EXECUTIVE SUMMARY

During its fiscal year ended June 30, 2009 (FY09), Investcorp has witnessed what has been, arguably, the worst period of sustained stress to world economies and financial markets in living memory. The environment has had a severe impact on Investcorp across both its client and its investment businesses, and it has been the most challenging year for Investcorp since its formation in 1982.

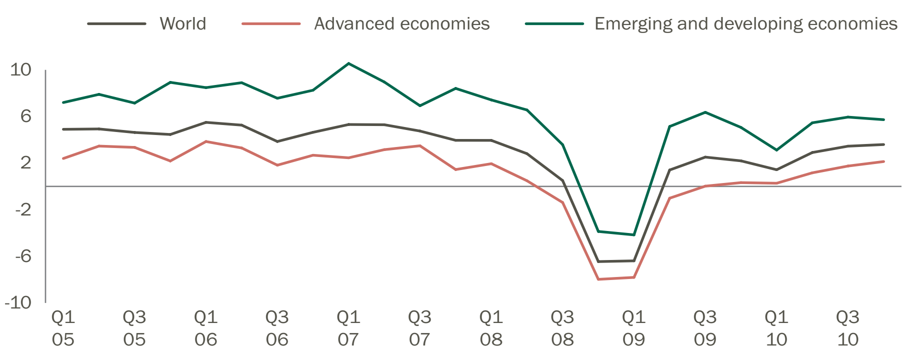
The management team has focused on dealing with these challenges head on. It has maintained an active and open dialog with clients throughout the year and has protected the balance sheet by raising capital, reducing investment risk and mitigating re-financing risk by holding high levels of cash liquidity while de-leveraging the balance sheet at the same time.

The successful completion of a preference share issue in excess of $500 million, more than double the stated minimum target, in such a difficult environment is clear evidence of confidence in Investcorp's business model and management team. Although the length and depth of the global recession is still uncertain, management believes that the firm action taken during the fiscal year will enable Investcorp to move forward and focus on the attractive business opportunities that now present themselves.

BUSINESS ENVIRONMENT

The sub-prime housing crisis that started in the United States in 2007 developed in late calendar year 2008 into a major systemic financial crisis, sending economic activity in the developed world into a synchronized downward spiral. This has led the IMF to make continual downward revisions to its estimate for global growth in calendar years 2009 and 2010. Output in 2009 is expected to contract by 1.4% globally, by 2.6% in the US and by 4.8% in Europe. World trade is likely to fall by 10%, and private capital flows are likely to decline by almost 50%.

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



Source: IMF WEO July Update (shown in calendar year)

The countries of the GCC and the wider MENA region have not been immune to the events in global markets. Regional financial markets have suffered and lower energy prices have dampened near-term economic growth. Significant financial surpluses created in recent years, as well as the natural resources available in the Middle East, are, however, expected to support GDP growth in the region. This is forecast to grow at 2.0% for 2009 and at 3.7% in calendar year 2010, a rate higher than the world average.

The scale of financial market dislocation and distress has been unprecedented, leading to a virtual freeze in liquidity and capital markets. Financial institutions, primarily in the US and Europe, have already reported losses of almost $1.5 trillion, and have raised almost $1 trillion of new capital, primarily from the public sector.

Expected total losses across debt assets may rise to more than $2.5 trillion, putting further pressure on international bank capital ratios and making it necessary to raise additional capital and continue to reduce balance sheet size and risk appetite. The cost of capital for all businesses has re-priced dramatically in a short period of time, and this will continue to affect the ability of the corporate sector to drive investment and employment activity, and to pull out of recession.

Governments all over the world have been forced to bail out financial institutions and to introduce large fiscal stimulus packages to combat the contraction of consumption. Actions to stimulate their economies have also been taken by the governments within the GCC and the biggest Gulf banks are now generally better capitalized than their emerging markets peers. The Gulf region will continue to benefit from hydrocarbon wealth and a gradual opening up of credit markets.

The freeze on new lending in the US and Europe has brought private equity and real estate deal activity to a virtual halt, impeding Investcorp's efforts in deploying new investment capital.

Broad political mandates for international regulation to address the causes of the financial crisis have been set out in both developed and emerging countries. These mandates include enhancing the Basel II framework for bank capital adequacy as well as establishing minimum standards for liquidity risk management and for determination of the fair value of financial assets and liabilities in stressed markets.

Private clients in the Gulf, like their peers across the globe, were initially shocked by substantial value declines across their asset portfolios, by the bursting of the regional real estate bubble and by the drying up of liquidity markets. Their need to de-lever and reduce risk assets significantly reduced appetite for investment activity in the near term. Confidence was also affected by severe liquidity issues faced by a few prominent GCC-based families and institutions.

Towards the end of Investcorp's fiscal year, there were some indications that government spending initiatives and support of the financial system has made a positive impact and that the global economy is reaching a turning point. Equity and commodity markets have recovered, and the corporate sector is now able to access debt capital markets. However, while the US Federal Reserve now expects US GDP to grow above trend in 2010, there are many factors that suggest it is prudent to maintain a cautious outlook for the next 12 months. These factors include the effects of higher private saving and lower consumption and of falling wage growth and employment, the fading impact of government stimulus and the possibility of further financial market shocks.

FINANCIAL PERFORMANCE

Impact of environment on earnings

The series of events that occurred after the collapse of Lehman Brothers in September 2008 resulted in all asset classes becoming highly correlated. The resultant systemic shock to the financial system and its impact on market liquidity forced sharp downward price movements across equities, fixed income and alternative assets in the second half of the 2008 calendar year. It also dramatically reduced investors' immediate appetite for risk assets. This had an impact on Investcorp's FY09 financial performance across its fee income business and, more significantly, resulted in book losses across its portfolio of balance sheet co-investments, largely due to unrealized valuation declines.

For FY09 Investcorp has shown a gross operating loss of $89.0 million before provisions and expenses. After deducting provisions of $22.2 million, interest expense of $115.0 million and operating expenses of $206.3 million, the net operating loss was $432.5 million.

In addition, in light of continued uncertainty surrounding the global economy and its emergence from the current recessionary environment, Investcorp took a conservative view towards marking-to-market its portfolio of private equity and real estate co-investments, recording a further reduction of $348.1 million in unrealized fair value changes on its private equity ($241.8 million) and real estate ($106.3 million) co-investments. These are unrealized adjustments that, in addition to reflecting the challenging environment in which companies are currently operating, also incorporate the uncertain near-term outlook for earnings and property cash flows.

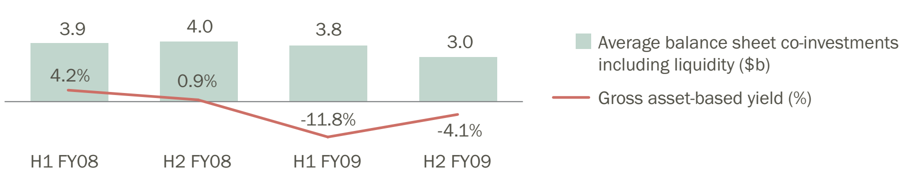
Total net loss for fiscal year 2009 (12 months from July 2008 to June 2009) is thereby $780.6 million, of which $511.1 million was recorded in the first half of the fiscal year between July to December 2008, during the peak of the global financial crisis. Encouragingly, the second half of the fiscal year (January to June 2009) has witnessed a strong turnaround, with a significantly reduced net loss of $269.5 million driven by strong returns in hedge funds that were offset by the mark-to-market declines in private equity and real estate valuations.

Fee income for the full year was $129.4 million, compared to $382.9 million in FY08, reflecting an unprecedented low level of investment acquisition and deal-by-deal placement that has substantially affected activity fees. A fall in average client AUM, mainly due to redemptions from hedge funds, has also reduced management fee income.

Asset-based income excluding unrealized fair value changes was a net loss of $218.4 million, primarily as a result of net asset value (NAV) declines on Investcorp's hedge fund co-investments during the three months from September to November 2008. The economic crisis of calendar year 2008 resulted in Investcorp's first ever year of negative returns in ten years on its co-investment in hedge funds. However, in the second half of FY09 (first half of calendar year 2009) performance was strongly positive, generating non-dollar weighted returns of 12.3% as a result of lower systemic risk, increased market liquidity and tactical portfolio positioning. Investcorp believes that the crisis will result in a trend towards institutionalization of the hedge fund industry, with a focus on managed accounts and transparency, customized client solutions and innovative risk management. These are areas of historic strength for Investcorp's hedge fund program. Investcorp's gross exposure to hedge funds at year end was $845 million, consisting of $457 million invested in diversified fund of funds and $388 million invested across seven single managers. As part of its ongoing balance sheet and liquidity management objectives, Investcorp plans to retain hedge fund risk assets at no more than $1 billion.

The average yield on balance sheet investments reflects the current recessionary cycle that began in the second half of Investcorp's FY08 and continued throughout FY09. However, assuming the absence of a second major systemic crisis or financial market collapse, Investcorp expects a gradual upturn in average asset-based yields into FY10.

Average yield on balance sheet assets



As a prudent response to the losses incurred in FY09, and the subsequent decline in ordinary shareholders' equity, the Board of Directors has proposed that no ordinary dividends be paid for FY09.

MANAGEMENT ACTIONS

Management has focused on the following key issues during FY09 in order to meet the challenges of the current environment and to emerge into FY10 as an institution of strength:

- De-leveraging and de-risking the balance sheet by raising capital, retaining high levels of cash liquidity and reducing balance sheet co-investment exposures
- Right-sizing the expense base of the company by reducing costs in sync with expected near-medium term revenue generation capability
- Continuing a critical dialog with clients to reassure them that the investment teams are focusing on the management of their investments and on developing suitable new products to meet their needs in the current environment
- Pursuing appropriate and appealing opportunistic investments that take advantage of current price dislocations

Deleveraging: raising capital

Investcorp raised over $500 million in preference share capital from institutional and private investors across the GCC countries. This amount is significantly more than the minimum target of $250 million that was publicly announced by Investcorp at the half year. The strong support shown by the large institutional investors participating in the issue, who made their investments following significant and detailed due diligence, is a sign of confidence in Investcorp's business model, management and core strategy.

This new preference share capital has boosted Investcorp's economic capital base, helping meet Investcorp's deleveraging objectives and supporting deal underwriting and new business growth initiatives.

Total shareholders' equity fell from $1,237 million to $895 million, with net book value per ordinary share decreasing from $1,673 to $523. At June 2009, the ordinary shareholder base of Investcorp comprised 38.7% public shareholders, 33.6% strategic shareholders and 19.1% management. Public shareholders held 18.4% in ordinary shares listed on the Bahrain Stock Exchange and 20.3% in GDRs listed on the London Stock Exchange. The balance of 8.6% is held by Investcorp in the form of Treasury shares and shares set aside for future sale to management.

Investcorp's Tier 1 capital adequacy ratio now stands at 20.0% (compared to 18.4% last year), which is 250% of the BIS capital adequacy guideline of 8% and 167% of the Central Bank of Bahrain's minimum requirement of 12%. This puts Investcorp amongst the strongest capitalized banks globally, providing an ideal platform to benefit from an anticipated recovery in global economies and markets.

During FY09, Investcorp also completed the formal, independent, CBB-mandated risk assessment review, and no significant issues were highlighted. This detailed review of Investcorp's risk management and business support areas highlights Investcorp's strong risk infrastructure. This should serve as a strong platform to support a regulatory minimum capital adequacy ratio of no greater than the current 12% when the CBB progresses with its plan to determine specific risk-based minimum CAR targets for those financial institutions which have successfully completed the risk assessment.

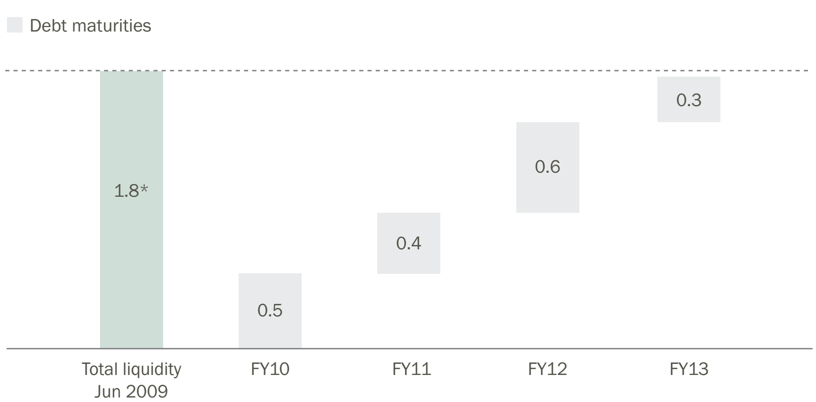
Deleveraging: reducing size of balance sheet and outstanding debt and increasing cash liquidity

Total assets decreased by 24% to $3.6 billion. This reflects actions taken to collect client receivable balances, reduce working capital, reduce hedge fund co-investments and increase levels of cash liquidity. Total co-investments in hedge funds, private equity and real estate fell by almost half from $3.4 billion to $1.8 billion and, at June 30, 2009, represented a 2.0x (FY08: 2.7x) multiple of the total capital base. Despite this decrease in balance sheet co-investment levels, Investcorp remains the most significant investor across its business products, holding 19% of total AUM.

Total liquidity as at June 30, 2009 including proceeds from the $500 million preference share capital raise is $1.8 billion, of which $1.1 billion is held in cash or cash equivalents. Total liquidity is sufficient to cover all debt maturities beyond the next four fiscal years until at least March 2014.

Liquidity/debt maturity cover

($ billions)



* Includes $110m of preference share capital shown as a receivable at balance sheet date

Debt management

Liquidity generated from the reduction in balance sheet assets and a draw down of medium-term revolvers has been used to pay down short tenor debt, reduce near-term refinancing risk and maintain a five-year weighted average residual maturity of debt. Investcorp extended $120 million of a loan facility due in July 2009 out to December 2009, and, in H1 FY10, it plans to complete a comprehensive forward re-financing of loans that mature over the following two years.

Financial leverage (liabilities/equity), adjusted for transitory balances, has fallen to 1.8x from 2.5x at June 2008. This is well below the tightest long-term debt covenant cap of 3.55x.

Investcorp's current credit ratings are Ba1 (Moody's), BB+ (Fitch) and BBB+ (Capital Intelligence). Credit downgrades by the rating agencies in FY09 reflected the difficult business environment, with rating agencies echoing Investcorp's plans to de-lever its balance sheet. The downgrades did not trigger either early prepayments of debt or any material increase in the cost of debt. The rating agencies are expected to complete a review of their rating outlook position early in FY10, taking into account the successful completion of the preference share capital raise.

