market environment, to add value to portfolio companies and identify opportunities for growth, either organic or by acquisition. Also in October 2009, FleetPride purchased the assets of Angelo Fleet & Industrial Supply, Inc. of San Angelo, Texas. This followed a series of seven smaller add-on acquisitions across the US.

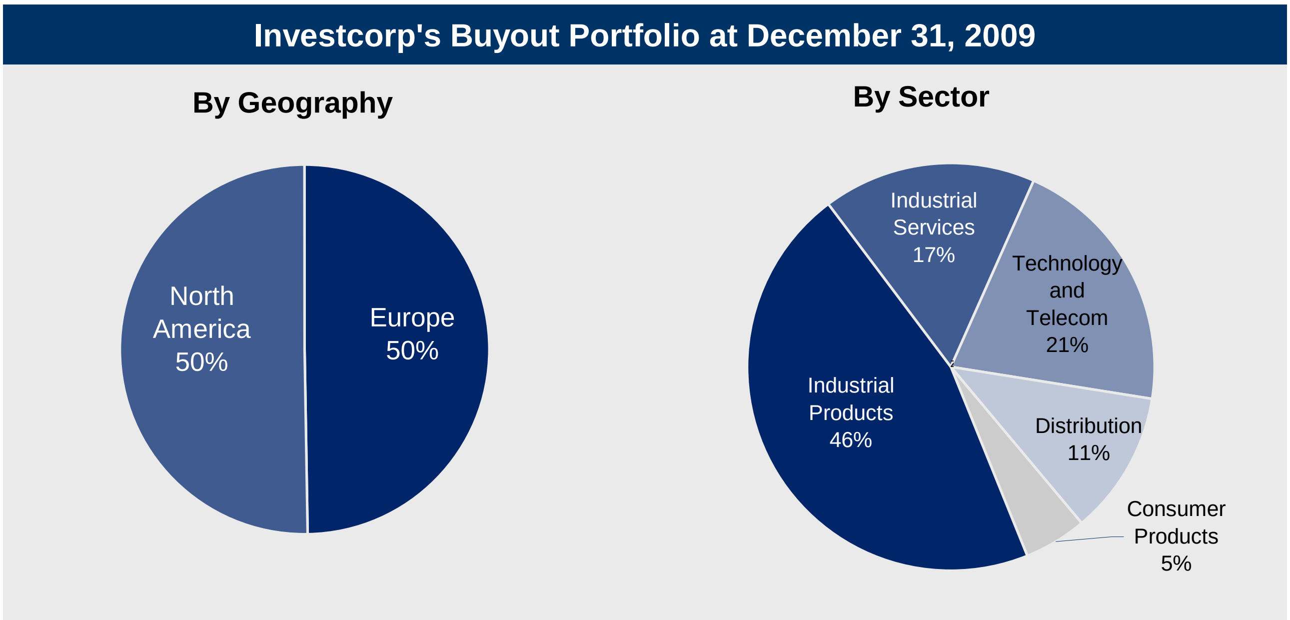
In a transaction that closed in early January 2010, Investcorp purchased, via tender, an aggregate face value of €99 million of Icopal debt, including Second Lien, Mezzanine and PIK debt. The purchases were made at substantial discounts to face value and the purchased debt will be placed with Investcorp's clients in H2 FY10. This opportunistic transaction was highly accretive, capturing incremental equity value for clients due to buying back debt at a substantial discount. This transaction also effectively serves to delever the capital structure and creates 20-25% of additional covenant headroom, although the company had no covenant issues in 2009. Despite declines in revenue, Icopal's EBITDA is slightly up compared to the previous 12 months due to uplifts in gross margins and significant fixed cost savings, while benefiting from exposure to more stable renovation activities and geographical diversification. In light of the severe headwinds facing the building materials industry and benchmarked vs. its peers, Icopal posting a higher EBITDA in 2009 than in 2008 is a very strong achievement.

Investcorp has also entered into a definitive agreement with Merck & Co. Inc. to sell the biologics business of its portfolio company Avecia. Under the terms of the agreement, Merck will acquire Avecia Biologics Limited and all its assets, including all the company's process development and scale-up, manufacturing, quality and business support operations located in Billingham, UK. In addition to honoring all Avecia Biologics' contractual commitments, Merck plans to engage in discussions with individual customers relating to their specific ongoing and future biological process development and manufacturing needs after the transaction is closed.

Portfolio performance

The carrying value of Investcorp's balance sheet co-investment in US and European buyouts at December 2009 was $844 million ($769 million at June 2009) across 23 companies. Please refer to the table in Note 8(a) of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the December 31, 2009 and June 30, 2009 carrying values by vintage years.

The portfolio remains equally balanced between the US and Europe.



The organic trajectory (before the impact of value enhancement initiatives) of Investcorp's portfolio companies has mirrored the GDP picture in both the US and Europe. The first quarter of calendar 2009 was one of the most difficult quarters on a top line basis Investcorp's portfolio companies had experienced. During the third and fourth quarters of calendar 2009, portfolio companies have seen modest signs of stabilization and several have either returned to growth or continued to grow, albeit at a slower rate. Visibility is improving but still remains volatile. Europe continues to have less visibility and poorer economic recovery than the US.

For the past year, the buyouts team has spent the vast majority of its time executing productivity and cost-cutting initiatives equivalent to approximately 40% of 2009 EBITDA as well as significant cap-ex and working capital initiatives and focusing on managing any potential covenant risks.

Now that most of the defensive cost containment plans are in place and intermediate term covenant and liquidity risks have all been eliminated, the team has begun to move to more offensive strategies including ‘fill-the-gap’ initiatives to gain market share, add highly accretive acquisitions and execute opportunistic capital market transactions. ’Fill-the-gap’ initiatives have been implemented for each of the portfolio companies to accelerate value creation.

Fill-the-gap initiatives are part of Investcorp’s value enhancement model and are initiatives focused on capturing growth and growing faster than the market. Detailed processes are in place to structure, monitor and track these initiatives. A bottom-up analysis tracks and assigns each initiative to an Investcorp investment professional and a member of the portfolio company’s management operating team. The results are measurable and can therefore be quantified. This process is rigorously applied by the management teams for each investment.

With the anticipated return to organic growth in calendar 2010, a higher proportion of revenue should be captured in the bottom line EBITDA due to the cost savings and other value enhancement and growth initiatives, particularly the ’fill-the-gap’ initiatives, put in place during calendar 2008 and 2009.

The five largest PE buyout investments represent 56% of the total portfolio (June 2009: 56%) and 49% of total shareholders equity (June 2009: 48%).

Portfolio Company	Carrying Value, as at Dec 31, 2009 (in US$ millions)	% of Total Portfolio	% of Total S/H Equity
TelePacific	178	21%	19%
N&W	128	15%	13%
CEME	60	7%	6%
Icopal	60	7%	6%
Polyconcept	47	6%	5%
Five Biggest Co-investments	472	56%	49%
Remaining Co-investments	372	44%	39%
Total	**844**	**100%**	**88%**

The largest exposure (TelePacific) continues to perform well. Operating in a sector where economy driven increases in customer churn and decreases in customer usage affected nearly all competitive local exchange carriers ('CLECs') on the West Coast of the US, TelePacific managed to realize modest organic growth in 2009 and continued to maintain industry leading churn levels. Focus at the company has shifted from implementation of the significant expense reduction program, which helped the company offset declining revenues in recent turbulent times, to the development of a long-term strategic plan aimed at further growing the business by the introduction of new products and services.

Investcorp and Barclays Private Capital, as joint owners of N&W, reached an agreement in December with both the senior and the mezzanine lenders of N&W regarding a permanent covenant reset by way of a capital injection. The agreement required €12.5 million in additional equity ranking pari-passu to existing mezzanine debt and an additional €2.5 million in a further contingent capital commitment. The full impact of these and other refinancing measures from the lenders will result in a €75 million improvement to N&W's funding and liquidity position over the next three years. The decline in N&W's vending sales has been driven by challenging market conditions as operators have reduced machine expenditure temporarily to offset their own falling sales. PWC Strategy was recently commissioned by Investcorp to conduct an extensive market and customer study. The study concluded that the vending machine market is expected to return to similar pre-recession levels as economic conditions improve. PWC Strategy customer interviews also concluded that N&W customers see the current market conditions as largely temporary and operators almost universally expect to return to their pre-recession investment levels over the next few years. Importantly, there appears to be no structural change in the market and N&W's reputation and competitive positioning remains strong. N&W's market share has grown at an accelerated rate in the current environment from approximately 41% to 46%. Additionally, a significant optimization of the existing manufacturing footprint has been launched which will deliver material cost savings through 2011 and 2012.

A number of other companies in the portfolio have successfully negotiated covenant resets.

Outlook

2009 proved to be a very challenging year for the private equity industry. The industry experienced a severe drop in deal flow, a significant downward adjustment in valuations for portfolio companies, a dramatic reduction in the number of exits and resulting cash distributions, and the lowest level of fundraising since 2004. The improving environment for capital markets, higher valuation multiples and signs of an improving economic outlook have begun to bring sellers and buyers closer together.

Investcorp's private equity team is actively looking at new deals in both Europe and the US. As the team evaluates new deals and moves through the cycle, it will continue to look for investment themes based around global growth, leadership positions and the impact of cyclicality and emerging markets on target companies and how these themes interplay with the investment opportunity. The new deal environment is improving and Investcorp is confident that it will find the right opportunities that capitalize on its business model driven primarily by adding value to the operations of its portfolio companies with the appropriate risk-adjusted return.

New investment commitments will focus on industries where the team has developed a deep understanding over the years. Although global deleveraging will dampen the historical rebound experience and make timing uncertain, capital needs and deal flow will increase over time allowing selective investment decisions. The deal team will also utilize the 'industry experts' exclusive to Investcorp sourced from strategic recruiting relationships and who form Investcorp's Private Equity Advisory Director team and the Investcorp European and US advisory boards.

Technology small-cap Investments ('TSI')

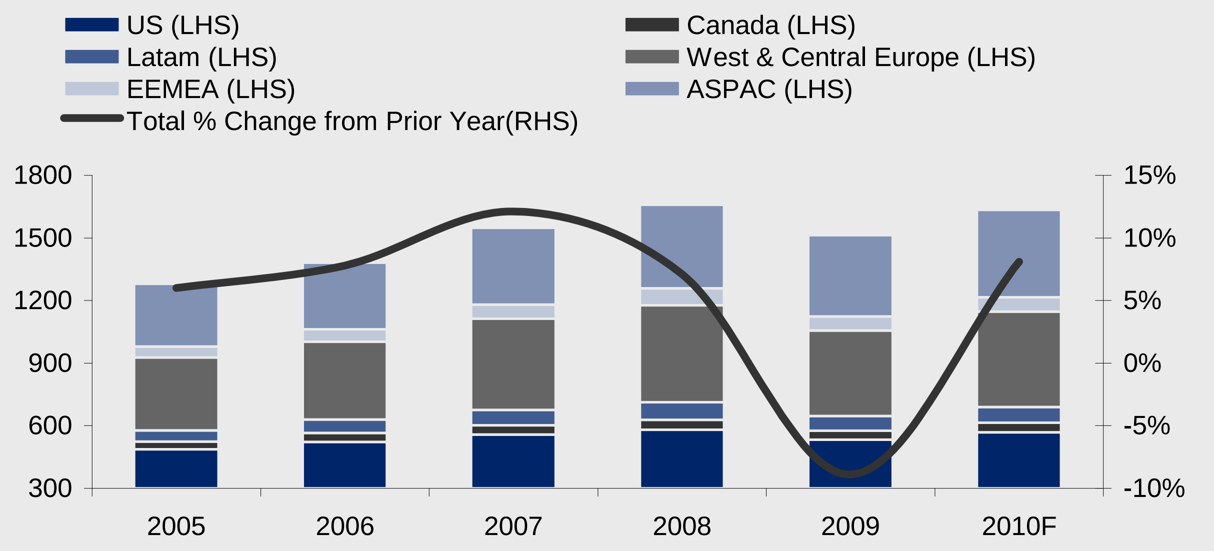
Business environment

In the technology sector, the economic downturn appears to have ended compared with other sectors as measured by the steady rise in IT spending on both software and hardware over the last few months. In response to the downturn, businesses and governments almost immediately reduced purchases of computers and related hardware in their IT budgets. Today, businesses are continuing to cut unnecessary IT spending, but are looking to invest in productivity and efficiency tools.