Cost management

In December 2008 Investcorp implemented reductions in fixed operating expenses by 25%, equivalent to approximately $50 million on an annualized basis. The number of full time employees has been reduced by 22%. Total FY09 operating expenses, including incentive compensation, were $206.3 million, 22% lower than in FY08. Headcount reductions have been implemented with no impact on client-facing roles or new and growing areas of investment business.

Interest expense fell by $44.9 million to $115.0 million, reflecting the benefit of significantly lower US$ benchmark rates, offset, to a certain extent, by higher average debt margins arising from the lengthening of average residual debt tenor.

A more detailed analysis of the H1 FY09 fiscal results is provided in the discussion of results section.

Senior management changes

At the end of FY09, Investcorp's CEO, Nemir A. Kirdar, took on significantly more direct involvement in the day-to-day management of the Firm, and assumed direct responsibility for those business areas that had previously reported to him through a Chief Operating Officer (COO). While a CEO/COO structure had served Investcorp well for many years, it was felt that the current industry challenges and the strategic direction of the Firm would benefit from the CEO being closer to the lines of business. The existing heads of Investcorp's lines of business, all of whom have many years of experience with Investcorp, continue to run these business lines.

There have been two new senior additions to the management team. Mohammed Al-Shroogi joins Investcorp as President of Gulf business and Mark Slaughter as Chief Administrative Officer. Mr. Al-Shroogi previously headed Citibank International in the Middle East and has over 30 years of experience in the banking industry in the Gulf region. Mr. Slaughter has international banking experience acquired during a career of senior leadership roles at Goldman Sachs and Citigroup in London and New York. He was most recently Chief Operating Officer, global banking, at Citigroup.

The leadership team now comprises five senior partners: Nemir A. Kirdar, Executive Chairman & CEO; Mohammed Al-Shroogi, President, Gulf business; Christopher O'Brien, President, US and European business; Rishi Kapoor, Chief Financial Officer; and Mark Slaughter, Chief Administrative Officer.

This new leadership team has the blend of skills and experience that will enable the Firm to leverage its strong franchise and brand in the Gulf, provide best-in-class service and products to clients and deliver value to shareholders.

CLIENT BUSINESS

The Gulf has not been immune from the financial stress in the West and in particular the more muted outlook for economic growth and wealth creation resulting from the sharp decline in oil prices. Much lower international capital inflows into the region, as well as an abrupt fall in cross-border lending within the region, have exacerbated liquidity issues, forcing personal and corporate de-leveraging. The subsequent response by GCC governments in the form of capital and liquidity injections into the banking sector is, however, beginning to deal with some of these issues.

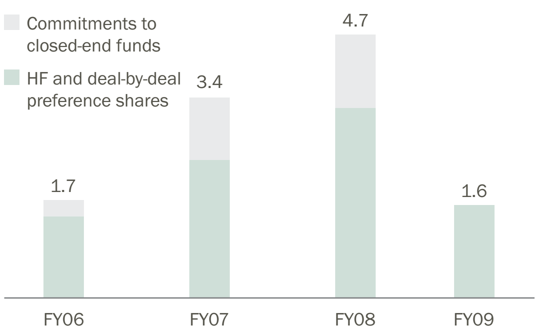
HNWI wealth in the Middle East is estimated to have fallen by 16.2% in 2008, and the sub-group of Ultra-HNWI has suffered the worst losses. However, as the world economy emerges from recession, the revised expectations for GDP growth and hydrocarbon revenues continue to support further wealth accumulation. HNWI financial wealth in the region is forecast to increase by $500 billion over the next five years.

The decline in asset values and invested wealth has sidelined private client investors from making new investment decisions, and they are expected to remain risk averse until markets stabilize and liquidity improves. Sovereign Wealth Funds and other institutional investors continue to be active long-term international investors but their activity has been somewhat tempered by liquidity and financing constraints plus the desire to divert more of their focus inwardly towards the GCC.

Given the very low level of new investment activity during FY09, deal-by-deal placement activity for private equity and real estate product has been very low. Investcorp's Placement and Relationship Management team focused on two areas during the year. First, they have intensified the frequency of client meetings to review portfolio performance and discuss asset allocation. Second, they were involved in Investcorp's private placement of preference shares.

Placement and fundraising activities

($ billions)



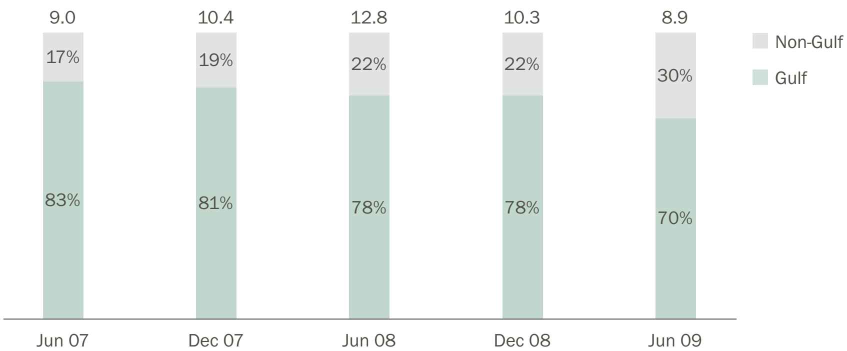
Total GCC and international placement and fundraising activities in FY09, including proceeds from the private placement of preference shares, was $1.6 billion. Actual cash collected from Gulf clients in FY09 including receivables, preference shares and deal product totaled over $1 billion, only slightly less than the amount of cash raised from Gulf clients in FY08.

The final closings of the Investcorp Private Equity 2007 Fund and of the Gulf Opportunity Fund I closed-end funds were completed during the year and a new real estate Mezzanine Fund II was launched, with a target of $250 million. Investcorp also has moved ahead with the planned launch of its new business initiative for mezzanine debt financing in MENA, a product that will complement the existing private equity investment business in the region.

Client AUM declined by 31% to $8.9 billion, from $12.8 billion in FY08, mainly due to redemptions from hedge funds.

Client assets under management

($ billions)



Consistent with the pattern across the hedge fund industry, client hedge fund AUM decreased by 44% from $5.5 billion to $3.1 billion in FY09. This was as a result of a combination of deleveraging within structured product offerings, negative performance and net redemptions. Most of the redemption activity occurred in late calendar year 2008. Significant new subscriptions in the second quarter of calendar year 2009 reflect continued interest in hedge funds by sophisticated investors and a passing of the redemption pressures that followed the negative returns in late calendar year 2008.

Unlike a large number of funds of hedge funds, Investcorp's funds did not put up any liquidity gates on clients during the height of redemption activity. This is expected to support the capture of private flows back into the asset class in the near-term. In the long-term, Investcorp believes that the factors affecting hedge fund performance in 2008 have been transient and that there are attractive opportunities in several strategies that are expected to achieve strong risk-adjusted returns post crisis.

As a result of the significant hedge fund redemption activity in FY09, more than half of Investcorp's client AUM is now held in private equity. Non-Gulf client AUM at June 2009 represents $2.6 billion (30%) of total client AUM, compared to $2.9 billion (22%) at June 2008.

Alternative assets have outperformed conventional markets not only through the very challenging return environment of calendar year 2008 but over the medium-term since 2000. Investcorp believes that sophisticated private and institutional clients will continue to have an appetite for alternatives and that this will support a return to growth in Investcorp's client assets under management.

Client activity in FY09 is more fully discussed in the client business review section.

INVESTMENT BUSINESS

Private equity — US and European buyouts

Private equity activity has largely been at a standstill and, with a global recession that is likely to last into 2010, visibility is low. Private equity backed companies in general are under a severe liquidity strain, with industry write-downs and defaults expected to accelerate.

In FY09 Investcorp's priority has been to ensure that its existing portfolio companies are in strong positions to weather this economic crisis. Investcorp's long-standing private equity model, which has always focused on operational improvements, is well suited to this environment. The limited availability and higher cost of debt financing has put even more emphasis on private equity firms delivering added value through improving operations. The private equity team has closely focused on debt management for the companies in its portfolio in order to optimize capital structures, address potential covenant and debt refinancing issues and protect EBITDA. Portfolio EBITDA increased marginally by 1% in 2008 and EBITDA is forecast to be 12% lower in 2009. Annualized cost savings of $500 million across the portfolio, and $225 million of cash savings from working capital and capex management, are expected to provide a significant offset to lower top-line cash flows.

The downturn in transatlantic buyout investment activity has been deeper and may last longer than originally predicted, reducing the universe of opportunities for Investcorp's transactional deal-by-deal business. The buyouts team has been cautious on making new investments and in the level of leverage used for new deals, which are now more likely to involve more all-equity transactions, smaller middle-market companies or small add-on acquisitions. However, there are some recent signs that private equity activity is starting to recover, as the leveraged loan and IPO markets have recently shown some signs of activity.

During FY09, Investcorp acquired N&W Global Vending for an aggregate equity investment of €170 million, and various portfolio companies made add-on acquisitions funded through their own cash resources.

One portfolio company, Autodistribution, was restructured during FY09 and Investcorp reinvested €24 million, which was placed with Gulf clients. Two other companies in the portfolio, TimePartner and EnviroSolutions, have required attention to address covenant and liquidity pressures. Investcorp estimates that $55–130 million of additional support capital to portfolio companies may be required over the next 18 months, which equates on aggregate to about 5% of the $4.4 billion in initial equity invested by Investcorp and its clients.

There were no exits from the portfolio during the fiscal year.

The carrying value of Investcorp's co-investment across 23 companies at June 2009 is $769 million as compared to $922 million at June 2008. The five largest investments represent 56% of the total buyouts portfolio and 48% of total shareholders' equity.

Private equity — technology small-cap

Technology investment has slowed significantly but it remains the strongest sector by number of deals, and the mid-market sector in which Investcorp operates continues to be strong. Technology is seen as a major growth and productivity driver across all industries, and it has benefited from a renewed federal and corporate focus.

The technology Fund I is fully invested and Fund II made a number of add-on acquisitions totaling $29.9 million during the year. Fund III, which closed in January 2008 at $500 million, made two new investments in FY09. These were a $40 million investment in FleetMatics, a leading US-based telematics software solutions provider and a 40% equity stake in UK-based TDX Group for £28 million ($43 million). TDX provides analytics for defaulted consumer debt recovery, and is the largest, fastest growing player in this sector in the UK market.

There were no exits from the portfolio during the fiscal year.

The carrying value of Investcorp's balance sheet co-investment exposure in technology investments at June 30, 2009 is $46 million.

Private equity — Gulf growth capital (GGC)

The global economic crisis has had negative impacts on Gulf financial markets, energy prices and near-term economic growth. Nevertheless, significant financial surpluses created in recent years and the region's natural resources, will continue to drive investment in local GDP growth at levels much higher than the world average.

Lower public equity valuations have created more attractive opportunities for growth capital investors, and business and family owners are now more open to financial sponsors. GGC's first fund, the Gulf Opportunity Fund I, completed its first two investments in FY09 for a combined equity value of $228 million. The first investment was a 36% minority interest in Redington Gulf, the leading IT master distributor in the Middle East and Africa, completed in November 2008. The second investment was as lead investor in a consortium that acquired a 70% stake in L'azurde, based in Riyadh, Kingdom of Saudi Arabia. L'azurde is the leading manufacturer and wholesaler of gold jewelry in the MENA region.

Hedge funds

In 2008 the hedge fund industry faced a 'perfect storm' of systemic events and the near collapse of the global financial system. Following the Lehman Brothers bankruptcy, banks halted market-making activities and drained liquidity in order to de-lever their balance sheets. This forced hedge funds to cover positions and realize losses. The HFR Fund of Hedge Fund Composite index fell 15.9% between September and December 2008, although this was significantly less than the drop in the S&P 500, which fell 28.9% over the same period. Investors made hedge fund redemptions on an unmatched scale and industry assets have fallen by almost 50% from their peak of $1.9 trillion to $1 trillion.

Investcorp expects that actions taken by governments around the world have reduced the likelihood of a large systemic banking shock, but that the crisis will increase the trend towards institutionalization of the hedge fund industry, with a focus on managed accounts and transparency, customized client solutions and innovative risk management. These are areas of historic strength for Investcorp's hedge fund program.

Investcorp's losses on its co-investment in hedge funds in 2008 were its first ever year of negative returns in over ten years. The second half of FY09 (first half of calendar year 2009) performance was strongly positive, generating returns of 12.3% on a non-dollar weighted basis, reflecting lower systemic risk, increased market liquidity and tactical portfolio positioning. Despite the fact that $1.1 billion of cash was taken out of hedge fund co-investments in FY09, the portfolio has retained high levels of liquidity. At June 30, 2009, 72% of Investcorp's co-investment of $614 million is accessible within six months.

Gross exposure at year end was $845 million, consisting of $457 million invested in diversified fund of funds and $388 million invested across seven single managers. As part of its ongoing balance sheet and liquidity management objectives, Investcorp plans to retain hedge fund risk assets at no more than $1 billion.

Real estate

US real estate market activity and performance continues to be depressed due to the ongoing dislocation in financing markets. The negative impact of the credit crunch on the commercial real estate market has accelerated in FY09. Lower consumer spending and high unemployment have led to a sharp drop in hotel revenue, higher retail and office vacancy rates and declining leasing rates across the commercial sector.

Investcorp has therefore focused on income-producing real estate debt investments where there continue to be growing opportunities across distress and recapitalization situations. In FY09, the real estate business deployed $111.4 million of capital into debt investments including transactions that were originated by Investcorp's two closed-end debt funds.

At June 2009, Investcorp's real estate balance sheet co-investment portfolio totaled $283.2 million.

Investment activity in FY09 is more fully discussed in the investment business review section.

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 in cash or pay-in-kind on Investcorp's private equity and real estate co-investments and invested liquidity plus the value change in Investcorp's co-investment in hedge funds; and (iii) the impact of **unrealized fair value adjustments** on private equity and real estate co-investments.

Net (loss) income ($ millions)	FY09	FY08	% Change B/(W)
Fee income	129.4	382.9	(66%)
Asset-based income	(218.4)	222.2	>(100%)
Gross operating (loss) income	(89.0)	605.1	>(100%)
Provisions	(22.2)	(5.4)	>(100%)
Interest expense	(115.0)	(159.9)	28%
Operating expenses	(206.3)	(266.1)	22%
Net operating (loss) income	(432.5)	173.8	>(100%)
Unrealized FV adjustments	(348.1)	(22.7)	>(100%)
Net (loss) income	(780.6)	151.1	>(100%)
Total revenue	(437.1)	582.4	>(100%)

Gross operating losses in FY09 were $89.0 million (FY08: $605.1 million income) reflecting the severely adverse return and operating environment. Fee income has been negatively impacted by a significant reduction in transactional activity. Asset-based losses stem from negative hedge fund returns during the months of systemic financial crisis that resulted from the collapse of Lehman Brothers in September 2008.

Downward mark-to-market adjustments in the fair values of private equity and real estate co-investments reflect a conservative view and recognize the uncertain outlook for private equity portfolio company earnings and prospect of increasing capitalization rates in the US real estate market. These fair value adjustments are unrealized and there is no near-term pressure to sell any of the underlying assets at current depressed values. Hence, the ultimate realized returns on these investments could differ significantly from current valuations. This element is therefore stated separately in the income statement.

Operating expenses were 22% lower at $206.3 million (FY08: $266.1 million), reflecting a realignment of the business cost structure that was implemented in December 2008 to ensure that costs stayed in sync with lowered expectations for revenues in the near-term. The full annual impact of the cost reduction program, which included a 22% reduction in global headcount, will be evident in FY10.

Interest expense fell by $44.9 million, or 28%, as a result of further sharp policy easing actions by the US Federal Reserve. To some extent this flowed through to short-term LIBOR rates which are the base for Investcorp's cost of funding.

The overall net loss in FY09 was $780.6 million and is substantially due to the negative realized and unrealized returns on Investcorp's proprietary investments and the interest cost of funding those assets.

Fee income

Gross fee income earned in FY09 was $129.4 million, substantially lower than the $382.9 million reported for FY08. In the worst operating environment in Investcorp's 26-year history, activity fees fell 90% to $21.7 million, reflecting the very low level of both new acquisition activity and placement. Management fee income fell by 21% to $107.4 million, primarily as a result of a fall in hedge fund client AUM in the last quarter of calendar 2008 as investors rushed to access liquidity from whichever source was available. Minimal performance fees were booked in the year due to the paucity of exit activity and a small claw-back in hedge fund fees, although some performance fees were earned on distributions made by the new debt-based real estate funds.

A more detailed analysis of segmental income by asset class is shown at the end of this section.

Expenses attributable to fee income fell by 24% to $169.4 million (FY08: $223.4 million) due to lower incentive compensation and the reduction in headcount across Investcorp. However, due to the significant drop in total fee income, net fee income for the year was a loss of $40.0 million compared to positive net fee income in FY08 of $159.5 million.

Summary of fees ($ millions)	FY09	FY08	% Change B/(W)
Management fees	107.4	136.5	(21%)
Activity fees	21.7	221.5	(90%)
Performance fees	0.3	25.0	(99%)
Fee income	129.4	382.9	(66%)
Expenses and taxes attributable to fee income	(169.4)	(223.4)	24%
Net fee income	(40.0)	159.5	>(100%)

Operating expenses associated with fee generation activities are equal to total operating costs less the operating expenses attributable to proprietary co-investment activities that are calculated in a formulaic manner.

Asset-based income

Gross asset-based losses, excluding the impact of fair value adjustments on private equity and real estate co-investments, were $218.4 million (FY08: $222.2 million income).

The dramatic decline in gross asset-based income in FY09 was primarily due to negative returns on hedge fund co-investments in the first half of the fiscal year. Although there was a strong turn-around in hedge fund returns during the second half, with solid positive returns in every month yielding non-dollar weighted returns of 12.3%, the year-on-year drop in hedge fund asset-based income was $424.3 million.

Treasury income includes interest income earned on the high levels of invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk on long-term liabilities.

Asset-based income ($ millions)	FY09	FY08	% Change B/(W)
Private equity	12.4	20.6	(40%)
Hedge funds	(323.8)	100.5	>(100%)
Real estate	20.2	26.3	(23%)
Treasury and liquidity income	72.9	74.9	(3%)
Gross asset-based income	(218.4)	222.2	>(100%)
Expenses attributable to asset-based income	(37.0)	(42.7)	13%
Interest expense	(115.0)	(159.9)	28%
Provisions	(22.2)	(5.4)	>(100%)
Net asset-based income	(392.5)	14.3	>(100%)

Operating expenses attributable to asset-based income declined by 13% to $37.0 million (FY08: $42.7 million), reflecting the lower level of co-investments and the absence of any carry payable on the co-investment returns based on the formulaic calculation described below. Interest expense is discussed later in this section.

Overall, the net asset-based loss for FY09, excluding the impact of unrealized fair value adjustments, was $392.5 million compared to asset-based income of $14.2 million in fiscal 2008.

Operating expenses associated with principal co-investing activities are determined to be:

- A fixed management fee charge calculated at 1.2% of average proprietary invested assets. Invested assets comprise proprietary co-investments in each of the lines of business, placements with banks and other financial institutions, and government securities reported in the Group's balance sheet.
- Plus a 20% carry on gains on aggregate asset-based income in excess of interest expense and the 1.2% charge described above.

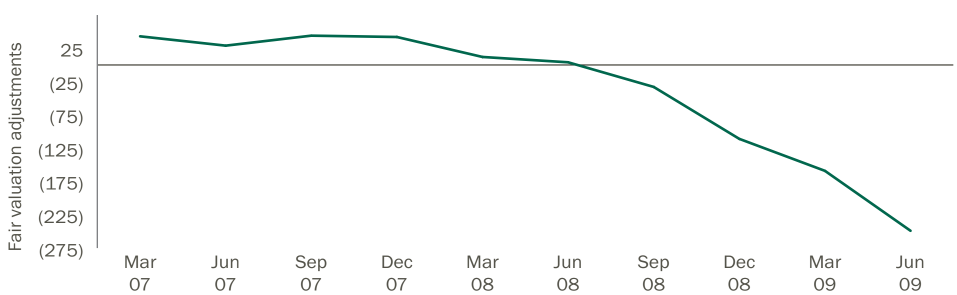
Unrealized fair value adjustments

The negative impact of the current economic environment on private equity EBITDA levels and real estate capitalization rates has led to large unrealized downward fair value adjustments on Investcorp's balance sheet co-investments. In FY09 the carrying values for private equity co-investments have been reduced by $241.8 million (FY08: $15.6 million) and the carrying values for real estate property portfolios have been reduced by $106.3 million (FY08: $7.1 million).

For private equity buyout valuations the dislocation in public equity markets and the lack of recent comparable M&A transactions has placed greater emphasis on DCF-implied multiples, which take into account an expected difficult operating environment over the next 12 to 18 months. The cumulative unrealized fair value adjustments as at June 30, 2009 represents a 22% net decline from the original aggregate cost of the buyout portfolio and a 34% peak-to-trough decline, largely in line with public market indices and consistent with numbers reported by other private equity industry participants. Peak-to-trough valuation declines are reflected in the chart below, which shows that overall, the PE buyout co-investment portfolio has experienced a decline in value of more than $300 million since December 2006.

Cumulative fair valuation adjustments since Dec 06

($ millions)



Significant downward fair value adjustments have also been made to opportunistic real estate portfolios and office properties based in New York. The cumulative unrealized fair value adjustments at June 30, 2009 for real estate represent a 33% net decline from the original cost of the portfolio.

The table below shows the average balance sheet asset yield for each of the last six half years, computed by comparing realized asset-based income and unrealized fair value adjustments to average assets. The negative environment for asset valuations began in the second half of calendar 2007 (H1 FY08) and has increasingly impacted balance sheet returns adversely over the past 18 months.

Asset yields	H1 FY07	H2 FY07	H1 FY08	H2 FY08	H1 FY09	H2 FY09
Private equity	2.2%	6.8%	2.9%	(2.2%)	(11.1%)	(16.2%)
Real estate	3.9%	6.6%	2.9%	1.9%	(3.8%)	(20.7%)
Hedge funds*	6.5%	10.4%	6.7%	(0.9%)	(20.4%)	12.3%
Corporate	1.9%	2.6%	3.1%	7.2%	8.3%	1.0%
Total	4.2%	7.4%	4.2%	0.9%	(11.8%)	(4.1%)

*Non $ weighted returns

Downward adjustments to private equity and real estate valuations in the second half of FY09 were mitigated by a strong positive performance in hedge funds. Investcorp believes that the gradual improvement in the average overall yield on its balance sheet co-investments should continue into FY10 as the world economy is expected to slowly emerge out of recession.

Asset-based income by asset class

The tables below summarize the primary drivers of asset-based income for private equity, hedge funds and real estate:

PE asset-based income KPIs ($ millions)	FY09	FY08	% Change B/(W)
Realized asset-based income	12	21	(40%)
Unrealized FV adjustments	(242)	(16)	>(100%)
Average co-investments (excluding u/w)	841	859	(2%)
Absolute yield for period	(27%)	1%	(28%)

HF asset-based income KPIs ($ millions)	FY09	FY08	% Change B/(W)
Realized asset-based income	(324)	101	>(100%)
Average co-investments	1,341	1,974	(32%)
Absolute yield for period	(24%)	5%	>(100%)
3-month LIBOR	2%	4%	(2%)
Spread to 3-month LIBOR	(26%)	1%	(27%)
Non $ weighted returns	(11%)	6%	>(100%)

RE asset-based income KPIs ($ millions)	FY09	FY08	% Change B/(W)
Realized asset-based income	20	26	(23%)
Unrealized FV adjustments	(106)	(7)	>(100%)
Average co-investments	347	402	(14%)
Absolute yield for period	(25%)	5%	(30%)

Interest expense

Total FY09 interest expense of $115.0 million was 28% lower than in FY08. The average level of debt was slightly lower over the year, and the mix between short-term and long-term debt changed significantly. Average short-term debt fell by 47% to $569 million and average medium- and long-term debt increased by $274 million, or 13% to $2,315 million.

Interest expense ($ millions)	FY09	FY08	FY09 vs FY08 H/(L)
Average short-term interest-bearing liabilities	569	1,074	(505)
Average medium- and long-term interest-bearing liabilities	2,315	2,040	274
Average interest-bearing liabilities	2,884	3,115	(231)
Interest expense	115	160	(45)
Average LIBOR rate set (1 month)	1.6%	4.2%	(2.6%)
Spread to LIBOR rate set (1 month)	2.4%	0.9%	1.5%
Cost of funding	3.9%	5.1%	(1.1%)

US$ LIBOR rates fell 2.6% year-on-year. Investcorp maintained a short duration interest rate risk bias throughout FY09 in order to benefit from these low benchmark rates.

The benefit of low absolute rates was somewhat offset by the impact of higher funding margins to LIBOR, which increased to 2.4% in FY09 (FY08: 0.9%). This increase was due to a combination of factors which reflect both the actual re-pricing of interbank credit and the dislocated funding markets that existed for much of the fiscal year. During the last quarter of calendar 2008 and the first quarter of 2009 actual interbank rates used to price transactions in the GCC and European markets 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 effect of the LIBOR-related variance was a decrease in interest expense of $78 million, which was partially offset by a $45 million increase in interest expense due to a higher spread to LIBOR.

Interest expense variance ($ millions)	FY09 vs FY08
Balance-related variance	11.9
LIBOR-related variance	77.7
Spread-related variance	(44.6)
Total variance	44.9

Interest expense also reflects the impact of higher cost-of-funding margins from switching to longer tenor liabilities as a result of the change in Investcorp's funding mix.

The credit rating downgrades in FY09 had no significant impact on Investcorp's interest expense, despite triggering contractual coupon step-up obligations contained in some of Investcorp's long-term debt agreements. Interest expense on this portion of debt will increase by approximately $1.1 million in FY10, reflecting the full annual effect.

Operating expense

Cost management initiatives implemented throughout FY09, including headcount reductions announced in December combined with lower incentive compensation, reduced total operating expenses, which fell by 22% to $206.3 million (FY08: $266.1 million).

Staff compensation represented 58% of total operating expenses (FY08: 64%) and compensation costs fell by 29% year-on-year as a result of the headcount reductions and lower incentive compensation.

Other expenses consist of non-compensation personnel costs (including staff training and recruitment), professional fees, travel and business development, and administration and infrastructure costs.

Opex metrics	FY09	FY08
Staff compensation ($ millions)	120.0	170.0
Other opex ($ millions)	86.3	96.1
Total opex ($ millions)	206.3	266.1
Full time employees (FTEs)	317	405
Staff compensation per FTE ($ 000s)	378	420
Other opex per FTE ($ 000s)	272	237
Total staff cost/total opex	66%	71%
Fee margin	(31%)	42%
Fee opex/fee income	131%	58%
Opex/(net income + opex)	n.m.	64%

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 ($ millions)	Fee income			Asset-based income and unrealized FV changes			Total		
	FY09	FY08	Change	FY09	FY08	Change	FY09	FY08	Change
Private equity	79.1	247.0	(68%)	(229.4)	5.0	>(100%)	(150.3)	252.1	>(100%)
Hedge funds	38.1	85.7	(55%)	(323.8)	100.5	>(100%)	(285.7)	186.2	>(100%)
Real estate	12.1	50.2	(76%)	(86.1)	19.1	>(100%)	(74.0)	69.3	>(100%)
Treasury and liquidity	–	–	–	72.9	74.9	(3%)	72.9	74.9	(3%)
Revenue contribution	129.4	382.9	(66%)	(566.5)	199.5	>(100%)	(437.1)	582.4	>(100%)
Operating expenses	(169.4)	(223.4)	24%	(37.0)	(42.7)	13%	(206.3)	(266.1)	22%
Interest expense	–	–	–	(115.0)	(159.9)	28%	(115.0)	(159.9)	28%
Provisions	–	–	–	(22.2)	(5.4)	>(100%)	(22.2)	(5.4)	>(100%)
Net income	(40.0)	159.5	>(100%)	(740.6)	(8.4)	>(100%)	(780.6)	151.1	>(100%)

Revenue contributions across all three business segments were negative in the fiscal year. Low activity fees, and as a result low overall fee income, were further reduced by substantial asset-based losses and mark-to-market valuation declines. Other asset-based income decreased slightly from $74.9 million to $72.9 million.

Balance sheet

The key balance sheet metrics are shown in the table below.

Balance sheet metrics	FY09	FY08
Total assets	$3.6 billion	$4.8 billion
Financial leverage*	1.8x	2.5x
Liabilities/equity	3.0x	2.9x
Shareholders' book equity	$0.9 billion	$1.2 billion
Regulatory risk asset ratio (Basel II)	20.0%	18.4%
Residual maturity—medium- and long-term facilities	61 months	61 months

*Adjusted for transitory balances

Assets

At June 2009, total assets were $3.6 billion, a decrease of $1.2 billion from the previous fiscal year end (FY08: $4.8 billion). The fall in total assets is a result of the initiative to aggressively de-lever the balance sheet. Co-investment assets have fallen by $1.6 billion, primarily by redeeming hedge fund co-investments for cash. Redemption proceeds together with the cash collection of receivables have been used to bolster cash liquidity and pay down short-term maturities of debt so as to mitigate near-term refinancing risk and reduce the overall risk profile of the balance sheet.