According to a recent report by Forrester Research, the growth of global technology spending on products and services is expected to be 8.1% in 2010 equivalent to more than $1.6 trillion. Although Forrester hold a positive outlook on the technology sector recovery, they have cautioned that the pace of recovery will be slow with growth to pick up only later in 2010. A major cause for this positive sentiment is the easing of the debt capital markets, which has in turn allowed businesses to end their capital investment freezes and purchase new hardware and software, in many cases for the first time since the end of 2008.

Many other research analysts agree in their forecasts that a rise in technology spending during 2010 will be a result of prolonged upgrades of software and hardware that were held back during the global recession. Although consumer confidence is not currently at its peak, during late 2009, many companies had visibility in their IT cycle with what they needed a few months in advance. Financial institutions in particular are upgrading their software programs and servers. As for consumer electronics, there was a modest surge in consumer spending during the end of 2009 bringing a year-on-year increase of 10%.

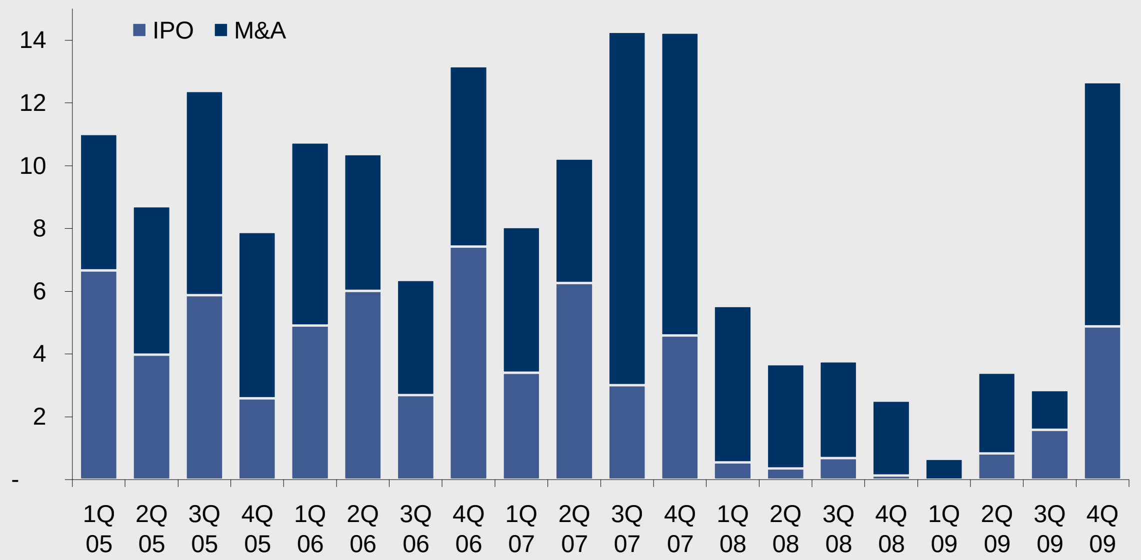
Global Business & Government Purchases of IT Goods & Services (in US$ billions)



Source : Forrester Research

During the third quarter of calendar year 2009, hardware spending increased by 7% compared to the first two quarters of the year. Software spending levels remained the same in both Q2 and Q3. Usually, when IT associated budgets are reduced, a chain of other IT services such as consultation and upgrades to enterprise software are also cut. Consultation spending declined from the start of the year until Q3.

Deal Volume in Technology Sector for US and Europe (in US$ billions)



Source: VentureXpert

From virtually no activity in IPO and M&A markets during the first months of calendar year 2009, M&A activities increased significantly towards the end of 2009 and almost reached the highs of 2007.

Acquisition and realization activity

In H1 FY10, the TSI team made one new investment in **CSIdentity**, representing a further investment of $30.3 million by Fund III. CSIdentity provides proprietary software solutions and data-sets for the $2.8 billion identity theft protection market in the United States. CSIdentity's solutions are used by Fortune 100 financial institutions, public pension funds, telecommunications companies and businesses that offer direct-to-consumer identity theft protection services.

TSI also made an additional investment in **Moneybookers**. Half of this additional investment was made through Fund II and the remainder was a direct investment which was later placed with clients. Moneybookers is the world's largest independent 'electronic wallet' provider, and has developed technology that enables private and business internet users to send and receive online payments securely. Moneybookers has been named the fastest-growing company in the 2010 'Sunday Times Tech Track 100' survey of Britain's private technology firms.

In addition to the direct investment in Moneybookers, Investcorp also directly acquired $14.2 million of a mezzanine note for Sophos, a Fund III investment.

Overall, the TSI team deployed $57.9 million of acquisitions and follow-on funding. The table below summarizes the investments and acquisitions made in H1 FY10.

Acquisitions & Add-ons (in US$ millions)	Sector	Company	Investment
Fund I (Add-ons)	Next Generation VoIP Infrastructure	GENBAND	0.3
Total Fund I			**0.3**
Fund II (Add-ons)	Communications Infrastructure	Kentrox	0.8
	Digital Content Enablement	Moneybookers	5.3
	Digital Content Enablement	Magnum	1.8
Total Fund II			**7.8**
Fund III (Acquisitions)	Enterprise Software and Technology Outsourcing	CSID	30.3
Total Fund III			**30.3**
Direct Investments	Digital Content Enablement	Moneybookers	5.3
	Enterprise Software and Technology Outsourcing	Sophos	14.2
Total Direct Investments			**19.5**
Total Acquisitions and Add-ons			**57.9**

There were no exits during H1 FY10.

Portfolio

Relative to the broader market performance, Investcorp's technology portfolio witnessed a much smaller decline in valuation during 2009, with only a few challenged companies. Across the board, the portfolio companies saw stronger results in the last three months of 2009 and have set their budgets based on continued momentum into 2010.

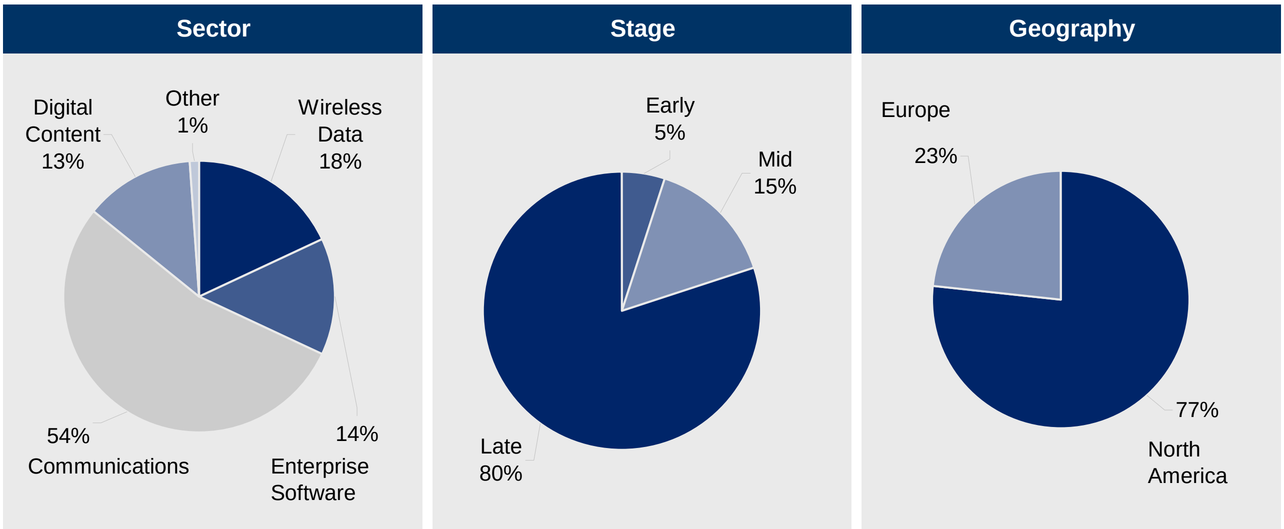
Investcorp's balance sheet co-investment in technology small-cap totaled $76.8 million (June 2009: $46.2 million), which represents 4.2% of total balance sheet co-investments and 7.6% of private equity co-investments.

Details of each of the three technology funds are given below.

TSI Funds	Fund I	Fund II	Fund III
Fund Size	$230 million	$300 million	$500 million
Vintage Year	2001	2005	2008
% of Commitments Drawn	100%	94%	32%
No. of investments	26	12	4
No. of exits	22	3	0
Returned Capital	$200 million	$37 million	$0 million
DPI (Distributions over Paid-in Capital)	**87%**	**12%**	**0%**

Investcorp's TSI team received recognition for its successful Utimaco/Sophos transaction with the presentation of the Investor AllStars 'Buyout/Development Capital Fund of the Year' award. These awards are regarded as highly prestigious because the winners are selected by a judging panel of leading international investment industry professionals.

Below are the consolidated views of Fund I, Fund II and Fund III investments aggregated by sector, investment cycle and geography, as at December 31, 2009.



Outlook

The recent transactions of CSIdentity and Moneybookers have confirmed the view held by the investment team six months ago that the number of deal opportunities in the technology sector is increasing. The more positive outlook for the sector supported by the rise in IT spending is expected to provide further selective deal flow in the technology sector in H2 FY10.

Investment (in US$ millions)	Investment Theme	Location	Stage	Fund Investment	Investcorp's Exposure
GENBAND	Communications Infrastructure Products	US	Early	12.0	
Aurora	Digital Content Enablement	US	Late	4.2	
Atrenta	Enterprise Software and Technology Outsourcing	US	Mid	6.0	
Vaultus	Mobile Data Technologies and Applications	US	Mid	12.6	
Willtek*		US	Late	9.4	
i-Hatch	Other Investments	US	N.A.	7.3	
Fund I (Size: $230 m)				**51.4**	**4.2**
Wells-CTI (Antares)	Communications Infrastructure Products	US	Late	27.0	
Eicon (Dialogic)		US	Late	30.0	
Kentrox		US	Mid	27.0	
Magnum	Digital Content Enablement	US	Late	23.2	
Moneybookers		Europe	Late	27.2	
Zustek (Zeta Interactive)		US	Late	27.0	
Kgb (InfoNXX)	Enterprise Software and Technology Outsourcing	US	Late	15.0	
InnerWireless (PanGo)	Mobile Data Technologies and Applications	US	Early	7.5	
Ubicom		US	Mid	11.9	
Fund II (Size: $300 m)				**195.8**	**20.9**
Sophos*	Enterprise Software and Technology Outsourcing	Europe	Late	21.0	
TDX		Europe	Late	43.0	
FleetMatics	Mobile Data Technologies and Applications	US	Late	40.0	
CSIdentity		US	Late	30.3	
Fund III (Size: $500 m)				**134.3**	**20.0**
Moneybookers	Digital Content Enablement	US	Late	n.a.	17.5
Sophos*	Enterprise Software and Technology Outsourcing	US	Late	n.a.	14.2
Direct Investments				**n.a.**	**31.7**
Total Unrealized Portfolio				**381.5**	**76.8**

* Publicly listed investments

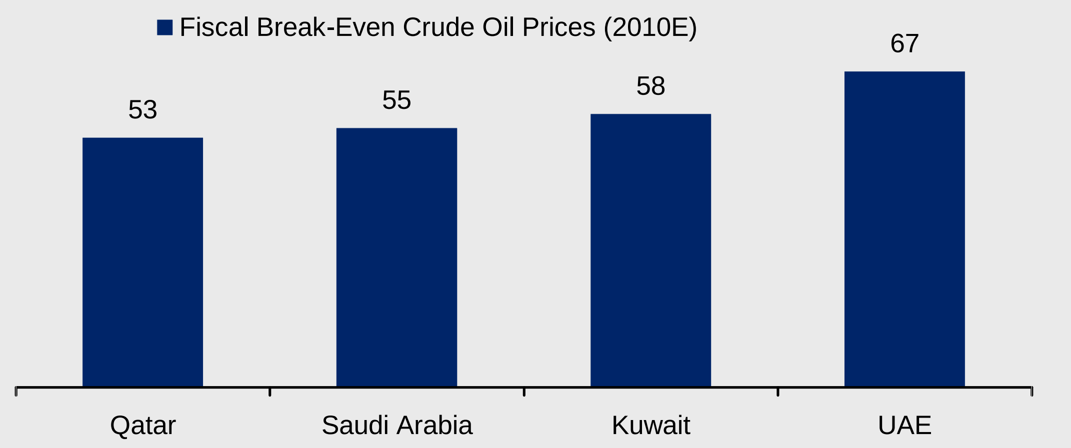
Gulf growth capital ('GGC')

Business environment

In 2009, the deepening global recession continued to affect the regional economies in the Middle East. The financial crisis severely suppressed lending and deposit growth across the GCC in 2009 as it fell to less than 5% in the year after a historical average growth per annum approaching 30% over the previous five years. There has also been an increase in loan provisions across the banking sector to approximately 1.5% in 2009, almost double the historical average.