Assets ($ millions)	**FY09**	FY08	% Change H/(L)
Cash and equivalents	**1,129**	452	>100%
HF co-investments	**614**	2,021	(70%)
PE and RE co-investments	**1,187**	1,366	(13%)
Other	**690**	928	(26%)
Total assets	**3,620**	4,766	(24%)
Co-investment assets	**1,801**	3,387	(47%)

Co-investments in private equity, hedge funds and real estate risk assets as a multiple of book equity has therefore fallen from 2.7x to 2.0x. Nevertheless, Investcorp still continues to be a significant co-investor along-side its clients in each of the lines of business, accounting for 19% of total AUM at June 2009 (FY08: 22%).

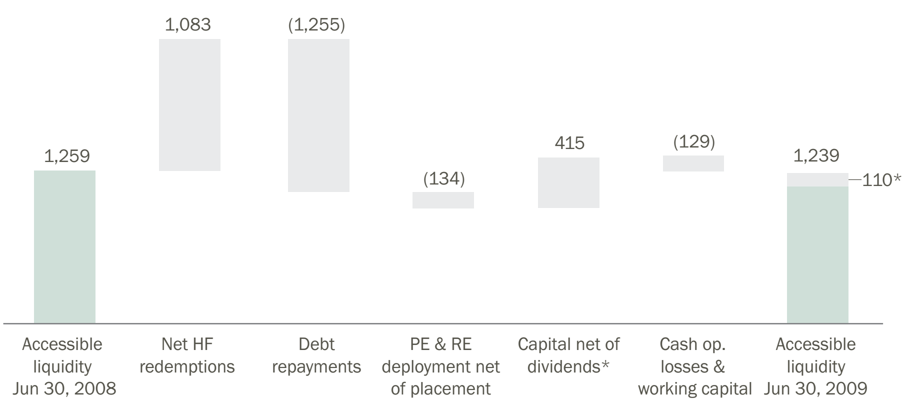
Liquidity

Investcorp has maintained a very conservative approach to liquidity throughout FY09, carrying high levels of immediately accessible cash invested in a combination of short-tenor government treasuries and money market assets. Committed medium-term revolvers were fully drawn down in September 2008 as a defensive measure, to counteract the extreme market conditions and systemic risk that persisted immediately following the Lehman Brothers collapse. The drawn funding, together with proceeds from the redemption of hedge fund co-investments, were used to delever the balance sheet and mitigate near-term financing risk by paying down uncommitted short-term interbank deposits, meeting client requirements for liquidity from their call accounts and repaying and prepaying near-term maturities of medium- and long-term debt.

Accessible liquidity (cash liquidity plus undrawn revolvers) at June 30, 2009 was $1.1 billion (FY08: $1.3 billion). The change in accessible liquidity since June 2008 is shown in the chart below and primarily reflects the repayment and prepayment of debt with cash raised from the issue of preference shares and redemptions from hedge fund co-investments.

Accessible liquidity

($ millions)



* Includes $110m of preference share capital shown as a receivable at balance sheet date

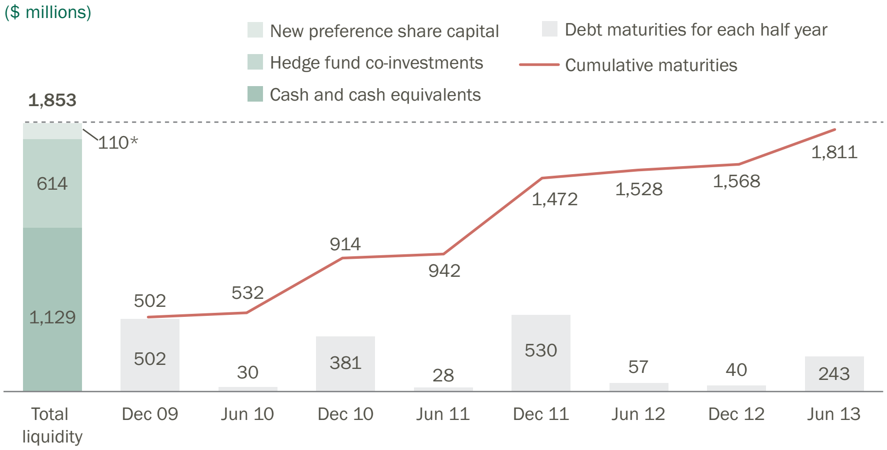
Total liquidity as at June 30, 2009 was $1.7 billion, comprising $1.1 billion held in cash and cash equivalents and $0.6 billion held in hedge fund co-investments. An additional $110 million of liquidity is expected to materialize in the very near-term as the last few remaining subscriptions for the preference shares are funded.

Other than approximately $100 million which is locked up until 2010, the $0.6 billion of hedge fund liquidity can be accessed through a managed redemption process from underlying managers. Of the total amount, $356 million or 57% is contractually available within a three-month period and $459 million or 72% within six months. Investcorp also has the option to accelerate the cash conversion of hedge fund assets by extracting up to $130 million of cash from its fund of hedge fund assets using a committed third party leverage facility (explained more fully below).

Total liquidity remains adequate to cover all debt maturing over the next four years, even assuming the worst case scenario in which re-financing markets remain completely shut until June 2012.

Liquidity cover

($ millions)



*$110m of preference share capital shown as a receivable at balance sheet date

Liabilities

Total liabilities decreased by 23% during FY09 from $3.5 billion at June 2008 to $2.7 billion at June 2009. The amount of $558 million drawn from committed revolvers funded the repayment of $155 million in maturing long-term debt and also the prepayment of $210 million of near-maturity long-term debt. The reduction in short tenor debt and the net increase in medium- and long-term debt has significantly changed the mix of liabilities and reduced refinancing risk. The prepayment and repayment of near-term maturities has maintained a weighted average residual maturity of slightly over five years.

Liabilities ($ millions)	**FY09**	FY08	% Change H/(L)
Short-term deposits	**305**	824	(63%)
Medium-term debt and deposits	**921**	996	(8%)
Medium-term revolvers—drawn	**798**	240	>100%
Long-term debt	**578**	972	(40%)
Other	**124**	497	(75%)
Total liabilities	**2,726**	3,529	(23%)

During the year, Investcorp entered into an agreement with a third party bank that provides access for Investcorp's balance sheet, at arm's length, to a committed facility. The facility is structured as a deposit agreement for one of Investcorp's multi-strategy Fund of Funds, is committed until March 31, 2012 and allows Investcorp to invest in a 2x leveraged note in this Fund on a non-recourse basis. Although the facility is also available to clients, Investcorp expects to be able to access up to $300 million of aggregate financing, if required. As at June 30, 2009 Investcorp had drawn $170 million under the facility.

Of significant note, Investcorp has re-financed the $142 million medium-term loan facility that became due after the balance sheet date in July 2009. A new short-tenor facility for $120 million was closed with key relationship banks in June 2009 and becomes due early in December 2009. Following the release of FY09 results, Investcorp intends to approach its wider banking relationships to arrange and execute a comprehensive re-financing for loan facilities maturing over the following two years, so as to put in place a stable long-term capital structure that will support Investcorp's business objectives while continuing on the path of de-leveraging and de-risking the balance sheet.

The $340 million reduction in other liabilities is due primarily to the funding, in FY09, of acquisitions contracted in FY08 and a lower incentive compensation.

Financial leverage, defined as liabilities adjusted for transitory balances divided by equity, was 1.8x at June 2009 (FY08: 2.5x) and remains well below external covenant ratios of 3.55x. Continued balance sheet de-leveraging is expected to further reduce leverage over the medium-term.

Credit ratings

Investcorp's credit ratings were downgraded during FY09, as part of a broad wave of financial services companies downgrades, globally and in the Gulf, which have for the present shifted credit perceptions of the market as a whole. The actions also reflect the downward earnings pressure on asset-based income during the year and the generally difficult business environment for the alternative investment industry.

The rating downgrades have no material incremental impact on Investcorp's current cost of funding and are not expected to have any material impact on operations. Investcorp believes that the successful completion of the preference share capital raise should support a stabilization of its current rating position.

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

Agency	Rating grade	Comment
Capital Intelligence	BBB+ Stable outlook	Rating and outlook confirmed in March 2009
Moody's Investors Service	Ba1 Negative outlook	Long- and short-term deposit ratings downgraded in May 2009
Fitch Ratings	BB+ On review	Long- and short-term issuer default ratings downgraded in May 2009

Prior to the completion of the preference share capital raise, Fitch downgraded Investcorp's credit rating because of a negative shift in earnings and the resultant decline in Investcorp's capital ratios. Fitch recognized the strength of Investcorp's Gulf-based franchise, its demonstrated expertise in alternative investments and its diversified funding base and indicated that it expects to resolve the rating watch position after it has visibility on the capital raise and FY09 earnings.

Moody's also downgraded Investcorp's credit rating in light of its more conservative assumptions about the length of the global recession and the strength of the recovery and its more negative view on the operating environment for alternative investment providers. Moody's acknowledged Investcorp's sound liquidity profile and the active management and relative resilience of the PE portfolio. Moody's also stated that the raising of at least $250 million in preference share capital would be seen as a positive influencing factor, among others, in the resolution of its current negative outlook.

Economic capital

Investcorp uses an economic capital allocation approach as the main tool to manage internal capital. Capital requirements are determined by a risk-based capital calculation against balance sheet exposures in an extreme stress scenario and a 100% correlation across asset classes.

The aggregate Economic Capital ('EC') requirement over a one-year horizon is given by a 99% VaR risk approach which is based on a multifactor model for private equity and real estate; and a Monte Carlo simulation for hedge funds. This aggregate capital allocation across all asset classes is taken as a linear sum of the individual capital for each asset class. This conservative allocation of capital reflects a steady state aggregate capital at the stress case assumption of asset-class correlation of 1. In the recent turmoil, aggregate economic capital has been increasing steadily as market volatility, counterparty risk and systemic risk increased throughout 2008. Concurrently, Investcorp assesses its long-term economic capital needs by taking into account both its organic growth objectives and capital requirements to support new businesses. This is accomplished using a Long Range Plan ('LRP') Monte Carlo simulation model which provides a projection of the equity cushion at the 99th percentile loss over a five-year horizon.

Throughout most of this crisis, which started in July 2007, Investcorp has managed to stand strong given its solid capital base and its avoidance of the toxic sub-prime and other structured assets that continue to cause problems to many banks across the globe. Investcorp has survived through a once-in-a-century event without having to scramble for cash or rely on government guarantees due to its conservative risk management based approach.

The balance sheet was always planned to be able to withstand stress scenarios and maintain an equity cushion even in the situation of a 99th percentile loss scenario over a one-year horizon. However, having gone through two years of increasingly stressed conditions, economic capital was impacted by the substantial realized and unrealized declines in asset values. The $1.6 billion reduction in balance sheet co-investments in order to reduce exposure and leverage has released economic capital from the balance sheet. The addition of new preference share capital has restored the equity cushion, helped meet Investcorp's overall deleveraging objectives and provided strong support for underwriting of deals and new business initiatives.

The events of FY09 and the ongoing uncertainty about the future global economic situation have led to an even more conservative risk-based approach to balance sheet management, calling for smaller amounts of co-investment and lower leverage. Investcorp will also continue to plan its economic capital requirements using a conservative 100% asset correlation assumption.

Book capital

Equity ($ millions)	**FY09**	FY08	FY % Change
Ordinary share capital	671	1,219	(45%)
Preference share capital*	500	–	–
Proposed common share dividends	–	63	(100%)
Fair value and revaluation adjustments	(277)	(45)	>(100%)
Net book equity	**895**	1,237	(28%)

*Includes $110m of preference share capital shown as a receivable at balance sheet date

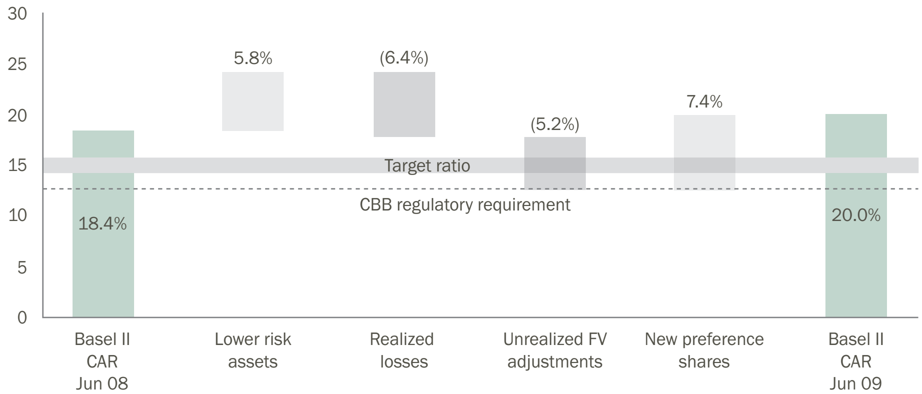
During the year, Investcorp raised $500 million of non-cumulative, non-convertible, non-voting, non-participating perpetual preference shares. The preference shares carry a dividend of 12% per annum for five years and, if not called at the end of five years, 12-months USD LIBOR + 9.75% per annum thereafter. The payment of dividends on the preference shares is subject to recommendation by the Board of Directors and approval by the Central Bank of Bahrain ('CBB') and holders of Investcorp's ordinary shares, but with the proviso that an ordinary dividend can only be paid after paying a preference share dividend. At Investcorp's option, and with CBB prior approval, the preference shares are callable at par at any time after five years.

Net book equity (including fair value adjustments) at June 30, 2009 was $895 million. The decrease from June 30, 2009 reflects the impact of value declines during the fiscal year, including $348 million of unrealized fair value adjustments, offset by the addition of new preference capital.

Regulatory capital under Basel II

The Basel II Capital Adequacy Ratio ('CAR') at June 30, 2009 was 20.0% (FY08: 18.4%), comfortably in excess of the CBB's regulatory minimum requirement of 12% and also in excess of Investcorp's stated target levels for regulatory capital of 14–16%. The increase in the Basel II ratio reflects successful balance sheet deleveraging as a result of the issue of regulatory Tier 1 capital and the managed reduction in risk weighted assets. Together these have more than offset the negative impact of current year losses.

Regulatory CAR



The relevant risk weights across each asset category, applied at June 30, 2009, are summarized below.

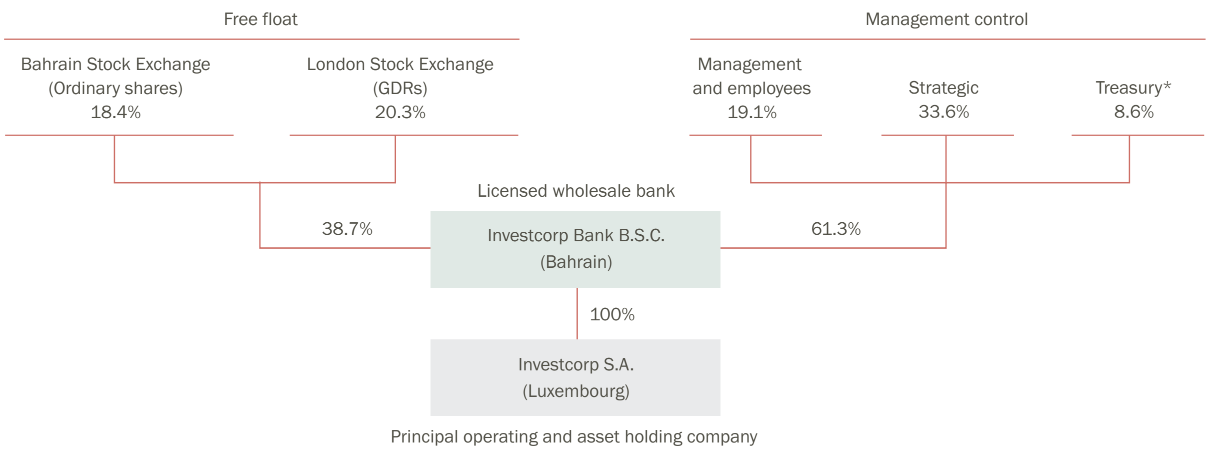
Asset class/segment	Basel II methodology Jun 09	Basel II risk weight FY09	Basel II risk weight FY08
Private equity	Standardized approach ('STA')	**150%**	150%
Real estate	Standardized approach ('STA')	**200%**	200%
Hedge funds	Banking book VaR based risk weight	**150%**	approx 110%*
PE and RE underwriting	Standardized approach ('STA')	**100%**	100%
Operational risk	Basic indicator approach ('BIA')	**15%**	15%

*Hedge funds Basel II methodology for FY08 was 'trading book VaR based risk weight'

During FY09, Investcorp completed the formal, independent, CBB-mandated risk assessment review which represents the Pillar 2 requirement of Basel II. A detailed report, prepared by CBB-appointed independent consultants, was provided to the CBB and no significant issues were highlighted. The final outcome of this assessment process will be subject to further review and comment by the CBB, which has indicated that it plans eventually to determine a specific risk-based minimum CAR target, for successful financial institutions, which may differ from the current 12% minimum requirement.

Shareholder base

Ownership structure



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

Investcorp S.A. is currently a legal entity incorporated and registered in Luxembourg. Historically, Luxembourg has been an attractive domicile for the principal operating and holding company of the group as it offered favorable tax treatment. However, in 2010, these laws will change and Investcorp S.A. has therefore chosen to move its domicile to the Cayman Islands. Investcorp plans to implement the migration in the second half of 2009, subject to receiving approval from Investcorp S.A.'s lenders.

At June 2009, Investcorp remains a management controlled company, with management controlling the voting of 61.3% of Investcorp's ordinary shares in concert with strategic shareholders. The public float of 38.7% is held between owners holding 18.3% in ordinary shares on the Bahrain Stock Exchange, and those holding 20.3% represented by GDRs on the London Stock Exchange. During FY09, there has been a small net migration, equivalent to 0.4% of issued shares, of shareholders from GDRs into ordinary shares.

There were 382 share trades in aggregate on the Bahrain Stock Exchange during FY09 representing $0.9 million in total traded value and a volume weighted average price ('VWAP') of $2,407 or $24.07 GDR equivalent.

The average traded daily volume in FY09 on the London Stock Exchange was 50,702 GDRs which represents an average traded weekly value of approximately $0.9 million and is equivalent to a turnover of 1.6% per week of issued GDRs. The VWAP traded on the London Stock Exchange was $3.64.

In December 2008, the UK Financial Services Authority (FSA) announced a consultation process for its proposal for restructuring the listing regime in the UK. The FSA is proposing to re-label and reclassify the existing listing segmentation of all securities that it has approved for trading on the financial exchanges in the UK. The new listing segments will be divided into 'Premium' and 'Standard' listings. GDRs will be eligible for Standard listings but not for Premium listings. Under the current proposal GDRs will retain their listed status by virtue of a 'Standard' listing. The FSA has stated that it intends to provide feedback on the results of the consultation process in the near future.

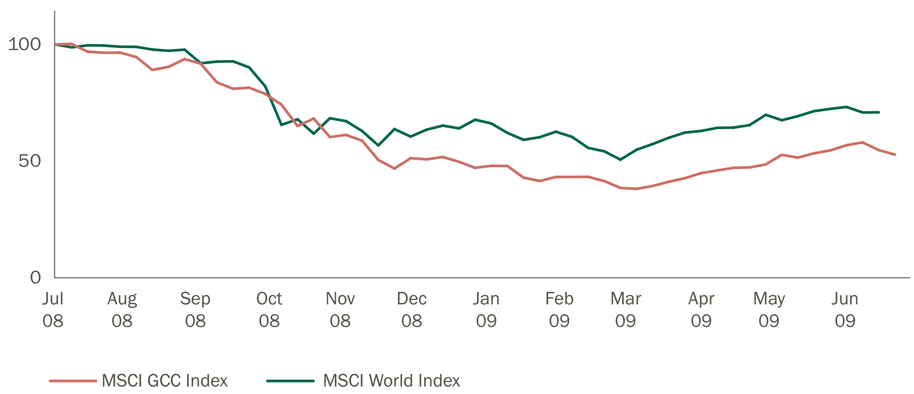
CLIENT BUSINESS REVIEW

Market environment:

Impact of the credit crunch

During the fiscal year, global economies and markets felt the impact of the financial crisis that began in the US and brought on a swift and severe recessionary environment. Equity markets fell dramatically through March, as uncertainty and fear affected investors worldwide.

MSCI World and GCC indices



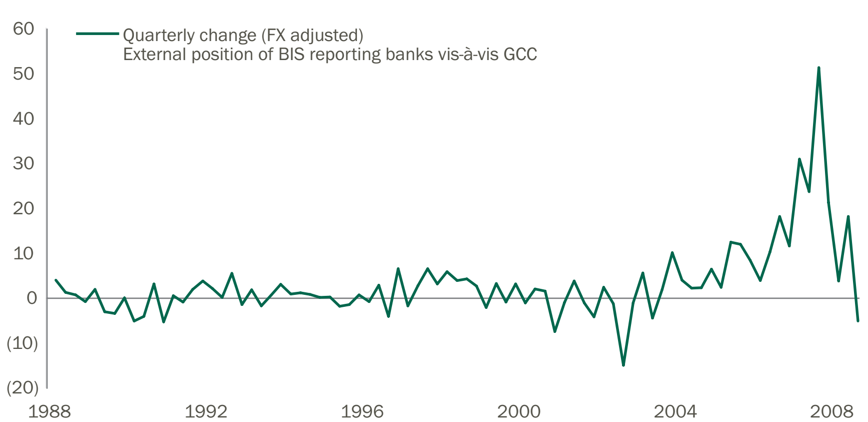
Source: Bloomberg
Both indices are taken at starting point of '100' as of July 2008

The Middle East was not affected by any significant direct exposure to toxic assets and the resultant financial stress in the West. However the region saw a downturn from the sharp decline in oil prices and shrinking revenues for oil exporters. The contraction in global demand and trade-related activity also resulted in lower exports and tourism proceeds. International credit markets and lower investor appetite for risk reduced capital inflows into the region, depressing local asset prices and reducing investment.

The GCC region has also been significantly impacted by the withdrawal of cross-border lending by both local and international banks, with some local institutions and family companies facing major liquidity problems. Instead of extending credit, local banks have been holding cash with their central banks which, in turn, have placed liquidity into foreign assets, mainly US treasuries.

Foreign banks reduce exposure to GCC

($ billions)



Source: BIS

The GCC's $100 billion debt market was practically frozen for six months as bond spreads and credit-default swap levels widened dramatically. GCC governments have responded by providing extraordinary support to their banking and investment sectors and have taken various steps to roll out measures to ease the pressure from the financial crisis.

Crisis response by GCC countries

	Financial sector				Macroeconomic	
	Deposit guarantees	Liquidity support	Capital injections	Equity purchases	Monetary easing	Fiscal stimulus
Bahrain		✓			✓	
Kuwait	✓	✓	✓	✓	✓	
Oman		✓		✓	✓	
Qatar		✓	✓	✓	✓	
Saudi Arabia	✓	✓			✓	✓
UAE	✓	✓	✓		✓	

Source: Provided by country authorities & IMF MENA Regional Economic Outlook 2009

More recently, some easing in local credit conditions has been evidenced by the success of sovereign and sovereign-backed benchmark debt issues. These offerings experienced good participation from international fixed income investors.

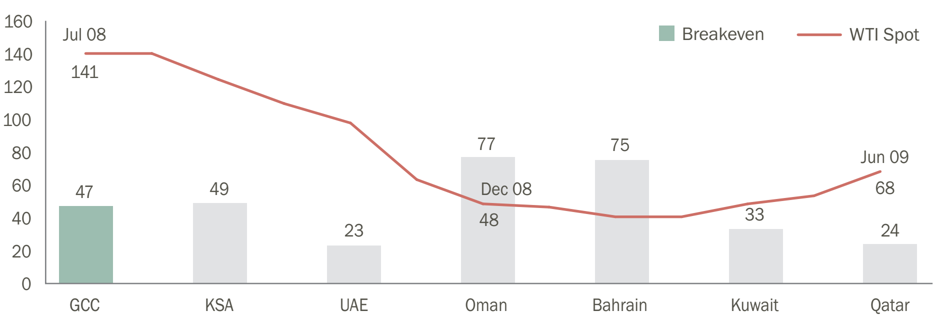
The IMF and the Arab Monetary Fund have also launched the Arab Market Development Initiative to improve the efficiency and functioning of debt markets in Arab countries.

Impact of oil prices

Between 2005 to 2008, with the backdrop of high oil prices and strong global investor interest in the region, the Middle East grew on average by over 5% a year. Record-high export receipts and a burgeoning external current account surplus that averaged over 20% of GDP resulted in the accumulation of an estimated $1.2 trillion in foreign assets and a significant reduction of government external debt.

Oil prices have fallen dramatically since the beginning of FY09 to levels, on average, that are close to the breakeven point for balanced GCC government budgets.

Breakeven oil price vs WTI spot price
($ millions)



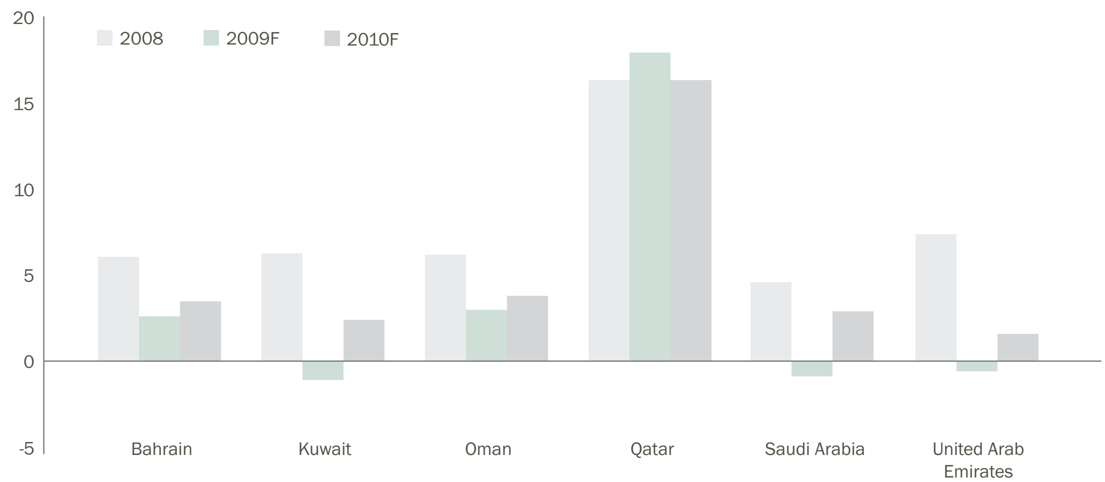
Sources: GIH Research & Bloomberg

OPEC has recently cut its five-year forecast for oil field spending by about a third, as the recession and increased energy efficiency have led to a near-term reduction in projected demand. The International Energy Agency (IEA), which coordinates policies among energy-consuming nations, has however warned that this could lead to a supply crunch by 2013. Both the IEA and OPEC agree that prices could continue rising after pushing up to $70 a barrel recently. This will be tempered by lower demand from developed industrialized countries, reflecting the impact of recession and the introduction of energy-efficiency and clean-energy laws.

According to OPEC, the oil market appears to have entered a new environment. At the beginning of 2009, most institutions were expecting that a continued deterioration in fundamentals and downward revisions to economic growth would exert a downward pressure on prices. Instead, prices have moved higher on the general perception in the market that the worst is over for the world economy.

In spite of the near-term dampening of growth prospects across the GCC, the outlook for hydrocarbon prices still supports projected further accumulation of wealth and growth in real GDP across the GCC region, albeit at lower levels than over the last three years. According to the IMF, the forecasted growth in GDP across the GCC countries for 2009 and 2010 is 2.5% per annum and 3.5% per annum respectively, which still compares favorably to a forecasted decline in the developed countries in 2009 of 3.8% and flat growth in 2010.

Annual change in real GDP in GCC oil export countries (%)



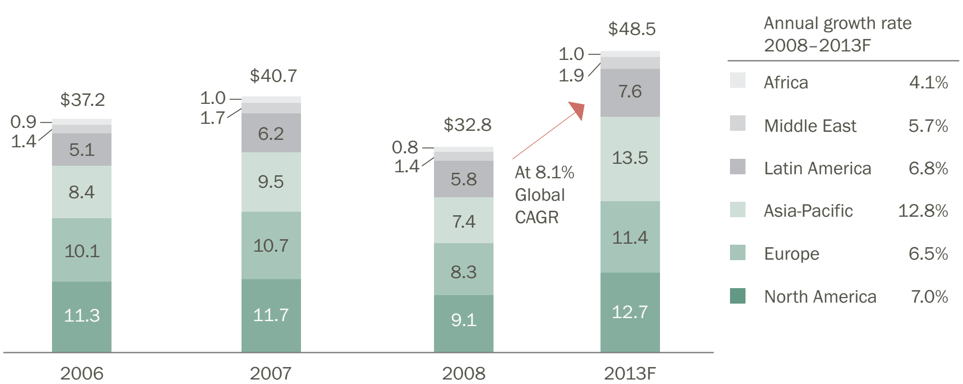
Source: IEA Oil Market Report 2009

Investable wealth in GCC region

The unprecedented declines in asset prices during 2008 wiped out two years of growth in 2006 and 2007, reducing both the world's HNWI population and its wealth to below levels seen at the end of 2005. HNWI wealth in the Middle East is estimated to have fallen by 16.2% in 2008, slightly lower than the average global fall of 19.5%. Ultra-HNWI suffered more extensive losses in financial wealth than the HNWI population (source: Merrill Lynch & Capgemini).