However, there were also some positive fundamentals during the period as the oil price gradually recovered towards a healthier $75 per barrel level (above fiscal break-even prices) and the regional stock markets posted gains in line with global markets. With oil prices more than doubling from their December 2008 lows of around $32 a barrel, most Gulf governments expect to record budget and current account surpluses in 2010. They also intend to keep their large spending plans in place, even as major economies slowly withdraw stimulus packages.

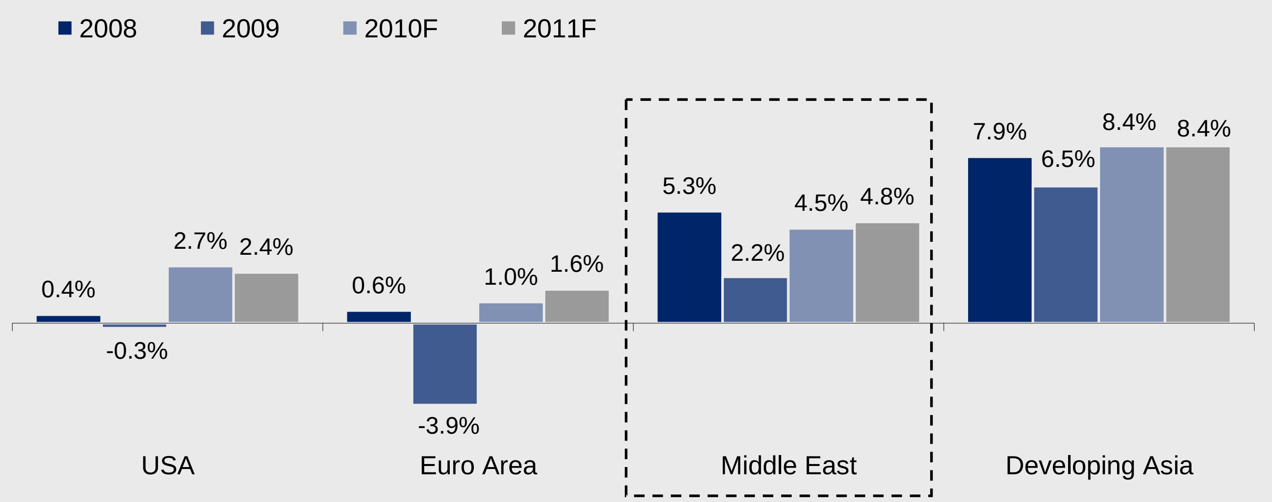
Fiscal Break-Even Oil Prices (2010E)



Source : Credit Suisse Research

The relatively stronger economic fundamentals in the region therefore remain in play despite flat GDP growth in 2009. The IMF has released revised economic forecasts for the MENA region, showing GDP growth forecasts of 4.5% and 4.8% for calendar years 2010 and 2011.

GDP Forecasts



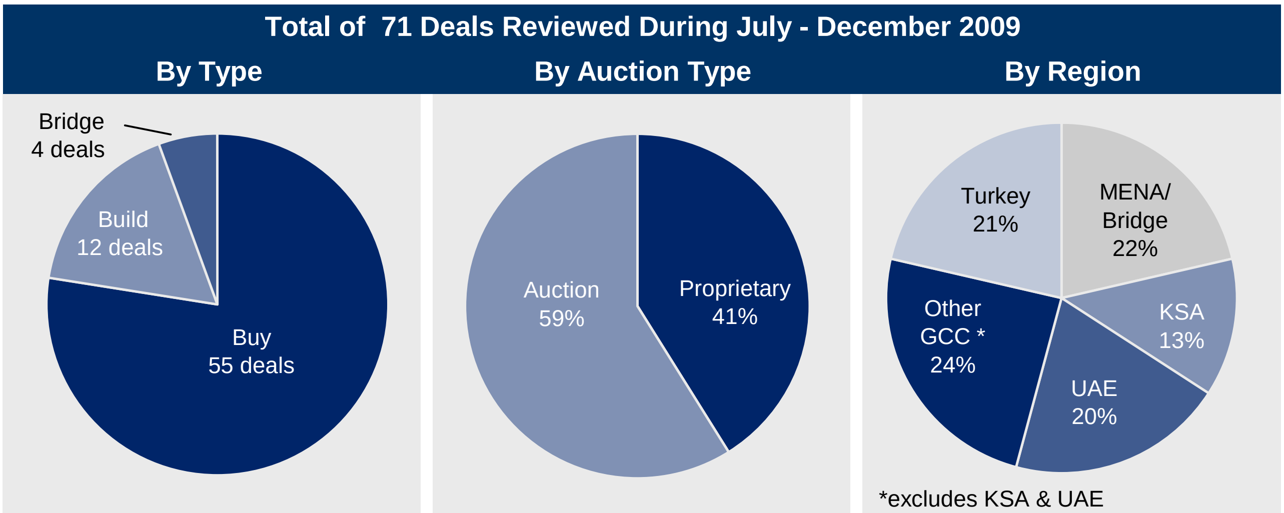
Source: IMF Report WEO January Update 2010

Declining regional valuation multiples over the past 12 months are now making private equity acquisitions more attractive. There has also been a significant contraction in the private equity competitive landscape in the region. Some investors have been forced to restructure at the corporate level and either face challenging portfolios or have limited funds to invest. Severe credit tightening by banks has led family conglomerates, entrepreneurs and corporate management to be more open to third-party equity.

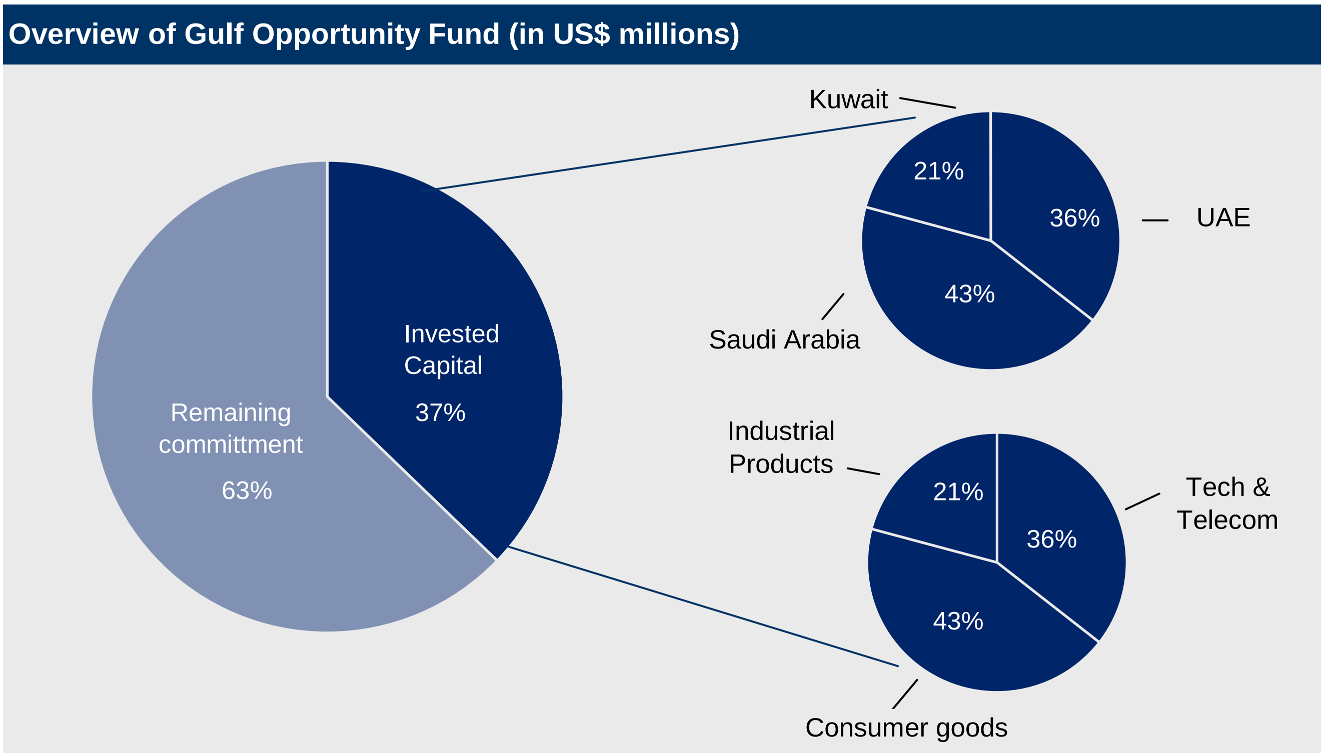
Activities

A large proportion of the GGC pipeline of deals under review continues to be sourced on a proprietary basis from Investcorp's own network of client and shareholder relationships.

A total of 71 deals were reviewed during H1 FY10, 6% of which were 'bridge', 17% 'build' and the remaining 77% 'buy' investments. In the GCC and MENA (excluding Turkey), 41% of the transactions were proprietary.



In November 2009, the Gulf Opportunity Fund I announced its third investment. The Fund took a 20% stake in Gulf Cryo, a leading industrial gases company based in Kuwait. This investment brings the total equity invested by GOF to $289 million across three companies including investments in Redington Gulf (UAE) and L'azurde (Saudi Arabia) and as a result, the Fund is now 37% invested.



Further details of each of the three portfolio companies are given in the **Portfolio** Review section.

Outlook

Existing portfolio companies were acquired after the start of the global systemic crisis in September 2008 and have out-performed the market, despite demanding business conditions. More attractive valuation dynamics in the GCC and broadly across the MENA region have increased both the quantity and quality of deal flow. The team has significant ‘dry-powder’ for investment and, given the demand - supply imbalance for growth capital in the region, is well positioned to take advantage of future market opportunities.

PORTFOLIO REVIEW

GULF GROWTH CAPITAL PORTFOLIO

Gulf Cryo is the leading manufacturer of industrial, medical and specialty gases in the Middle East. Founded in Kuwait in 1953 by the Al Huneidi family, Gulf Cryo has expanded its presence from Kuwait into the UAE, Jordan, Oman, Qatar, Saudi Arabia, Syria and Pakistan. Gulf Cryo operates highly sophisticated manufacturing plants and filling stations, as well as a proprietary pipeline network and tanker fleet, which enable it to produce and transport specialty gases in a highly efficient way to a broad customer base operating in a wide range of industries.

Despite challenging prevailing market conditions driven by high gold price levels (key markets in the Middle East registered notable declines versus a strong third quarter in 2008, with the UAE, Saudi Arabia and Egypt registering a year-on-year decline for Q3 2009 of 39%, 33% and 27%, respectively), L'azurde outperformed in its core markets of Saudi Arabia and Egypt where it captured market share. Year-to-date September 2009 financial performance was in line with Management's budget, with total EBITDA and net income for the period of $25.8 million and $13.4 million, respectively. L'azurde's balance sheet has registered a significant improvement since the closing of the transaction with a reduction of short-term cash borrowings in excess of $50 million and a reduction in gold loans of 4 tons, to the current level of less than 10 tons. Improvements in the balance sheet have been secured through improved working capital management and rationalization of finished goods inventory.

In addition to improvements in working capital management, Investcorp has led the implementation of several initiatives during its first nine months of ownership, including: (i) establishing the core management team with the General Manager for Egypt, the Chief Financial Officer and the Chief Executive Officer all secured; (ii) establishing new direct distribution channels in Algeria to take advantage of a recent favorable change in the country's tax laws; (iii) improving L'azurde's brand position by redefining brand values, improving brand coherence and launching a stronger advertising campaign, product collection and packaging with Elissa, the celebrity singer; (iv) launching revenue growth initiatives by ensuring a product push of the new collection with below-the-line displays and catalogs, focusing on rebuilding existing export markets and securing new regional partnerships, and launching a growth strategy around bangles in Egypt (which accounts for 60% of Egyptian gold jewelry consumption); and (v) implementing bottom-line improvement measures by right-sizing headcount, restructuring the retail stores network, rationalizing and liquidating non-moving stock, and reducing gold facilities.

After a period of strong decline (10-20% drop in value) which began in September 2008 and continued over the course of 2009, the IT market is showing signs of stabilization.

Recovery seems to be more robust in markets such as KSA and Africa while it remains more subdued in the UAE (30% of Redington Gulf (RG) sales). Although short-term visibility remains uncertain, strong growth is expected to resume in the medium to long-term in the region as IT products go hand-in-hand with economic growth.