HNWI financial wealth forecast, 2006 – 2013F

($ trillions)



Source: Merrill Lynch and Capgemini World Wealth Report 2009

Looking forward, global HNWI wealth is forecast to grow strongly at an annual rate of 8.1% between 2008 and 2013 as the world economy emerges from recession. Wealth creation rate in the Middle East is projected to be 5.7%, lower than the global average and reflecting the fact that oil is expected to have a smaller impact on the growth of GCC wealth in the future than it has had in the past. At this growth rate, HNWI financial wealth in the Middle East will increase by $500 billion over the five-year period.

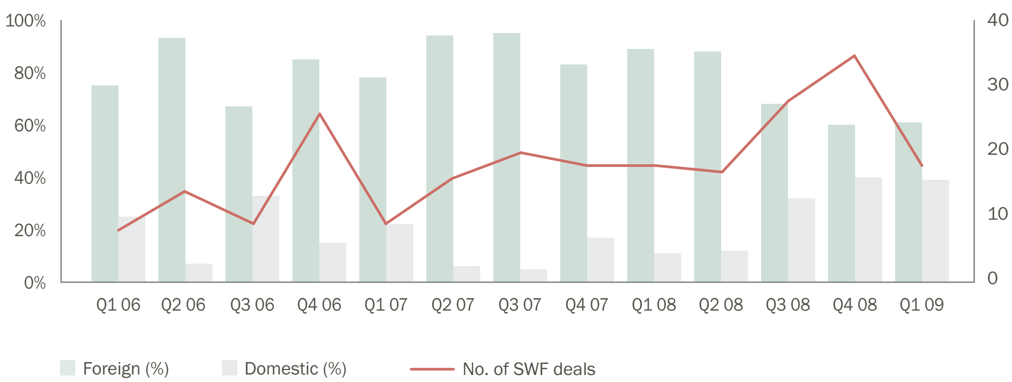
Investor appetite in current market

The steep decline in prices of public equities, a significant correction in some regional real estate markets and the sudden impact on GCC economies from the collapse in oil prices have distracted private clients from making new investment decisions. High levels of leverage have exacerbated investment losses, and the current lack of bank liquidity has forced corporate and personal deleveraging. Clients have moved temporarily into low-yielding cash assets and are expected to remain risk averse until markets stabilize and liquidity improves. Gulf institutional investors who use leverage and are concerned about debt refinancing have also been reluctant to invest.

These factors have impacted Investcorp's placement activity throughout FY09.

Sovereign Wealth Funds (SWFs) are expected to continue to maintain a longer-term investment strategy than other investors and continue to be active international investors. This is despite an increasing focus within the GCC region to invest more in infrastructure and services, where there are over $2 trillion worth of projects currently in various stages of planning or completion.

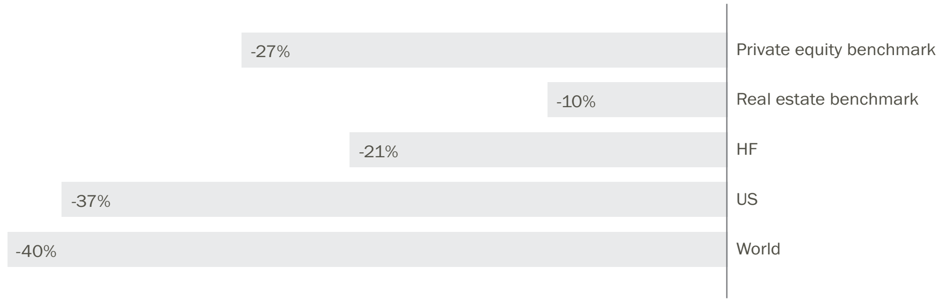
Middle Eastern SWFs investment



Source: Monitor FEEM SWF Transaction Database

The past nine months has seen unprecedented shocks in various markets, and, although the outlook for asset prices is uncertain, as a result of government stimulus programs and monetary easing, the outlook, both in the Gulf and in the West, is less uncertain than it was in the latter half of 2008. Investcorp believes that, with the dislocation in credit and asset prices that have occurred, alternative asset classes remain a value added domain for regional investors.

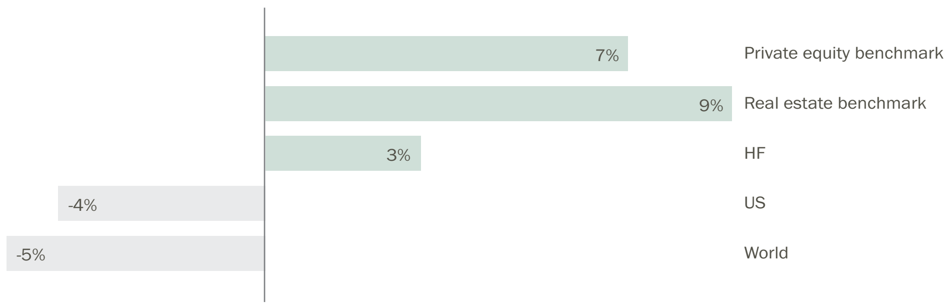
2008 returns



Sources: MSCI World ($ hedged), S&P500, HFR FoF Composite, NAREIT, Thomson Reuters and Investcorp estimates

This asset class has outperformed conventional markets both through the very challenging return environment of calendar year 2008 and over the longer term.

2000 – 2008 annualized returns



Sources: MSCI World ($ hedged), S&P500, HFR FoF Composite, NAREIT, Thomson Reuters and Investcorp estimates

Investcorp believes that, as sophisticated investors, private clients will continue to have an appetite for discretionary opportunistic investments, and will ultimately look to move a portion of their investable wealth out of the current low-yielding cash environment back into alternative assets.

Placement and fundraising

The focus of Investcorp's Placement and Relationship Management ('PRM') team in FY09 has been on client service. The number of face-to-face visits to clients was increased in order to provide up-to-date portfolio valuation and performance reports and to provide advice on asset allocation strategies. As a further part of Investcorp's firm-wide emphasis on transparency and commitment to disclosure best practices, top level senior management from portfolio companies will speak to key Gulf investors at a conference in the first half of FY10, and portfolio company management teams will also participate at an early stage in the placement process.

A good example of this service approach, and of the ability of the PRM and product teams to stay in close contact with clients, was the placement of a follow-on equity investment in Autodistribution, made as part of a restructuring of that company. The placement approach was focused on a five-week period, to ensure a rapid take up of this opportunity prior to the summer. All of the clients who made the original investment received an offering document, and most of them were seen face-to-face. The additional offering was fully taken up by early June and approximately $45 million of older subscription receivables were collected from the same clients in this period. Clients were appreciative that Investcorp had remained involved with the management of Autodistribution and, as a result, created an opportunity for those willing to commit money to safeguard their initial investment.

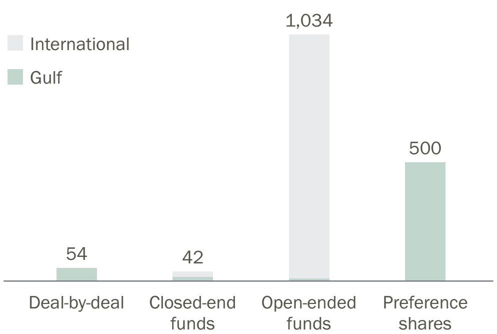
The other major focus of the PRM team has been Investcorp's preference share issue, which was marketed as a private placement with private and institutional clients in the Gulf. There has also been business as usual deal-by-deal placement activity for private equity (for the CEME and N&W investments) and real estate (for the Best Western investment), and the collection of capital calls on several closed-end funds raised over the past two years.

There were no private equity exits and only one real estate exit during FY09. However, there have been continued dividend payments from the income-producing real estate portfolios.

Total GCC and international placement and fundraising in FY09, including proceeds from the preference shares issue, was $1.6 billion compared to $4.7 billion in FY08. Actual cash collected from Gulf clients in FY09, which included the settlement of receivables, capital calls on closed-end funds, preference shares subscriptions and deal-by-deal product placement, came to a total of over $1 billion. This amount was only marginally lower than the cash amount raised from Gulf clients in FY08.

	FY09			FY08			
Fundraising ($ millions)	Gulf	Non-Gulf	Total	Gulf	Non-Gulf	Total	Change
Private equity	69	25	94	1,297	282	1,579	(1,485)
Real estate	1	–	1	1,263	–	1,263	(1,261)
Hedge funds	12	1,022	1,034	786	1,062	1,847	(813)
Preference shares	500	–	500	–	–	–	500
Total	583	1,047	1,630	3,346	1,343	4,689	(3,059)

Fundraising in FY09
($ millions)



Closed-end funds

Two private equity funds completed a final close in FY09. The Investcorp Private Equity 2007 Fund for US/EU buyouts closed at $746 million. Investcorp and affiliates have committed $270 million to that Fund. The fundraising process substantially increased Investcorp's profile with Western institutional investors and, as a result, the private equity team is now in open dialog with many prospective investors for the next buyout fund, contemplated for late 2010 or early 2011. The Gulf growth capital line of business's Gulf Opportunity Fund I was also closed at $951 million. Investcorp and affiliates have committed $76 million to the Fund.

In real estate, Investcorp launched Mezzanine Fund II, targeting $250 million in commitments. This Fund is the third real estate debt fund product from Investcorp, established to purchase and originate commercial real estate debt. Fundraising is in progress and includes the targeting of European institutional investors.

Investcorp is also in the process of launching a new business initiative that will focus on mezzanine debt financing in the MENA region. Mezzanine financing is in a nascent stage of development in MENA. While mezzanine instruments have been increasingly used in countries such as Turkey, and are also currently being considered by some entities in the UAE, they are still relatively unknown in the region. Investcorp believes that an attractive environment exists for significant growth in this type of financing both in the short- and medium-term, which will enable mezzanine financing to develop into an established asset class, as is the case today in developed markets such as the US and the UK and other European countries. The market is expected to benefit from projected solid medium-term economic growth in MENA, the expected continued robust growth in private equity activity in the region following unprecedented levels of fundraising in recent years, the historically limited access to credit which has been exacerbated by recent dislocations in the global credit markets, and the continued demand for growth capital by small- and medium-sized enterprises.

The new initiative will also complement Investcorp's Gulf growth capital business, which makes private equity investments in the MENA region.

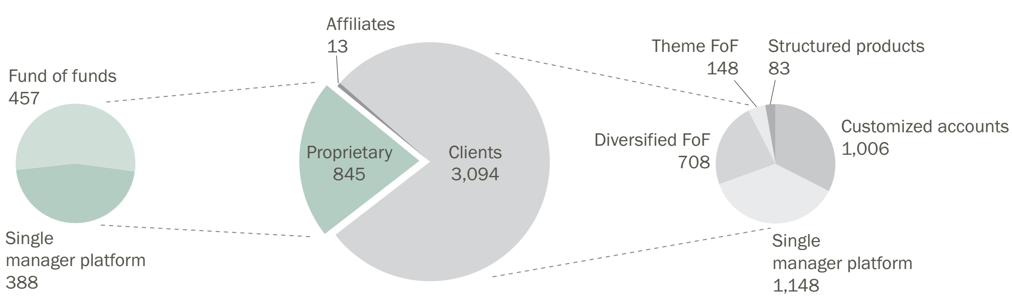
The foregoing information about closed-end funds is being provided to satisfy the requirements of the UK Financial Services Authority. The provision of the foregoing information does not constitute an offer to sell or a solicitation of an offer to buy securities in the United States or any other jurisdiction.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

Hedge funds AUM

Total hedge funds AUM decreased by 49% over the year from \$7.9 billion to \$4.0 billion. The reduction in AUM resulted from a combination of structured product deleveraging, negative performance in the second half of calendar 2008, client redemptions and a reduction in Investcorp's proprietary co-investments. Client hedge fund AUM decreased by 44% from \$5.5 billion to \$3.1 billion. Proprietary co-investments dropped by \$1.2 billion. Analysis indicates that this was generally the case in the industry and that other fund of hedge fund providers experienced a similar reduction in their assets under management.

Hedge funds AUM

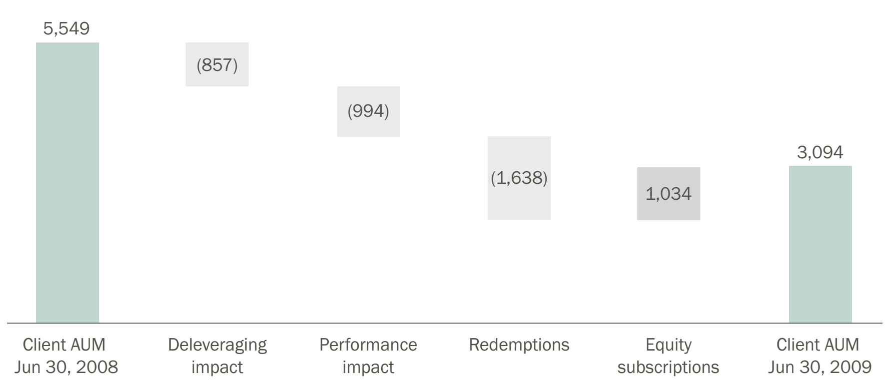
($ millions)



Most of the reduction in client AUM occurred during the last quarter of 2008 and the first quarter of 2009 as investors rushed to access liquidity from whichever source they could. The volume of redemption activity slowed down substantially in the second quarter of 2009. Concurrently, new hedge fund subscriptions picked up momentum during the first and second quarter of 2009 indicating that the trough in hedge fund AUM has probably passed.

Hedge funds client AUM

($ millions)



This has been evidenced by the fact that Investcorp was awarded several significant new mandates for customized portfolios totaling $800 million in the first half of 2009 by a number of large US institutions. It also has proposals in the pipeline for further mandates exceeding $500 million that are expected to close during the second half of CY09. This is a strong endorsement of Investcorp's hedge fund platform including its institutional quality approach to manager selection, portfolio construction and monitoring, the strength of its proprietary risk management platform and the value-added services it provides. The new mandates include investments in Investcorp's 'portable alpha' structure, custom global macro as well as fixed income portfolios and investments into the single manager platform.