Despite this difficult market environment, RG has continued to grow its top and bottom lines in the first nine months of 2009 through signing new brands to distribute, including Dell in May 2009, and establishing a presence in new countries (Libya and Ghana). As the market leader in the region, the company was also able to gain market share against smaller and weaker competitors as vendors and customers fled to quality distributors. The most recent Power List (March 2009) confirmed Redington Gulf's leading market position in IT distribution in the Middle East.

The company also made progress on working capital management and was able to further reduce its net debt. Other value creating initiatives included the decision to build a new automated distribution center in Jebel Ali which will further enhance the quality of service to customers while reducing the company's cost base, as well as improvements in the company's risk management procedures. Finally, the company is reviewing a few acquisition opportunities in the region.

Hedge funds ('HF')

Business environment

Many of the questions and concerns at the end of calendar 2008 about hedge funds as a sustainable asset class had been largely resolved by the end of calendar 2009. These concerns included severe redemption pressures; a lack of available financing; a ban on short-selling; the closure of hedge funds; and impending regulation. While there are still some remaining longer term challenges, including manager consolidation and a reduction in prime brokerage and funding counterparties, the global economic environment has stabilized. A synchronized global recovery that started in 2009 is likely to be in place for at least a few more quarters. The financial market environment remains benign with ample liquidity fueled by low interest rates and diminished systemic risk, due to the forceful actions of governments and central banks.

Money is flowing into the industry again and leading experts anticipate that the industry will recover its previous high ($1.9 trillion in Q2 CY08) in terms of assets under management within two years. Industry assets increased to an estimated $1.6 trillion by the end of calendar 2009, after reversing the trend of net outflows in the first part of the calendar year. Inflows have focused mainly on highly liquid funds such as macro and equity long/short and those strategies with strong performance such as event driven and distressed credit.

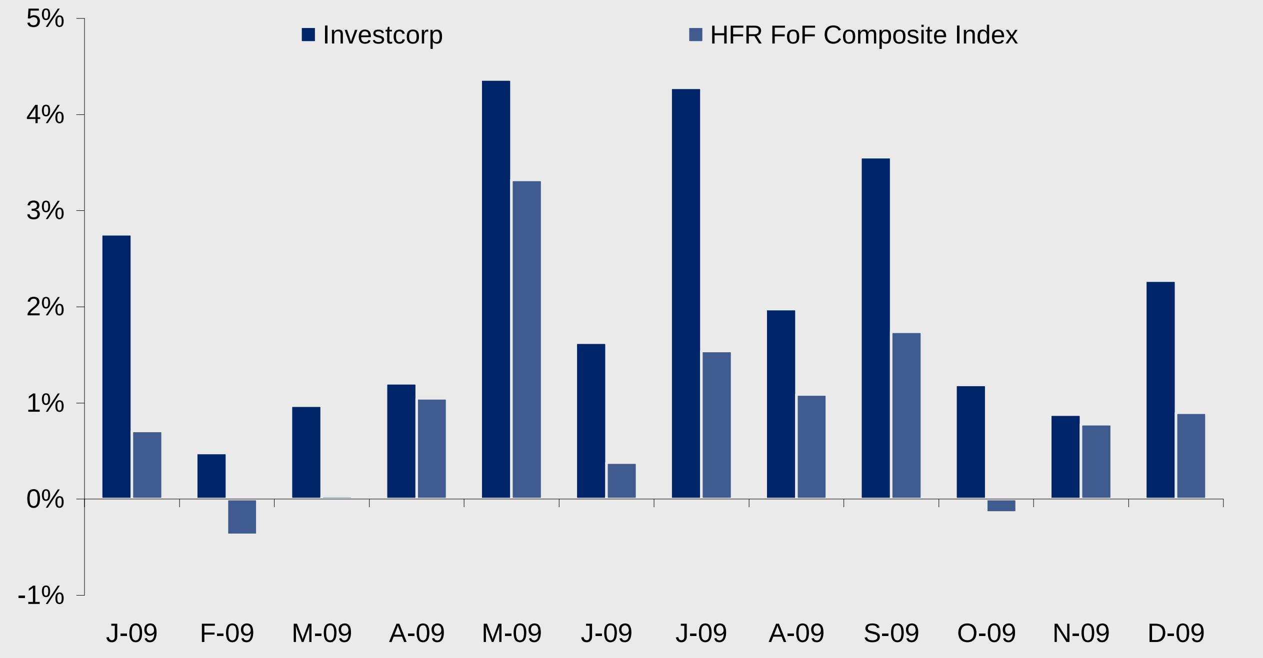
The flow of institutional capital investments into hedge funds also continues. In a recent Preqin's Hedge Fund Investor Spotlight (November 2009) analysis of more than 300 individual hedge fund managers, Preqin established that 72% of hedge fund assets are now coming from institutional investors. Surveys indicate that as much as one third of US institutional allocations were made to alternatives over the past 12 months with hedge fund of funds accounting for more than half of these allocations. Preqin also established that 80% of institutional investors will maintain or increase their exposure to the asset class in calendar 2010. Morgan Stanley Research suggests that SWFs, foundations and pension funds have overtaken endowments and private clients as the largest source of funds. Understandably, the key issues for fund of funds investors and fund of funds managers now are the transparency of holdings in underlying portfolios and the need to match the liquidity provisions of underlying funds with what fund of fund managers offer to their own investors.

Performance

Investcorp's hedge fund group monitors the environment for each hedge fund strategy and uses in-house quantitative research to arrive at forecasts to drive portfolio positioning. After the financial crisis of late calendar 2008 led to extreme liquidity driven dislocations, the investment team anticipated a period of strong returns for hedge funds in calendar 2009. Almost all of the views that it held on individual strategies at the end of 2008 materialized in 2009. This, along with emphasis on managers with liquid portfolios and an increased number of managed accounts led to one of the best periods for Investcorp's hedge fund platform.

The first quarter of this fiscal year was the best ever quarter for Investcorp's hedge fund investments since the inception of the business in October 1996. As a result, H1 FY10 was a period of record performance driven by tactical portfolio allocations and exposure to strategies benefiting from the reversal of liquidity driven dislocations. The platform saw 12 consecutive months of positive returns and in the six months ended December 31, 2009, Investcorp significantly out-performed the hedge fund industry. Returns earned by Investcorp on its hedge fund co-investments in H1 FY10 were 15.0% (absolute) compared to a return of 6.0% (absolute) for the HFR Fund of Funds Composite Index.

Investcorp Hedge Fund Co-Investment Returns vs HFR FoF Composite Index



Source : HFR

Relative Value strategies provided the strongest contribution to performance in H1 FY10. One of the seeded managers in Investcorp's Single Manager Program, operating in the Convertible Arbitrage strategy, was one of the best performing funds across the hedge fund industry in calendar year 2009. The manager's portfolio was correctly positioned to exploit the opportunities that arose when underlying valuations returned from extreme to normalized levels.

The table below reflects the strategy allocation and performance of Investcorp's hedge fund co-investments in H1 FY10.

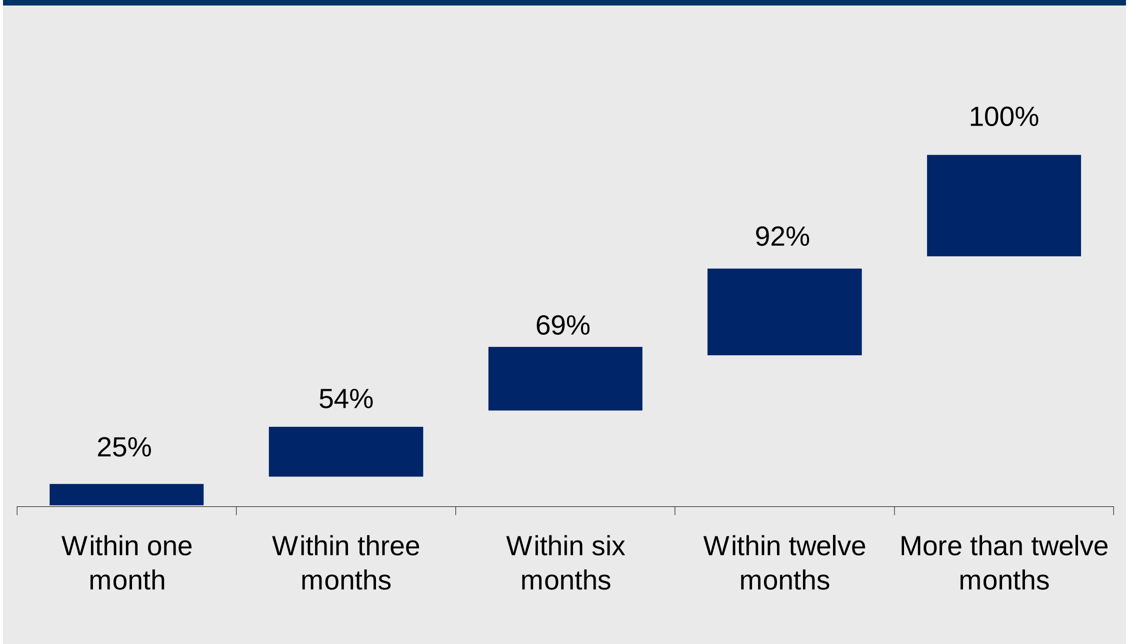
Strategy Performance	6-month return (not annualized)
Distressed / Event Driven Strategies	
Distressed	13.2%
Event Driven	8.5%
Relative Value Strategies	
Convertible Arbitrage	28.3%
Equity Market Neutral	4.4%
Fixed Income / Relative Value	5.2%
Multi-strategy	29.2%
Macro Strategies	
Macro Discretionary	(0.8%)
Macro Systematic	3.9%
Long/Short Equities	8.1%
Portfolio Insurance	(19.8%)

Most of Investcorp's managers in its Single Manager Program have recovered their high-water marks and custom client accounts are close to recovering their high-water marks. These positive factors and the success in raising new capital are expected to support Investcorp's generation of management and performance fees in H2 FY10.

Co-Investment Portfolio and Liquidity Profile

Investcorp's hedge fund co-investments portfolio has maintained an excellent liquidity profile, with more than half of the portfolio available for redemption within three months and more than two thirds available for redemption within six months. Liquidity of the portfolio is continuously monitored by the investment team, and forms an important input to the portfolio construction process. Earnings on co-investments during Q4 FY09 and H1 FY10 have been redeemed by Investcorp for cash, keeping the amount of cash invested by Investcorp in the program at a stable level.

Liquidity profile of Investcorp HF Portfolio



Investcorp's proprietary co-investment includes investments in its Fund of Funds products as well as its Single Manager Program. As at December 31, 2009, Investcorp had a gross hedge fund exposure of $969 million, with $683 million in Fund of Funds and associated structured and levered products and $286 million in Single Managers.

Investcorp's Single Managers are listed below:

Investment Manager	Investment Strategy	Launch Date	Location
Cura Capital Management LLC	Relative Value	December 2004	New York, New York
Interlachen Capital Management LLC	Multi Strategy	April 2006	Minneapolis, Minnesota
Silverback Asset Management LLC	Convertible Arbitrage	November 2006	Chapel Hill, North Carolina
WMG Asia Limited	Long / Short Equity	March 2007	Hong Kong
Stoneworks Asset Management LLC	Global Macro	August 2007	London, UK
White Eagle Partners LLC	European Event Driven	June 2008	New York, New York

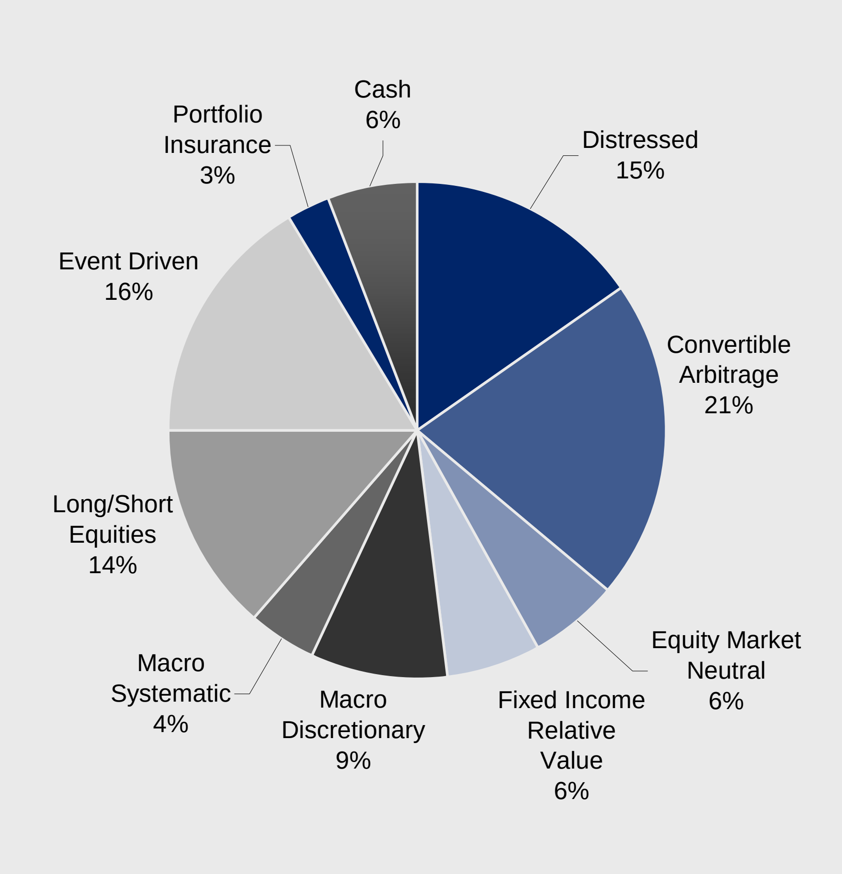
The co-investment continues to be capped at $1 billion. Approximately $400 million of non-recourse third-party leverage was embedded in the structured notes within Investcorp's overall exposure, resulting in $578 million of net cash investment in aggregate. Notwithstanding its investments across multiple products, Investcorp manages its hedge funds portfolio on a consolidated basis, by looking through to the underlying strategy allocations and manager allocations.

Investcorp's hedge funds co-investment portfolio is well diversified across the underlying managers. At December 31, 2009, the maximum allocation to any single manager was 7.4%. The top five managers constituted 29% of the portfolio and the top 10 managers constituted 45% of the portfolio. Re-balancing between managers occurs at least once a quarter to ensure that manager or strategy concentration, which may arise from strong performance, does not persist.

The portfolio is therefore well diversified across different hedge fund strategies. Allocations are also consistent with the opportunity set available in each of these strategies. Target allocations for each strategy are driven by a quantitative model using a 6 to 12 month investment horizon.

Details of the strategy allocations across the total portfolio in Investcorp's hedge funds co-investments as at December 31, 2009 are shown below:

Strategy Allocations of Investcorp HF Portfolio



Details of total HF AUM as at December 31, 2009 and June 30, 2009 are shown below:

Hedge Funds AUM (in US$ millions)	Dec-09	Jun-09
Clients		
Diversified Fund of Funds	289	708
Theme Fund of Funds	72	148
Structured and Levered Products	372	83
Customized Accounts	1,365	1,006
Single Manager Platform	1,319	1,148
Total Client AUM	**3,417**	**3,094**
Investcorp Co-investments		
Fund of Funds	76	132
Structured and Levered Products	607	333
Single Manager Platform	286	380
Total Co-Investments	**969**	**845**
Affiliates	14	13
Grand Total	**4,400**	**3,952**

Outlook

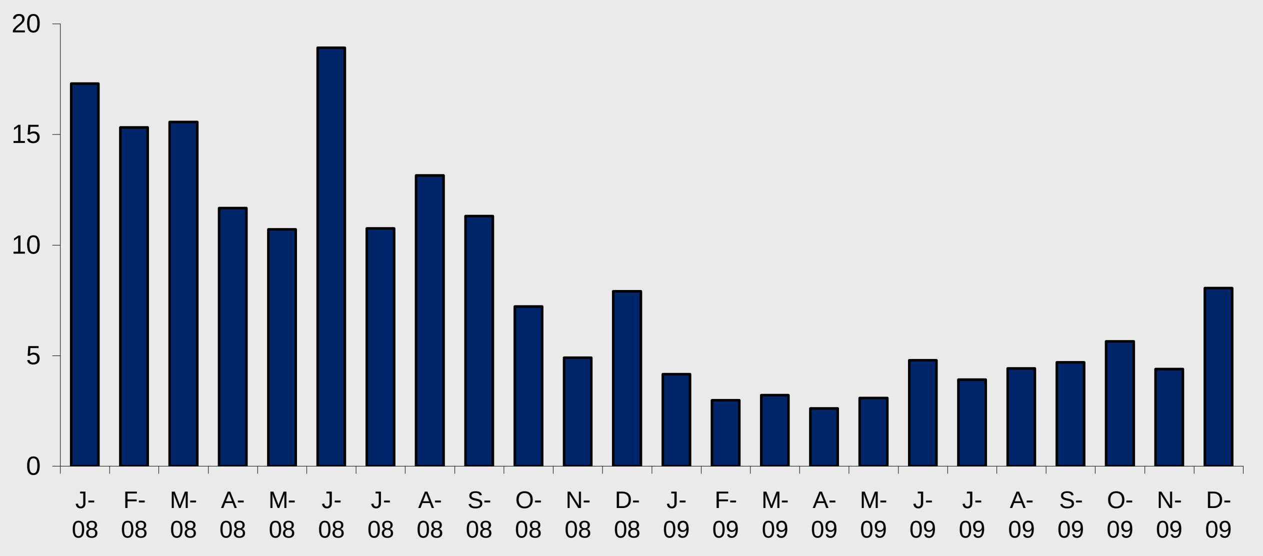
Some of the exceptional dislocations that existed at the beginning of 2009 have normalized, but there continue to be strong opportunities across a range of hedge fund strategies, particularly in distressed credit, relative value arbitrage and macro strategies. Although the current environment is favorable, Investcorp continues to be wary of the risk of a ‘double dip’ recession and consequently, will look to increase its allocation to portfolio insurance strategies and shy away from directional equity-oriented strategies. The current discussion around regulation of the hedge fund industry may have some unintended consequences on market liquidity but the investment team believes that, barring a large systemic risk event, the portfolio is well positioned to deliver better than steady state returns in the near term.

Real Estate ('RE')

Business environment

Transaction volumes in the US real estate market continued to languish through H1 FY10 due to the ongoing dislocation in the domestic debt markets and a lingering recessionary environment. Although there have been few transactions so far, there are now better opportunities for appropriately priced investments in cash-generating properties with long-term, fixed-rate, transferable debt. Investor caution has been reflected in a significant fall in fundraising but confidence in the benefits of long-term investing in real estate remains intact. Forty-five per cent of investors who were invested in real estate funds through calendar 2009 have indicated that they will invest again in calendar 2010, or re-enter the market even though they abstained from investing in calendar 2009.

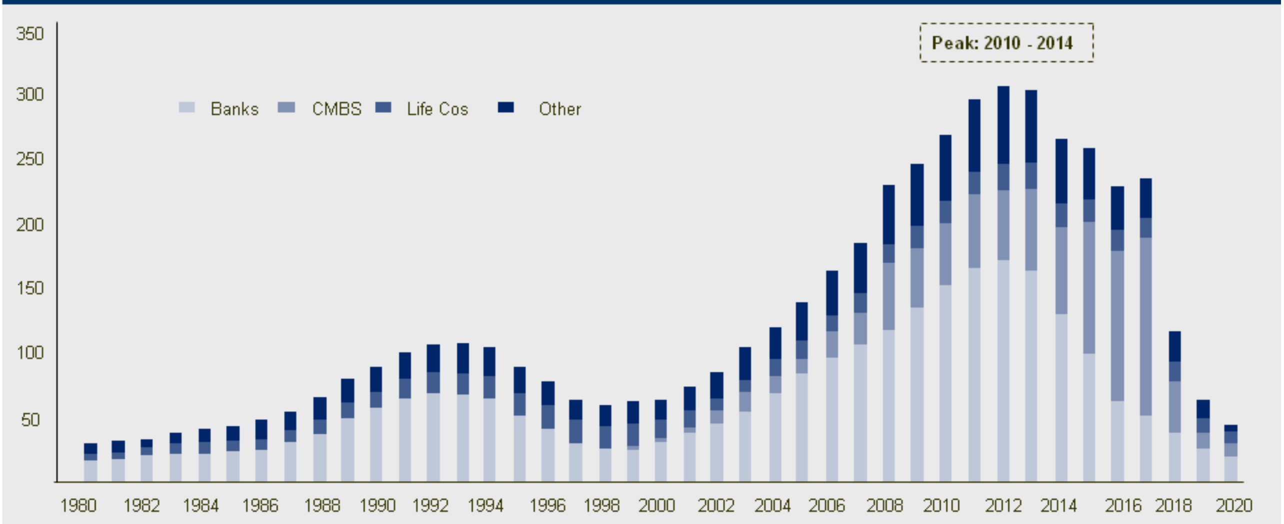
Transaction Volume (in US$ billions)



Sources: Real Capital Analytics

$1.4 trillion of commercial real estate debt is scheduled to mature over the next five years and estimates indicate that approximately half of this amount is higher than the value of the mortgaged property. Securities and loans related to commercial real estate therefore still face significant headwinds, a fact reflected by recent negative rating actions taken by the rating agencies on dozens of CMBS issues. Commercial bank lending to the real estate sector has also dropped significantly since the start of the sub-prime crisis.

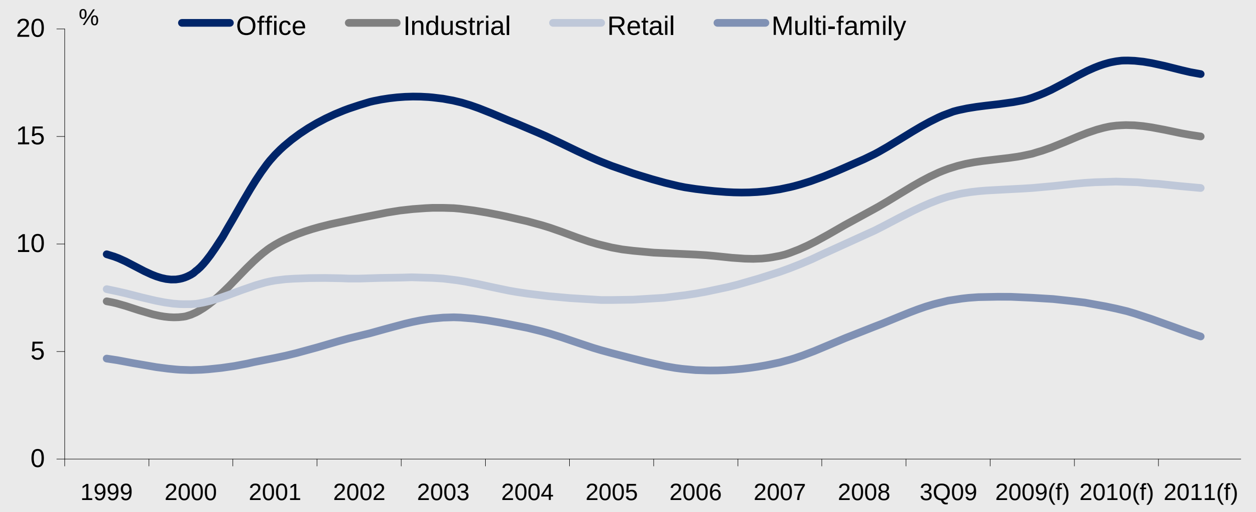
Commercial Real Estate (CRE) Mortgage Maturities (in US$ millions)



Source: Deutsche Bank, Foresight Analytics, Wall Street Journal, Real Estate Roundtable

A climbing US unemployment picture and cuts to consumer spending have impacted all markets in the US and high unemployment has hurt vacancy and leasing levels. The delinquency rate for US commercial mortgage-backed securities rose to 4.5% as of the end of November, almost six times the rate one year earlier. As a result of these factors, market valuations have fallen significantly and continuing downward pressure on valuations and operating fundamentals has limited the availability of leverage and a re-emergence of equity investments.

U.S. Vacancy Rate Trends 1999 Through Q3 2009 & Forecast Through 2011



Source: S&P, Torto Wheaton Research. (f) Forecast.

Jones Lang LaSalle estimates that US commercial property values have dropped to their lowest levels in seven years and, as employers hold off hiring, office vacancies may approach 20% in 2010. Investments in recently overbuilt areas such as California, Arizona and Florida are under stress. New York and the metro area have also suffered.