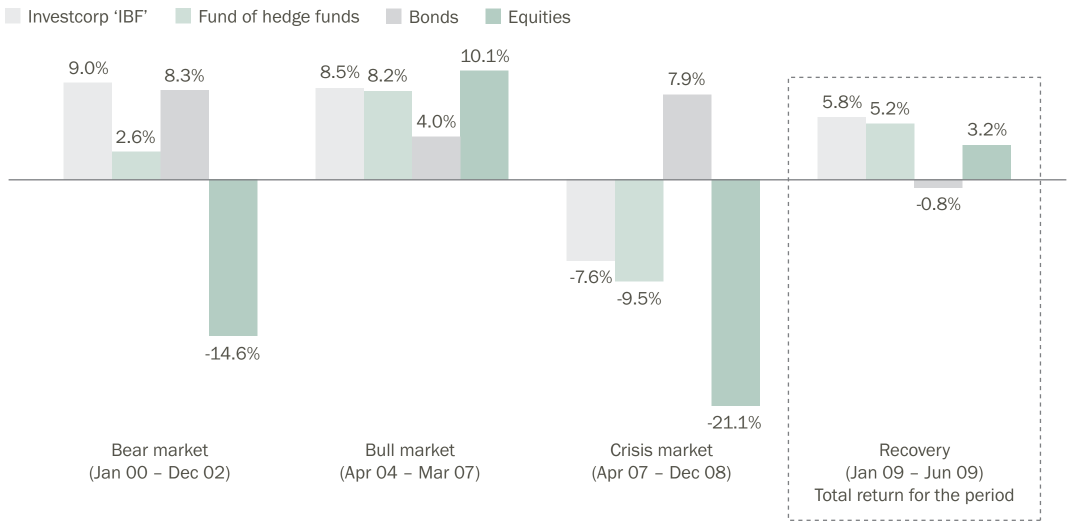
Critically, Investcorp's hedge funds investment team managed fund liquidity during the crisis period to accommodate redemption requests and deleveraging pressures. Unlike a large number of funds of hedge funds, Investcorp's funds did not put up any redemption gates. Even during this period, the portfolios were constructed in a well diversified and balanced fashion, and portfolio allocations were consistent with the opportunity set. These steps helped Investcorp's flagship funds and large customized accounts to generate returns of between 5% and 16% during the first six months of 2009, in spite of the impact of heavy redemptions at the end of 2008.

According to a new survey by The Bank of New York Mellon and consultants Casey Quirk, Middle East investors' share of global hedge fund assets will rise by almost 30% to $194 billion by the end of 2013. The survey concluded that this group of investors will account for about 7.5% of total global hedge fund assets in 2013, almost 30% higher than in 2007. Investcorp's ability to meet client redemption requests during the global financial crisis is a differentiating factor for the Firm and, together with the recent positive return environment for clients, should help in capturing private flows back into the hedge fund asset class in the future.

The fiscal year ended with a diversified AUM profile across product types and client geography. Assets under management on the single manager platform now represent 39% of the total hedge fund AUM (FY08: 28%). Clients outside of the Gulf now represent 58% of the total hedge fund client AUM (FY08: 36%). Institutional clients represent more than 80% of the client base and are well diversified across financial institutions, insurance companies, pension funds, fund of funds, endowments and foundations, governments and agencies, family offices and trusts.

Following the most difficult year yet in the hedge fund industry it is natural for investors to question their assumptions about hedge funds. Investcorp believes that the factors that impacted hedge fund performance in 2008 are transient and are not likely to have a lasting impact on the viability of hedge fund strategies. Indeed, hedge funds continue to be a platform that attracts the most talented investment managers and provides them with the incentives to generate solid returns for their investors.

Diversification



Sources: Bloomberg & HFRI
Equities: S&P 500; Bonds: Citigroup WGBI; Fund of Hedge Funds: HFRI Fund of Funds Composite Index

The hedge funds team believes that investment opportunities are extremely compelling in several strategies. The post-crisis era is expected to provide attractive opportunities in strategies such as fixed income relative value, convertible arbitrage and equity market neutral. The team also sees future opportunities in distressed debt.

Strong managers who are mitigating near-term risks and preparing to take advantage of the environment as it changes are leading the way. Investcorp's intensive manager identification and due diligence processes have identified new investment opportunities and managers. Investcorp believes that its hedge funds are well positioned to exploit these opportunities through such managers.

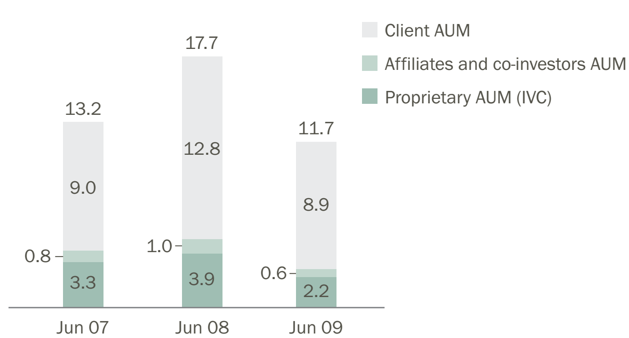
The crisis of 2008 has reinforced the importance of quality infrastructure, co-investment and institutional oversight, principles that underpin Investcorp's approach to hedge fund investing. The future environment is expected to validate Investcorp's enhanced investment process and the systems in place to achieve strong risk-adjusted returns.

Assets under management

Total AUM including proprietary co-investments has decreased in FY09 from $17.7 billion to $11.7 billion. Proprietary co-investment assets have decreased by $1.6 billion or 41%, reflecting Investcorp's balance sheet deleveraging activity and the impact of performance.

Total assets under management

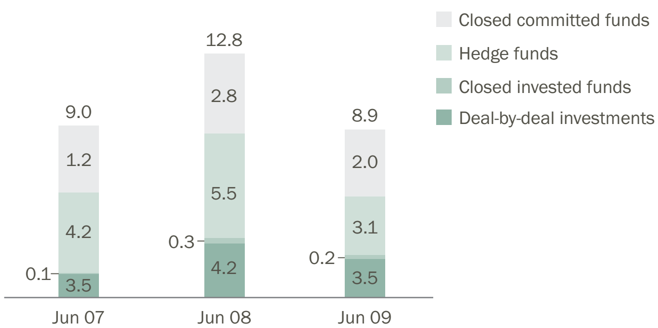
($ billions)



Client AUM declined by 31% to $8.9 billion from $12.8 billion in FY08, primarily across open-ended hedge fund products.

Total client AUM

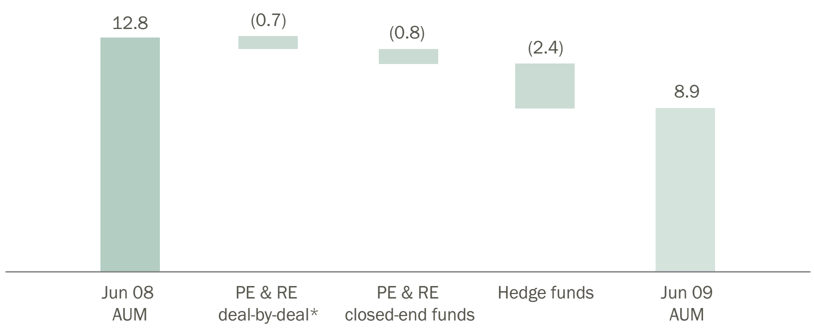
($ billions)



Approximately two-thirds of the decline relates to net client redemptions and deleveraging activity from hedge funds.

Investcorp client AUM changes during FY09

($ billions)

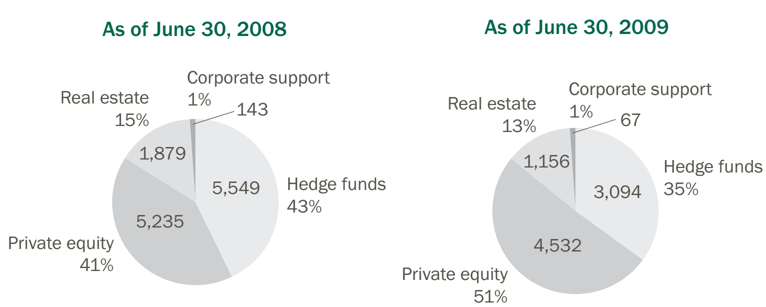


*Includes changes to client call accounts held in trust

There were no portfolio company exits from private equity during FY09 and due to the significant hedge fund redemption activity in H1 FY09, more than half of client assets are now invested in private equity.

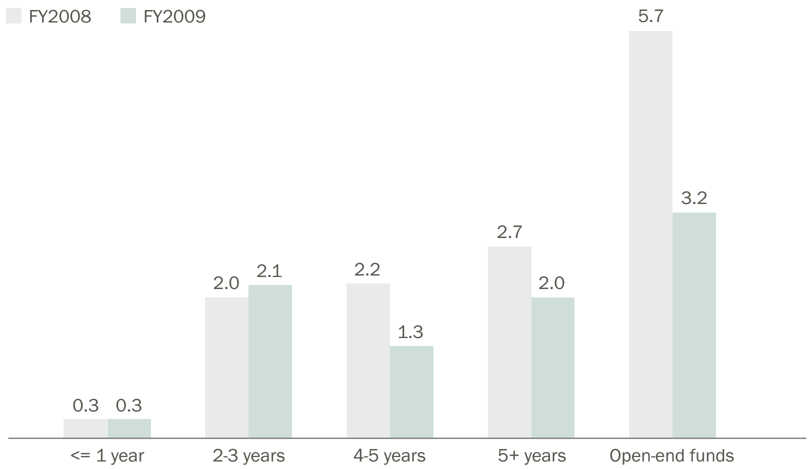
Client AUM

($ millions)



The average tenor of Investcorp's client AUM has changed during FY09, driven primarily by redemptions from open-end hedge fund products in the last quarter of 2008. Investcorp's past experience had been that open-end funds are relatively stable. Following the unprecedented turmoil in global markets in 2008, Investcorp believes that there is now evidence within the hedge fund industry that some stability in AUM levels will return in the second half of 2009.

Client AUM tenor
($ billions)



FY2008 as reported in June 30, 2008

Key AUM and fundraising performance indicators (by asset class)

Private equity:

PE key AUM and fundraising indicators ($ millions)	**FY09**	FY08	% Change B/(W)
Client AUM			
Closed-end committed funds	**1,770**	1,831	(3%)
Deal-by-deal investments	**2,540**	3,148	(19%)
Closed-end invested funds	**223**	255	(13%)
Total client AUM — at period end	**4,532**	5,235	(13%)
Average client AUM	**4,883**	4,742	3%
Equity deployed	**490**	602	(19%)
Buyouts acquisitions deal size*	**540**	1,374	(61%)
Deal-by-deal placement in GCC	**52**	589	(91%)
Management fees/client AUM	**114 bps**	139 bps	(25 bps)
Acquisition fees/deal size	**2.3%**	3.3%	(1.0%)
Placement fees/deal-by-deal placement	**10.0%**	21.5%	(11.5%)

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

Hedge funds:

HF key AUM and fundraising indicators ($ millions)	**FY09**	FY08	% Change B/(W)
Client AUM			
Fund of funds	**1,946**	3,908	(50%)
Single manager	**1,148**	1,641	(30%)
Total client AUM — at period end	**3,094**	5,549	(44%)
Average total client AUM	**3,907**	4,869	(20%)
Annualized fee yield (management fees)	**99 bps**	126 bps	(27 bps)
Annualized fee yield (performance fees)	**(1 bps)**	50 bps	(52 bps)

Real estate:

RE key AUM and fundraising indicators ($ millions)	FY09	FY08	% Change B/(W)
Client AUM			
End client AUM — closed fund (mezzanine)	**253**	953	(73%)
End client AUM — deal-by-deal	**903**	926	(2%)
Total client AUM — at period end	**1,156**	1,879	(38%)
Average client AUM	**1,167**	855	37%
Debt investments	**111**	122	(8%)
Equity deployed (excluding mezzanine debt)	**–**	391	–
Deal-by-deal placement	**1**	413	(100%)
Management fees/client AUM	**110 bps**	109 bps	2 bps
Acquisition and placement fees/equity deployed	**n.m.**	9.6%	n.m.

INVESTMENT BUSINESS REVIEW

US and European buyouts ('buyouts')

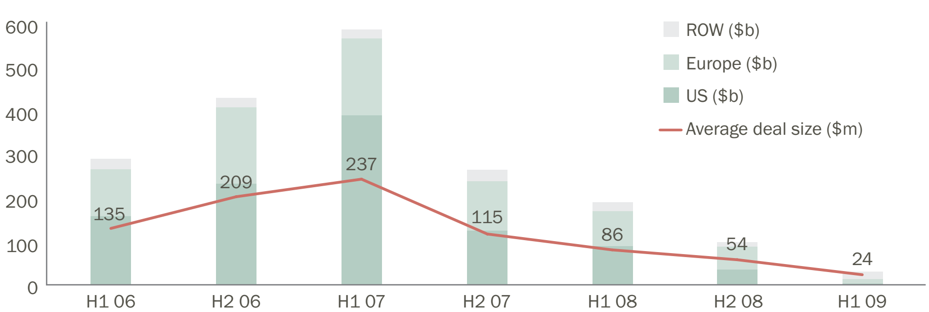
Business environment:

The effects of the continued deleveraging of the global financial system have impacted world markets and economies and the deterioration continued in the first two quarters of 2009, resulting in the worst economic performance in some countries since the Great Depression. Much of the industrialized world is likely to remain in a recession through 2009 although there is some rebound expected in 2010.

Visibility for many businesses is at an all time low. In light of the severely adverse economic environment, Investcorp's number one priority has been to ensure that its existing portfolio companies are in a strong position to weather the crisis. Through the continued and systematic execution of its Value Enhancement Model ('VEM'), Investcorp's private equity team is mobilizing internal and external resources to support portfolio companies that are feeling the effects of the current downturn. The team is also focused on some opportunities that these types of markets create for the portfolio companies.

Given the dramatic events in the financial services industry and the global economy, private equity activity has slowed down to a trickle since the end of the third quarter of 2008, and the value and number of buyout deals has been severely affected. The fact that the decline in the number of deals is not as pronounced as the decline in the value of deals indicates that firms that are active in the highest value transactions, the so-called 'mega deals', have been hardest hit by the credit crunch.