Portfolio activity and performance

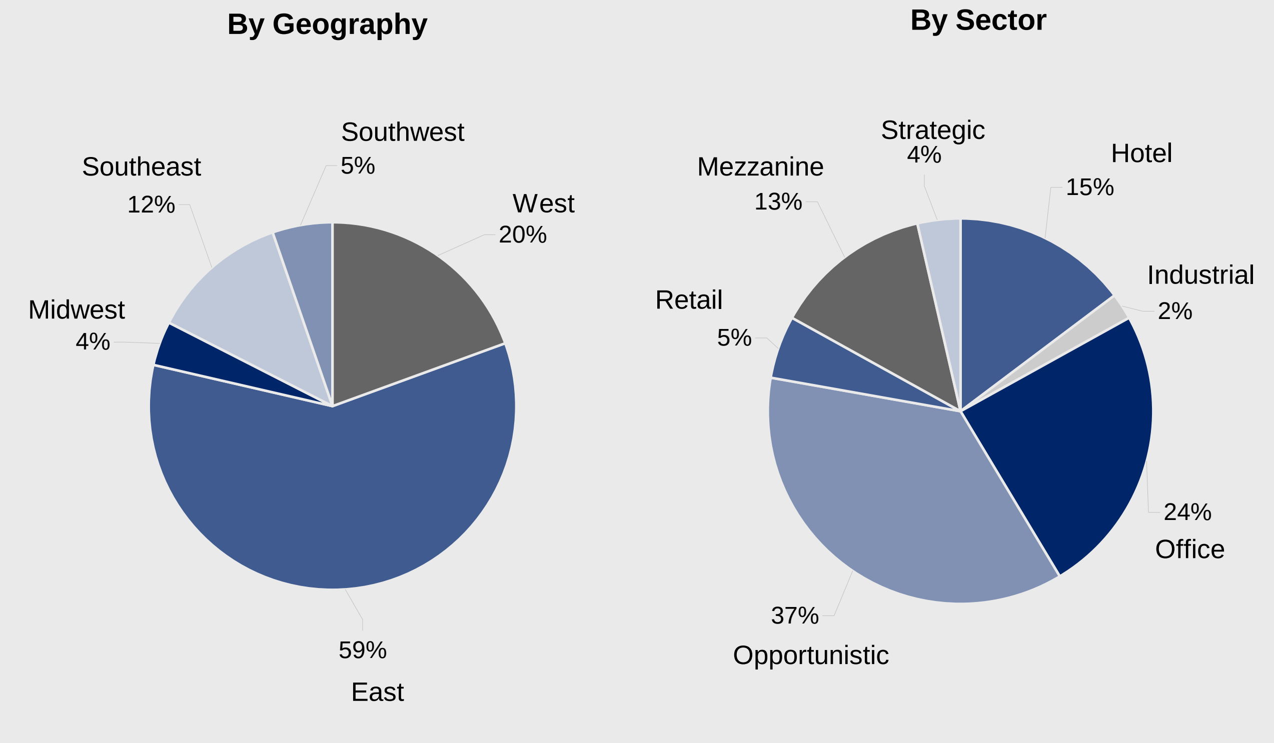
In H1 FY10, Investcorp's real estate team funded no new equity or debt investments but made one property realization.

The final property in the Empire Mountain Village (Deer Valley I portfolio) development was sold in October 2009. Deer Valley I was an opportunistic equity investment initiated in July 2003 consisting of the phased construction and sale of 110 ski-in/ski-out residential dwellings situated within a master planned mountain resort community in Utah. The overall project returned a 17.0% IRR and a 1.7x multiple to investors after all fees and taxes.

At December 31, 2009, Investcorp's real estate balance sheet co-investment portfolio totaled $233 million (June 2009: $283 million), consisting of $193.5 million of fair valued equity investments and

$39.7 million of Held-to-Maturity debt investments, held at cost less provisions for impairment. The total real estate co-investment amount represents 12.8% (June 2009: 15.7%) of total balance sheet co-investments.

Investcorp's Real Estate Co-Investments at December 31, 2009



The current carrying values by each vintage year are shown below. Carrying values have fallen by $50.2 million over the six month period, of which $41.8 million reflects further downward mark-to-market adjustments. The office and opportunistic sectors have taken the brunt of fair value declines reflecting higher capitalization rates and the current outlook for leasing rates in the office sector and a fall in demand for East coast condominiums in the opportunistic sector.

Investcorp Co-Investments by Year (in US$ millions)	Carrying Values as of 31 Dec 2009	Carrying Values as of 30 Jun 2009	Change H/(L)
Vintage FY 03	0.6	0.7	(0.1)
Vintage FY 04	0.1	0.1	(0.0)
Vintage FY 05	16.0	16.3	(0.3)
Vintage FY 06	61.8	69.4	(7.6)
Vintage FY 07	45.0	46.1	(1.1)
Vintage FY 08	69.9	102.9	(33.0)
Others	39.7	47.7	(8.0)
Total	**233.2**	**283.3**	**(50.0)**

There are 20 active investment portfolios of which 10 are on or ahead of the original investment plan. Ten are behind plan as at December 2009. The table below shows a classification of the current state of the 20 portfolios.

Outlook			
Good / Steady		Challenging	
W South Beach	Mezzanine Fund I	Diversified II	Highgrove
Commercial IV	Diversified V	Diversified VI	280 Park Avenue
Retail IV	US Hotel Portfolio	Opportunity I	Commercial V
Diversified VII	Bravern	Retail III	Diversified VIII
Best Western	Investcorp Real Estate Credit Fund	Opportunity II	Opportunity III

Outlook

The commercial real estate market still faces significant headwinds from the level of debt maturities coming due in the next few years and the effect of lingering levels of high unemployment on vacancy rates. 2009 saw debt and distressed funds rise in prominence, a trend that is no doubt set to continue into calendar 2010. An increased level of activity is therefore expected in recapitalization opportunities for investments requiring equity capital in order to de-lever and support future debt refinancing requirements. Dislocations within structured credit will also present opportunities for significant returns.

Investcorp Co-Investment by Year (in US$ millions)	Transaction Size	Properties Original / Current	Sector (of remaining properties)	Geographic Location (of remaining properties)*	Carrying Value, as of 31 December, 2009
Diversified II	99	7 / 3	Office & Industrial	W	0.6
Vintage FY 03	**99**				**0.6**
Empire Mountain Village	142	1 / 1	Opportunistic	W	0.1
Vintage FY 04	**142**				**0.1**
Commercial IV	392	12 / 8	Office	E	0.9
Diversified V	145	5 / 1	Office	E	1.0
W South Beach	345	1 / 1	Opportunistic	SE	5.1
Opportunity I	92	3 / 2	Opportunistic	E / SE	8.9
Vintage FY 05	**974**				**16.0**
Commercial V	256	3 / 3	Office & Retail	E / SE	21.6
Retail III	239	8 / 8	Retail	MW	1.2
Retail IV	407	29 / 23	Retail	SW	2.6
Opportunity II	97	3 / 3	Opportunistic	W / SE	12.7
Opportunity III	284	3 / 3	Opportunistic	E / SE	23.7
Vintage FY 06	**1,283**				**61.8**
Diversified VI	279	2 / 2	Retail & Hotel	SE / SW / MW	2.9
Diversified VII	209	4 / 4	Industrial / Office / Hotel	E / MW	13.2
Hotel	450	9 / 9	Hotel	E / SE / SW / MW	8.5
Bravern	893	1 / 1	Opportunistic	W	20.4
Vintage FY 07	**1,831**				**45.0**
280 Park Avenue	1,459	1 / 1	Office	E	22.5
Diversified VIII	258	5 / 5	Office / Hotel	W / SW / MW / SE	17.5
Highgrove	148	1 / 1	Opportunistic	E	2.2
Weststate	388	1 / 1	Opportunistic	W	11.5
Best Western	176	1 / 1	Hotel	E	16.2
Vintage FY 08	**2,428**				**69.9**
Mezzanine Investments	296	n.a.			31.4
Strategic Investments	n.a.	n.a.			8.3
Others	**296**	n.a.			**39.7**
Total	**7,053**	**81**			**233.2**

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

PORTFOLIO REVIEW

PRIVATE EQUITY US AND EUROPEAN BUYOUT PORTFOLIO

Vintage 2005 investments

A discussion of acquisitions and realizations is included in the Line of Business Review.

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

Investcorp believes that the acquisition of N&W has represented an attractive investment opportunity given: (i) its uncontested leadership and sustainable competitive advantage in the European vending machine market; (ii) its favorable long-term industry dynamics and ability to leverage market leadership to expand into adjacent businesses and new geographical markets; (iii) the high barriers to entry of the vending machine industry; (iv) its experienced management team with a track record of market out-performance, operational excellence and successful integration of acquisitions; and (v) various sources of further upside potential, including geographical expansion, cost efficiencies and add-on acquisitions.

The abrupt and simultaneous nature of the current economic contraction in Europe has temporarily impacted the confidence of N&W's customers (i.e., vending operators) to predict with any certainty their near term demand environment and thus their ability to commit to medium term investment plans. This had a negative affect on the company's trading performance during 2009. Over the same period, however, the company has been able to continuously increase its pan-European market share. This is a reflection of N&W's strong positioning with the leading operators in Europe who are performing better than smaller customers, and the weakness of the company's competitors, some of which are in financial distress and thus unable to reassure customers of their ability to maintain innovation and service levels going forward. In view of continued uncertainty and low order build up, N&W management has taken a broad set of production efficiency, procurement and SG&A cost reduction measures during 2009 which have a combined annualized EBITDA impact of over €25 million.

These measures, together with improved liquidity as well as financial covenant headroom resulting from a capital injection and successfully renegotiated credit agreements, should provide N&W with sufficient headroom for the company's demand environment to rebound.

The acquisition closed in November 2008.

CEME is the leading global producer of solenoid pumps for domestic espresso machines and solenoid valves for steam ironing and cleaning systems and specific industrial applications. In the medium-term, the company anticipates significant growth in its Coffee division, driven by espresso and filter pad coffee machines taking share from traditional filter coffee machines. CEME's sales in the Appliances division are expected to benefit as steam ironing systems continue to gain share from traditional irons.

CEME's growth strategy encompasses: (i) maintaining its market leadership in the growing coffee and steam markets; (ii) following the growth of portioned coffee in the US and Japan, and steam ironing in Latin America and Eastern Europe; (iii) continued extension of product range to address applications in vending and industrial markets; (iv) productivity and efficiency improvements; and (v) pursuing add-on acquisitions. CEME is currently focusing on short-term efficiency initiatives to continue maintaining company performance in light of the current economic environment, key customer projects including Nespresso, Coca-Cola and Keurig, continued screening of acquisition targets, developing/formalizing CEME's Industrial strategy and the build up of its commercial and finance function.

Market volumes of pumps and valves for espresso machines, cleaning machines and steam ironing systems have deteriorated from the fourth quarter of 2008 through the first half of 2009, while CEME's market share and prices remained stable. The slowdown in sales was primarily caused by de-stocking and stock optimization of these appliances in the manufacturing and retail chain. The long-term growth trend, driven by increased espresso penetration, marketing efforts by roasters to drive portioned coffee and substitution of irons by steam iron generators, is expected to continue. Management has implemented structural measures throughout 2009 which have sustainably lowered the break-even point of the company and further strengthened its position with all leading customers. Monthly sales have continuously improved since May 2009, with an improved order book building up for the first quarter of 2010.

The acquisition closed in July 2008.

asiakastieto.fi

Asiakastieto is Finland's leading provider of business and credit information, providing services to support risk management and customer relationship management. At the core of Asiakastieto's business are databases which consolidate data gathered over several decades from multiple sources to provide Finland's most extensive and comprehensive historical business and credit information database and Finland's only personal credit information database. One of Asiakastieto's main strengths is its ability to combine, link, process and analyze this extensive information to add value for its customers. The database also enables Asiakastieto to develop new services, which are delivered to customers via its various distribution channels.

The company's growth strategy encompasses: (i) driving volume increases through the continued development of value added new products and services in its core business; (ii) developing and growing adjacent market segments; and (iii) expanding into new geographies.

General economic growth in Finland has continued to slow down and this has impacted Asiakastieto's Information Services. Despite the economic and lending environment, the company's core credit information business has performed well and has compensated for underperformance in adjacent businesses. Management is continuing actions to achieve its future targets in core and adjacent business areas by improving sales force effectiveness, developing new value-added products and optimizing its pricing structure, amongst other initiatives. Nordic co-operation opportunities and add-on acquisitions are also being evaluated for this investment.

The acquisition closed in May 2008.

Randall Reilly
A FAMILY OF COMPANIES

Randall-Reilly is a leading diversified business-to-business ('B2B') media and data company focused on providing publishing and related products to the trucking, infrastructure-oriented construction, and industrial end markets. The company's product offerings within these end market segments include B2B trade publications, many of which are qualified circulation titles that rank number one or number two in market share within their respective sectors; live events and trade shows; and indoor advertising displays. Through its Equipment Data Associates business ('EDA'), Randall-Reilly is an industry-leading collector and aggregator of industrial equipment purchase data, providing subscription-based sales lead generation and market intelligence products to several industrial, agricultural and other equipment end markets. Randall-Reilly also owns and operates a national service company, Truck Stops Express, which provides the company with an in-house distribution arm for its publications and the ability to sell and service indoor advertising displays. This unusual service business provides the company with a meaningful competitive advantage in the truck stop market.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) the company's leading positions within its key market segments; (ii) a company culture focused on customer service and increasing market share; (iii) the opportunity to grow the company's highly valuable data business, EDA; (iv) opportunities to complete accretive acquisitions of other B2B media companies; and (v) strong downside protection given an entrenched market position and attractive free cash flow characteristics.

Although the overall depressed economic environment has adversely impacted the company's performance, Randall-Reilly has outperformed the market and gained share in most areas during this downturn. As a result of the difficult environment, the company has taken extraordinary steps to lower its cost structure, including circulation, printing cost and headcount reductions. It also has implemented additional cost cuts that included salary and benefit reductions for all employees.

Investcorp is in the process of investing $15 million of preferred equity into the company, to pay down debt and provide sufficient covenant headroom to allow Randall-Reilly the time it needs to return to its historic profitability.

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, Chicago-based Berlin Packaging supplies plastic, glass and metal containers, closures and dispensing systems to a wide variety of customers in the food and beverage, personal care, healthcare/OTC and chemicals end markets. Berlin Packaging also provides value-added services such as packaging design and leasing support services - effectively acting as a 'one-stop-shop' for all the packaging requirements of many of its customers.

Berlin's investment thesis has been based on its (i) leading market position; (ii) impressive management team and culture focused on achieving growth and gaining market share; (iii) attractive industry structure; (iv) limited customer, product and geographic concentration; and (v) attractive free cash flow characteristics. In addition, opportunities for future growth include: (i) expansion opportunities within existing markets through new customers and increased penetration of existing customers; (ii) geographic expansion opportunities into new markets; (iii) growing the presence of the company's catalog business; and (iv) acquisition opportunities. Since acquisition, the company has continued to focus on strengthening capabilities to drive robust organic growth including enhanced sales management and performance.

General softness in demand is being experienced across Berlin's end markets due to general lower consumer demand and lowered inventory levels at Berlin's customers. Despite this, Berlin experienced good performance in 2009, due to the company's continued focus on growth and performance enhancement, while closely monitoring costs. Berlin believes it remains well positioned for continued strong performance despite the current economic environment.

The acquisition closed in August 2007.

Icopal is a leading European manufacturer of waterproofing membranes and the leading flat roof contractor (installation services) across the Nordic countries, also offering a wide range of roofing accessories and construction materials. The company's products are primarily used for non-residential construction applications across Europe and are predominantly sold to building material merchants, independent roofing contractors and Icopal's own contracting business. With sales teams in 95 offices across 30 countries and 37 manufacturing sites serving more than 12,000 customers, the company benefits from a high degree of regional and customer diversification.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) its leading market position in the roofing and contracting sectors; (ii) its strong regional and customer diversification; (iii) the relative stability of Icopal's core non-residential European flat roofing market; (iv) an opportunity to consolidate the highly fragmented European waterproofing products industry; and (v) an opportunity to expand through the roll-out of new products, as well as through expansion into new countries.

Since acquisition, Icopal has launched a range of strategic initiatives, including procurement and lean manufacturing as well as an accelerated execution of the company's acquisition strategy, which has included the acquisition of Vedag, the second largest producer of bitumen membranes in Germany, and Van Besouw, a Dutch manufacturer of PVC waterproofing membranes. In response to deteriorating market conditions, Icopal has implemented wide ranging remedial cost actions, with its CEO also leading a process to clarify the company's strategic agenda. Leveraging off its institutionalized 'fill-the-gap' planning process, Icopal is well positioned to continue it's above market performance. Following a successful debt tender offer that closed in early 2010, Icopal's capital structure has been improved, creating additional financial flexibility while capturing incremental value due to buying back debt at a substantial discount.

The acquisition closed in July 2007.

MOODY INTERNATIONAL

Moody International is a leading global provider of technical inspection and other complementary services to the oil and gas industry as well as a leading provider of certification services targeting small and medium-sized enterprises. Based in the UK, Moody's range of technical inspection services (its main offering) spans the procurement, construction and operational project phases of many of the world's leading oil and gas companies, and is complemented by health, safety and technical consulting and training offerings as well as technical staffing services to its inspection services client base.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) its leading, niche position as a global service provider to the oil and gas sectors; (ii) its strong regional and customer diversification with earnings generated worldwide from a very high quality client base; (iii) continuing strong growth in demand for services in the oil and gas sectors, as well as the certification markets; (iv) the opportunity to expand the services Moody offers to its existing clients; and (v) the opportunity to acquire numerous smaller regional or local service providers and integrate them into Moody's global network, thereby consolidating a fragmented market.

Since acquisition, Moody has performed strongly, mainly as a result of continued investment growth in the energy industry and increased globalization of the activities of the sector and its suppliers. Moody has continued to perform strongly during the first half of 2009 but has started to experience a weakening of demand for new oil and gas inspection and staffing projects due to cutbacks in exploration and production (E&P) expenditure by its clients in this period of oil price volatility and economic uncertainty. It expects this environment to continue through the first half of 2010 after which demand for its services is expected to pick up, in-line with the E&P spending increases which global oil and gas operators have announced recently. Management is mitigating this market slowdown in part by continued development of its service offering, by focusing its resources on growth geographies and key clients and reducing its cost base. Over the medium-term, oil and gas industry demand for the company's services is expected to be strong as the longer-term issues of supply and production replenishment require continued high levels of investment to satisfy global demand for energy. The company is actively reviewing further acquisition opportunities to complement Moody's organic growth profile.

The acquisition closed in February 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. Based in Germany with a network of 19 manufacturing facilities in 12 countries worldwide, the company is in a strong position to service market requirements for the broadest range of technical insulation and high-performance specialty foam products.

The investment thesis underpinning the acquisition was based on several important attributes, including: (i) the company's leading market position in its core activity; (ii) strong regional diversification with sales spread over Europe, North America, Asia Pacific and emerging markets; (iii) Armacell's strong positioning with its fragmented distributor base; (iv) attractive growth in core activities due to rising insulation requirements; and (v) identified potential upside from increased geographical penetration and increased presence in Industrial, Marine and Petrochemical applications from technical foams (profitability enhancements and attractive growth niches such as core materials for sandwich construction) and from potential add-on acquisitions.

Since acquisition, Armacell has, in conjunction with a leading strategy consulting firm, launched initiatives to extract the full potential of its core Technical Foams business. In addition, Armacell has established a dedicated business unit to drive penetration in its Industrial and Marine as well as in its Petrochemical applications. To improve response to the strong demand from the Gulf region and neighboring countries, Armacell entered into a joint venture agreement with Zamil Industrial Investment Company in April 2008, and production started in Dammam (Saudi Arabia) in early 2009. The sales ramp-up of Armacell's innovative PET product, a core-foam primarily used in wind turbine blades, is also progressing very well.

Armacell is experiencing an adverse market environment in insulation in Europe and the US. However, management is working to offset some sales decline through market share gains as a result of specific initiatives in selective growth areas (IMPS, Solar, and Ducting). The Technical Foams market is also experiencing challenges. However in Europe, PET foams are continuing to benefit from the substitution of PVC foams in wind turbine blade applications and from added demand in new markets (marine, transportation, medical, etc.). Additionally, the cost reduction measures launched in the last 12 months, combined with an anticipated fall in raw material prices, are expected to limit the effects of the current adverse conditions.

The acquisition closed in January 2007.

FleetPride is the largest independent distributor of aftermarket heavy duty truck and trailer parts in the US. Since acquisition, the company has launched several key strategic initiatives to enhance sales force and operational capabilities and to position itself for future growth. Areas of particular focus include enhancing FleetPride's purchasing capabilities, extending its national accounts and increasing private brands exposure. These initiatives have facilitated FleetPride's realization of market share gains.

FleetPride will continue to focus on developing its national sales growth plan, expanding market coverage, developing a more focused approach to private brand development, pursuing additional strategic acquisitions, and initiating operational level changes to reduce or manage costs through better purchasing/sourcing strategies. The company will continue to strengthen its organizational structure to be better positioned to drive its strategic plan. In December 2009, FleetPride hired Woody McGee as President and CEO. Mr. McGee has a 40-year track record of success in industries such as heavy manufacturing, electronics, telecommunications, industrial automation, light manufacturing, security, wireless mobile computing/software, textile/geosynthetic fibers and retail consumer products. He joins FleetPride after serving as President and CEO of Propex Inc. In addition, in December 2009 the company hired John Mosunic as CFO. Mr. Mosunic was most recently executive vice president, CFO and treasurer for General Parts International, the second largest wholesale supplier of automotive parts in North America.

Overall demand in 2009 continued to be affected by a downturn in the trucking sector that started in late 2006 and accelerated in the fourth quarter of 2008. As a result, management put in place cost saving measures and has additional initiatives planned in an effort to maintain profitability despite declining volumes. The company is also focused on maximizing cash flow and realized a significant cash benefit from working capital reductions in 2009. The company took advantage of market conditions and its strong market and financial position to complete five acquisitions in 2009.

The acquisition closed in June 2006.

Orexad (formerly 'Orefi') was formed out of the merger of Orefi and AD Industrie to create the largest distributor of industrial supplies in France. In November 2007, Orexad further reinforced its leading market position through the acquisition of Anjac, the third largest player on the French market. Orexad now has more than 247 distribution outlets, including 67 acquired from Anjac, with a presence across all regions of France. The enlarged group enjoys a meaningful competitive advantage over its peers due to its large customer reach, ability to negotiate with suppliers and broad product offering.

In 2007 and 2008, management focused its efforts on the integration of these two large acquisitions (sales tripled over the period) including (i) the achievement of targeted synergies and in particular purchasing savings, and (ii) the sharing of best practices across the enlarged group. The company has also successfully implemented strategies to bolster organic growth, including sales and marketing initiatives and has further strengthened its management team through the hiring of senior executives.

Since late 2008, the industrial parts and supplies market has been affected by the sharp decline in industrial production. To face this unprecedented slowdown, management has implemented a broad set of commercial action plans, gross margin expansion initiatives and cost cutting measures achieving annual benefits in excess of €20 million. Monthly sales have stabilized in the last quarter of 2009 and management is closely monitoring sales performance to further adjust the cost structure if required.

Orexad has continued to evaluate strategic as well as 'tuck-in' acquisitions with the intention of expanding its base across Europe and to take advantage of potentially depressed valuations to continue building the group.

The acquisition closed in June 2006.

Autodistribution, operating through a network of 130 wholesalers with 600 distribution outlets, is the largest independent distributor of auto and truck spare parts in France. The company supplies products to all types of garages, including more than 2,600 affiliated garages and body repair shops, as well as to truck repair shops and truck carriers and fleet managers. In January 2007, Autodistribution completed the sale of its industrial supplies business to Orexad, enabling the company to concentrate on its core car and truck parts business. Autodistribution completed its first significant acquisition in January 2007 through the purchase of a truck parts distributor in France (Comptoir du Frein) and in July 2007 it acquired AD Polska, the leading auto spare parts distributor in Poland, which is also a member of the AD International network.

Up until the middle of 2008, the Autodistribution management team had been making progress towards achieving the strategic goals established for Autodistribution. However, the deteriorating economic environment in France starting in early summer 2008 led to a sharp decline in demand in the automotive aftermarket. In addition to the stress on Autodistribution's balance sheet from the resulting deterioration in earnings, new legislation passed in France made it illegal for trade credit terms to extend beyond 60 days and resulted in the need for approximately €70 million of additional funding to support working capital in Autodistribution. Faced with this deteriorating situation, Investcorp made several proposals to the existing lender group to restructure Autodistribution's balance sheet. Ultimately, given the number of potential job losses at stake if Autodistribution failed, and the political ramifications, the French government became involved in the restructuring process and all constituents, Investcorp and the lenders, were forced to find a solution. As a result, Investcorp worked with another potential private investor, TowerBrook Capital Partners ('TowerBrook'), to find a solution for the benefit of Autodistribution and its employees. In March 2009, an agreement was reached whereby Investcorp and TowerBrook would jointly invest a total of €110 million of new equity into Autodistribution. Under this agreement, TowerBrook became the majority shareholder and Investcorp acquired a 16.0% stake in Autodistribution, while retaining significant governance rights. At the same time, there was a material restructuring of Autodistribution's balance sheet, including a 70% write-off of the existing senior bank debt, and a 100% write-off of the existing junior bank debt, mezzanine debt and existing equity investment. In consideration for these extensive write-offs, the lenders received a participation of up to 21.5% in the equity of Autodistribution. The significant restructuring of Autodistribution's balance sheet is expected to provide the business with a far more stable and de-risked financial position from which to pursue its business strategy.

The original acquisition closed in March 2006.

CCC is the market leader in the US automotive insurance claims software and information solutions industry providing mission critical information and software solutions to parties involved in the automotive and insurance claims process. The company markets its products primarily to insurance carriers and collision repair facilities, and is recognized as the industry's technology leader. With a network that includes more than 350 insurance carriers, 22,000 repair facilities and information from more than 30 data providers, CCC believes it has the industry's most comprehensive data warehouse of claims file information.

After terminating a merger agreement with Mitchell International, Inc. earlier in the year, CCC has continued to focus on growth, with a particular focus on several key new product areas that could create meaningful uplift in future years. The company successfully introduced CCC One, a new shop management solution, into the repair facility market and feedback so far has been very positive. 2009 was also an important year of contract renewals for large insurance customers. CCC was very successful in these renewals, which has further solidified the base business for the next several years. The company is investing in cost savings initiatives in order to drive profitability in 2010 and onwards, and is also continuing to explore ways to improve its product development processes.

The acquisition closed in February 2006.

Polyconcept

Based in the Netherlands, ***Polyconcept*** is the world's largest supplier of promotional products. It was created by the merger of Polyconcept, the leading generalist (wearables and non-wearables) supplier in Europe, and GPG, the number two (non-wearables) supplier in the US. The company subsequently strengthened its global leadership position with the acquisition, in August 2006, of Bullet Line which, in conjunction with GPG, created the largest US supplier of non-wearable promotional products and, in July 2007, Journal Books, a leading US promotional products supplier specializing in calendars. The company has also launched a number of strategic initiatives, including the introduction of product decoration services in Europe. Management continues to consider potential add-on acquisitions to expand its product range and customer reach.

2009 was a very difficult year for Polyconcept, with significant market declines both in Europe and the US. Despite the unfavorable conditions, Polyconcept proved its cash flow resilience and delivered operating-cash flow above the previous year. Operating cost initiatives resulted in €28 million fixed opex reductions in 2009 (in addition to €6 million achieved in 2008), and additional cost savings are expected in 2010 as a result of both new initiatives and the ramp-up effect of actions launched through 2009.

Polyconcept achieved unanimous consent for a covenant reset in December 2009. The leverage ratio has been amended for eight quarters to provide management with sufficient headroom to execute planned cost and topline initiatives over the reset period.

Conditions remain difficult, although the US market has begun to show signs of stabilization. Based on recently observed trends, management expects a moderate rebound of performance in North American operations and stabilization in Europe for 2010. Management is of the opinion that events taking shape today will transform the industry and is adapting its business platform and cost base to the new situation.

The acquisition closed in June 2005.

American Tire Distributors ('ATD') is the leading national distributor to the replacement tire market in the US. Over the past two years, American Tire has successfully acquired and integrated seven businesses including Ampac Tire Distributors (one of ATD's largest competitors) in the first half of 2009.

ATD remains focused on medium-term strategic objectives to drive revenue and profitability. ATD has continued to grow organically and faster than the market by leveraging scale and superior distribution capabilities to take market share. The Company now services all relevant channels in the replacement tire industry and in 2009 gained access to the internet marketing of tires through its release of Tirebuyer.com. ATD also believes the trends towards high and ultra-high performance tires will continue and believes that it is well positioned to continue to benefit from the new demand. The company continues to build a pipeline of attractive acquisitions both in its core markets and in new geographies, and maintains adequate liquidity and resources to seize opportunities as they arise.

The biggest issue ATD faced in 2009 was the effect of the overall economy on the demand for replacement tires as consumers deferred the maintenance of their tires. Despite this industry unit volume decline of 6%, ATD once again outperformed the market in 2009. In addition, ATD was able to drive greater profitability through the realization of cost synergies related to the Ampac acquisition, with a significant amount still to be realized in 2010. ATD is continuing to look for ways to take additional operating expenses out of the core business while focusing on its latest growth initiatives for 2010 and believes there is still a great deal of pent up demand in the replacement tire market, which it is in an ideal position to capture.

The acquisition closed in March 2005.

Vintage 2001 investments

ASSOCIATED MATERIALS INCORPORATED

Associated Materials ('AMI') is a leading manufacturer and distributor of exterior residential building products based in the US. Industry analysts believe that the slowdown in the housing market represents an ongoing adjustment toward more sustainable levels of housing production, following the record surge in prior years that was fueled by extraordinary demand for single-family homes and condominium units by investors.

Since mid-2008, Investcorp has been focused on working with AMI management to optimize the capital structure and reduce operating costs at the company. In the fall of 2008, AMI obtained a new $225 million loan facility to refinance its then existing term loan and replace its revolver which was due to expire in 2009. The new facility also provided AMI with additional liquidity. In June 2009, AMI completed a transaction exchanging all of its outstanding 13.625% AMH II Senior Notes (~$91 million including accrued interest) for $20 million of new Senior Subordinated Notes at the OpCo level and $13.1 million of new Senior Notes at AMH II. This transaction is a credit positive for the company and eliminated potential restrictions at the AMH II level in January 2010. In October 2009, AMI priced a private offering of $200 million 9.875% senior secured second lien notes due 2016 to refinance $185 million of OpCo debt. This was the final step of Investcorp's refinancing strategy. These transactions give AMI the flexibility to service its debt and allow the company the liquidity it needs to execute its growth strategy.

Housing market conditions have remained difficult in 2009, with new housing starts and home sales figures below 2008 levels. In view of the market softness, Investcorp has supported management in its aggressive effort to reduce the company's cost base, which is intended to accelerate EBITDA improvement once the industry recovers. These actions have resulted in improved financial performance in 2009.

The acquisition closed in December 2004.

SourceMedia, comprising both the SourceMedia and Accuity businesses, provides market information, including news, analysis and insight, to the financial services and related industries, through its publications, industry-standard data applications, seminars and conferences. Its flagship publications, including *American Banker, National Mortgage News, The Bond Buyer* and *Accounting Today*, have helped build SourceMedia's reputation as the pre-eminent information source in its respective markets.

Conditions in SourceMedia's end markets (finance, banking and mortgage) have continued to deteriorate, and it is unclear when the situation will begin to improve. Customers are adopting a 'wait–and-see' approach towards advertising and subscriptions, and this makes it difficult to forecast revenue. The current softness in demand comes in the middle of an overall B2B publishing industry transformation with the shift from print to online media that brings its own challenges. SourceMedia remains focused on right-sizing the publishing business for a lower revenue environment while continuing to push forward with the company's growth initiatives. Management has been positioning the company for when markets improve, and has undertaken a reorganization of operations both to improve the cost position of the company and to enhance its leadership and editorial structure. SourceMedia completed several rounds of cost cuts in 2008 and has continued to reduce expenses and headcount in 2009.

The Accuity business is a leading provider of subscription-based data solutions that enable financial institutions, corporations and other organizations to make accurate and efficient payment transactions and to manage their risk by ensuring that they, and their clients, are in regulatory compliance. Accuity continues to perform well, and under new leadership, is in the process of implementing several growth initiatives, including new product introductions and continued international expansion. The acquisition of CB.NET Services Limited, an international payment efficiency company based in London, which closed in early 2009, has significantly strengthened Accuity's European presence and helped accelerate its international growth.

The acquisition was closed in November 2004.

EnviroSolutions, Inc.

EnviroSolutions is a vertically integrated municipal solid waste, construction and demolition waste disposal company that has landfills, transfer stations and collection assets in the Mid-Atlantic and Northeast United States. The company's strategy is based on buying new platform assets, and executing accretive tuck-in and edge-out acquisitions that provide consolidation synergies related to internalization, route optimization, general operating efficiencies and duplicative SG&A.

EnviroSolutions has been dramatically affected by the slowdown in the US economy, which has severely reduced the volume of construction and demolition activity and the resultant waste volumes. The lower waste volumes and resultant excess capacity in the market has had a negative impact on pricing, impacting EnviroSolutions' EBITDA.

EnviroSolutions is in an extremely challenged position.

The acquisition closed in December 2003.

PLAYPOWER

PlayPower is a leading global manufacturer of commercial playground systems and outdoor recreational equipment. Approximately 50% of the company's revenue is derived from markets outside the US, most notably from Europe.

Revenue declined in 2009 due to challenging market conditions, particularly in North America, and unfavorable currency movements. The market in Europe performed substantially better than its North American counterpart. EBITDA decline was primarily driven by currency and non-outdoor playground businesses. Profitability for the core outdoor playground businesses, which represent ~90% of the company's revenue, was down less than 5% when excluding the impact of exchange rates. This was driven by strong cost controls and favorable raw material pricing.

The key issue facing the company is the impact of a soft US and European economy on the company's business. The company aggressively managed expenses through 2009, with initiatives that include headcount reductions, salary increase suspensions, pension contribution cuts, and trade show cutbacks. The company is also embarking on a plan to consolidate its two manufacturing facilities in the US, which is projected to yield substantial savings in 2010. The long-term outlook remains positive as PlayPower maintains a leading share position in all of its core markets and continues to pursue opportunities for growth through improved sales channel management and penetration of emerging markets.

The acquisition closed in December 2002.

Aero Products International, based in the US, is a leading designer and marketer of high-end air-filled beds, pools and other leisure products using Aero's patented pump and valve technology. Under new management, Aero is following a business plan focused on new product innovation, domestic and international sales growth coming from new and existing accounts, improved purchasing, and prudent management of overhead, general and administrative costs.

The current downturn in consumer spending has had a negative impact on demand for Aero's products. To mitigate this trend, Aero has undertaken significant cost reduction and cost containment efforts while still investing, where necessary, to position it for long term growth and market penetration. The company has also intensified its new customer sales effort and has secured product placement at two major retailers – Wal-Mart and Carrefour - in the past 18 months.

Aero's financial performance in the coming months will depend in part on how quickly demand for consumer products returns. Given the current lack of visibility, Aero continues to closely monitor discretionary spending and working capital to enhance profitability and liquidity. In May 2009, Investcorp invested an additional $4 million in support of the company in the form of subordinated debt, further bolstering Aero's position during this downturn.

The acquisition closed in December 2002.

Vintage 1997 investments

TelePacific, headquartered in Los Angeles, is the largest CLEC providing integrated voice and data telecommunications services to the under-served small and medium-sized business ('SMB') customer segment in California and Nevada. Despite the economic softness in its marketplace, TelePacific continues to realize attractive revenue growth, customer additions and customer churn levels that are rated all among the best in the competitive local exchange carrier 'CLEC' industry. TelePacific's acquisitions, Arrival Communications, Pac-West and MPower, proved to be significantly revenue and margin accretive, resulting in an overall positive outlook for the company. The company has experienced improved labor productivity, largely driven by realized synergies from these acquisitions. Today, TelePacific has more than 1.1 million SMB access lines equivalents ('ALEs') serving over 39,000 SMB customers and is the only telecom player with contiguous coverage of the entire state of California making it an ideal provider for statewide multi-location SMBs.

Despite the current economic conditions, TelePacific expects to continue to perform near or at the top of the CLEC peer group in revenue, EBITDA and free cash flow growth. Customer service continues to be the highest rated in the industry. The economic climate will likely continue to affect performance in the coming months, but the company believes its compelling value proposition continues to resonate with customers and will differentiate it in the market place.

The acquisition closed in April 2000.

Stratus is a leading provider of continuously available servers headquartered in the US. Stratus' recent financial performance reflects the continued profitability of the company's legacy products and services offset by investments to grow its next-generation open-system business lines based on the Linux and Windows operating systems. The company has recently launched a new product that is likely to broaden its addressable market by targeting the software high availability market with virtualization technology.

The acquisition closed in February 1999.

Avecia, a leading specialty chemicals group, has successfully completed the divestiture of all of its business divisions, with the exception of Biotechnology, and is now a pure contract manufacturing biotechnology business. The senior management team has been restructured to reflect the company's reduced size. The UK Biologics plant was recently inspected by the FDA and successfully passed the inspection. This key achievement is expected to improve the rate of capture of business and ultimately enhance profitability of the Group. On the back of this key milestone for the business, management, in conjunction with Investcorp, continues to explore strategic options for the remaining Avecia businesses.

The acquisition closed in June 1999.