Global private equity deal volume and average deal size

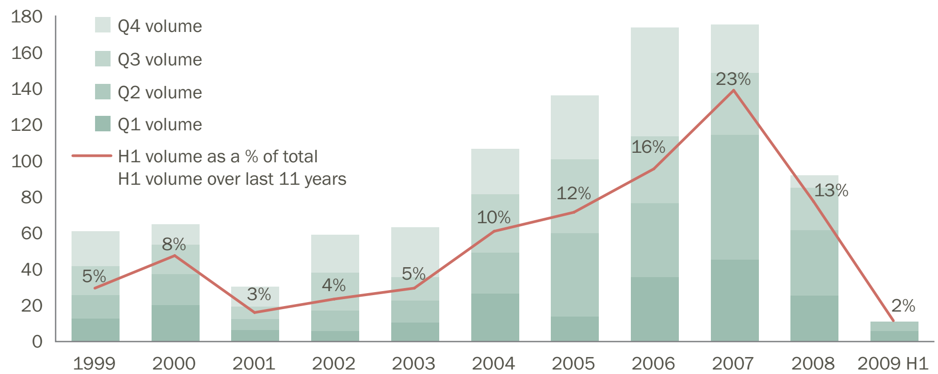


Source: Zephyr published by BvDEP

Investment activity in the US during the first half of 2009 may have marked the slowest six months in the last ten years, but US private equity firms are still doing some deals. In addition to 175 completed transactions in the second quarter of calendar year 2009, another 44 deals were announced (but have yet to close) totaling $6.5 billion. Smaller-sized middle-market deals, where Investcorp has historically been active, are the most frequent, reflecting the fact that more attractively priced investment opportunities can get transacted, albeit with less leverage. In the first half of CY09, mid-market deals accounted for 70% of all investments. Add-on acquisitions are also an area of focus, accounting for almost 30% of the overall deal flow so far in the US in 2009.

US buyside financial sponsor volume

($ billions)

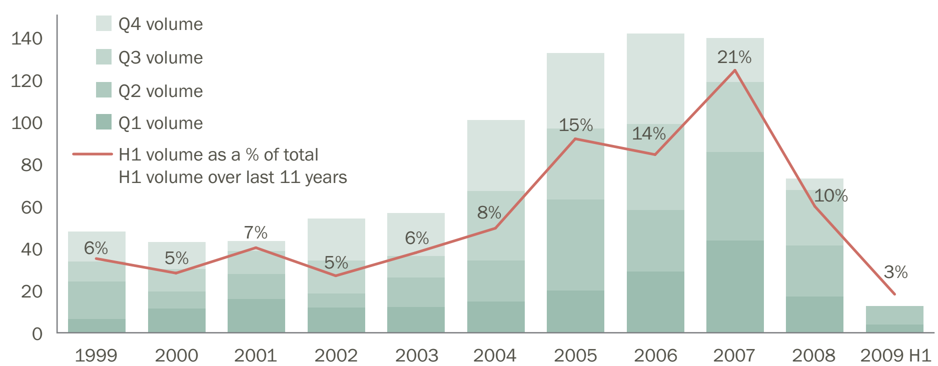


Note: Excludes all buyouts deals with enterprise values above $1.5 billion
Source: Thomson Reuters

Private equity activity in Europe has also showed no sign of improvement in the first half of the 2009 calendar year and was the slowest six-month period of activity in the last ten years with volume and value declining to new lows of 478 deals and $11.6 billion respectively. Only one transaction with a size in excess of $1 billion occurred.

European buyside financial sponsor volume

($ billions)



Note: Excludes all buyouts deals with enterprise values above $1.5 billion
Source: Thomson Reuters

Globally, there have been 178 debt defaults year-to-date, over four times the number of defaults for the same period last year. More than half of the defaulters this year either had, or continue to have, private equity involvement. Leading experts are predicting that one in two companies held by private equity firms globally may default due to the significant leverage used in financing these transactions combined with the weakened operating performance of these companies. More than 60% of private equity firms have portfolio companies with debt trading at distressed levels, and this percentage is expected to grow. According to Standard & Poor's, private equity portfolio companies in the US now account for one in every three companies that is identified as most in danger of debt defaults. With over $1 trillion in buyout related junk bonds coming due by 2014, and many private equity backed companies under a severe cash strain, industry write-downs, bankruptcies and defaults are expected to accelerate.

As a result Investcorp is closely focused on the debt management of its portfolio companies and is working to optimize capital structures, address potential covenant and maturity issues and, where possible and prudent, seek to reduce leverage by retiring debt when it can be purchased at a meaningful discount.

PE-backed bankruptcies have also been on the rise in recent years. In 2007, there were just two PE-backed bankruptcies; in 2008 there were 49 bankruptcy filings. In the first half of calendar year 2009, 49 companies with private equity backers filed for bankruptcy, well ahead of the previous year's pace.

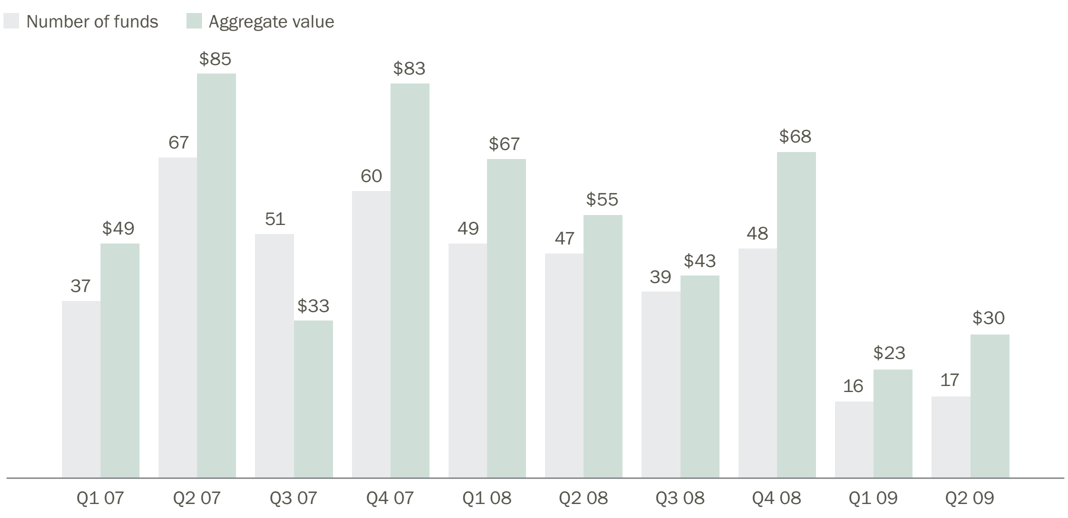
In the first quarter of 2009, private equity fundraising dropped to its lowest level since the beginning of 2006, and the number of buyout firms abandoning plans to raise capital is slowly on the rise. In the second quarter, 17 buyout funds raised a total of $30.1 billion in aggregate commitments, roughly the same number of funds as in the first quarter of the year, but a larger aggregate total.

Specifically, aggregate commitments of $30.1 billion were 11% more than the aggregate raised in Q1 CY09. Nonetheless, the figure is 56% lower than the $68.3 billion raised in the final quarter of 2008. These results show that the pace of recovery is still uncertain and the fundraising market for buyout vehicles continues to be difficult. Funds focused on the US were the most popular in terms of both number and size of funds raised. Investcorp expects the market for fundraising to continue to be difficult as many pension funds and institutional investors have less liquidity and have cut back on the number of firms with which they choose to invest.

However, private equity remains a relatively small asset class at $2.5 trillion of assets under management globally compared to the current $37.7 trillion world public equity market capitalization, and investors are expected to continue to increase demand for this asset class over the long-term.

US and Europe buyout fundraising Q1 2007 – Q1 2009

($ billions)



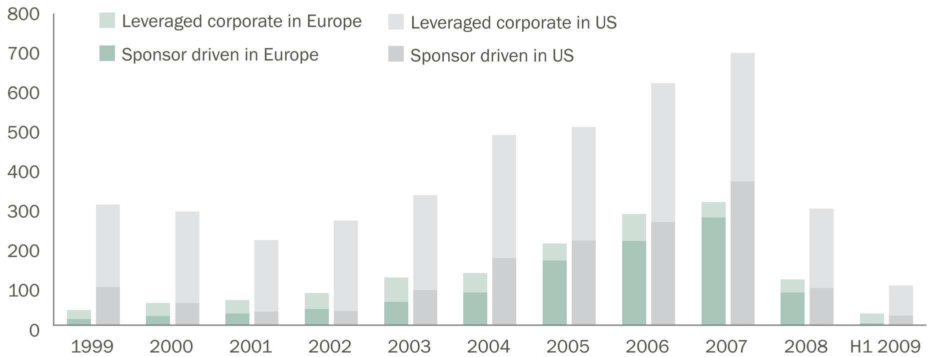
Source: Preqin

In spite of the dramatic events of 2008, and the many challenges that private equity will face over the next few years, Investcorp continues to believe that the private equity model will remain relevant. Private equity, particularly those models with international reach and a focus on operational improvement, is well suited to help companies through this difficult period. The availability of debt financing is expected to continue to be limited, which puts more emphasis on private equity firms being able to deliver value through operational improvement.

Finally, private equity activity is starting to accelerate. The IPO markets have picked up in the first half of calendar year 2009 and new issues by public firms reached a record level reflecting a more relaxed investor sentiment. The leveraged loan market, which was completely frozen at the end of 2008, showed signs of life in the first half of 2009.

Global leveraged deal volume

($ billions)



Sources: Thomson Reuters LPC/DealScan

Dow Jones Private Equity Analyst recently reported signs of an improvement in fundraising as global stock markets showed increased stability in the second quarter and the institutions and firms that invest in private equity funds as limited partners were able to get a better understanding of the state of their own balance sheets.

In terms of results, Investcorp expects that the leading private equity firms will have outperformed the top players in other asset classes during this challenging time period. Historically as shown in the table below, top quartile private equity firms have outperformed public equities and other asset classes even during difficult downturns.

Relative performance of private equity vs other asset classes

Index	5 yrs	10 yrs	15 yrs
United States — private equity buyouts	8.3%	5.8%	8.8%
Western Europe — private equity buyouts	11.8%	11.4%	13.4%
MSCI World (hedged)	(2.3%)	(2.3%)	3.0%
S&P 500	(2.2%)	(1.4%)	6.5%
NASDAQ	(4.7%)	(3.2%)	4.8%
HFR FoF Composite Index	1.9%	5.3%	5.6%

Source: Thomson Venture Expert

Investcorp also believes that top quartile performance in private equity is primarily driven by adding value to the operations of portfolio companies. This investment thesis is widely validated and supported by the investor community. It is a business model that Investcorp has developed and refined over many years and has the necessary infrastructure to support.

The business model:

It is widely expected that many private equity firms will not survive the current crisis and that the industry will see a considerable amount of consolidation over the next few years. Private equity firms with global experience and a proven ability to manage their portfolios actively to create value independent of market cycles are most likely to survive.

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 upside and can benefit from execution of the VEM. The Firm has successfully pursued this strategy since 2001, and its foundations are the focus on active management of the portfolio to achieve operational improvements and an international platform.

Market leaders in attractive industries in the middle market. Investcorp will continue its strategy of investing in middle-market companies with approximately $200 million to $1,000 million in transaction value. A pursuit of market leaders (typically first or second in market share) in attractive and less cyclical industries mitigates inherent risks associated with smaller middle-market businesses, which are sometimes considered more likely to fail than larger businesses. Middle-market businesses typically have more opportunity for operational improvements, and have historically benefited greatly from the VEM. Time has been spent this year capitalizing on the fact that almost every one of Investcorp's current portfolio companies is a market leader in its respective industry and on pursuing add-on acquisitions or other attractive opportunities to position the companies for growth and increased profitability both today and when the economy begins to rebound.

International reach. In an environment of intensifying globalization and competition, it is critical that private equity firms have a deep knowledge of international markets to ensure that portfolio companies remain competitive, and to enable them to evaluate new investments. This is as imperative for middle-market companies as for larger companies. Investcorp has offices in both the US and Europe and 25 years of experience in transatlantic investing and therefore has a particular understanding of the international marketplace. This creates advantages in due diligence, in executing transatlantic transactions, and in identifying value creation initiatives that require an understanding of international markets and business practices. Investcorp's portfolio companies have, and will continue to be, a catalyst for and a beneficiary of economic globalization.

VEM. Value creation plans and active portfolio management are necessary for success and the appropriate skills and resources are required to effectively execute such active portfolio management. Reduced financial leverage and multiple contraction have resulted in portfolio operational improvements becoming crucial to value creation. Investcorp's VEM was launched in 2001 and was the cornerstone of its strategy long before the current financial crisis. Investcorp focuses on both revenue and cost focused initiatives as well as building its portfolio companies. Its private equity professionals bring a high level of operating experience and management resources to middle-market companies. The Managing Directors have an average tenure at Investcorp of ten years.

Acquisition activity:

The downturn in the credit market and slowdown in the economy has resulted in a decline in investment activity during FY09 and this has depressed Investcorp's transactional deal-by-deal business. This downturn has been deeper than many initially predicted, and Investcorp expects it to get worse before it gets better. As a result, there is decreased visibility into future performance and the private equity team has therefore been cautious when approaching potential new investments, particularly over the amount of leverage it is willing to use. In the PE industry as a whole, the PE team is seeing more 'all equity' transactions, more acquisitions of smaller middle-market companies and more add-on acquisitions.

During the year, the PE buyouts team acquired N&W Global Vending ('N&W') for an aggregate equity deployment of €170 million. The company, with headquarters in Italy, is a leading manufacturer of food and beverage vending machines. It is the market leader and only pan-European manufacturer of vending machines and offers a full range of products. It operates in a market otherwise composed of smaller, regional competitors and has a significant global presence with offices in Argentina, Brazil and China. The acquisition was made on a joint basis with Barclays Private Equity, and the deal financing was provided by eight European banks.

American Tire Distributors ('ATD') acquired Am-Pac Tire in December 2008, one of ATD's largest competitors. This acquisition is expected to yield significant synergies from warehouse consolidations and enable ATD to expand into new markets. Armacell acquired PropaCene, a US environmental-friendly foam technology manufacturer. FleetPride completed two small add-on acquisitions in the second half of 2008: a company based in Oregon (E.H. Burrell) and another in New York (Automotive Brake Co. of Newburgh). During the first half of 2009, it completed a small add-on acquisition in Florida (Multibearings Service Co.) and another based in Texas (Pro Truck & Trailer Supply). As of June 30, the company was close to completing two additional acquisitions located in the southern US. Moody acquired EDN Holdings in March 2009, an Australian based (but geographically diversified) provider of health and safety training and consultancy to the oil and gas industry. Randall-Reilly acquired eVision, a small trucker recruiting website business. SourceMedia's Accuity business acquired CB NET Services Limited, a London-based international payment efficiency company, which will strengthen its European presence. All of these add-on deals were funded through the respective portfolio company's cash resources, required no add-on capital from Investcorp and were acquired at attractive valuation multiples.

Portfolio performance:

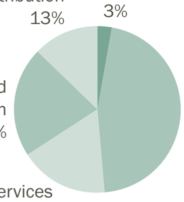
The carrying value of Investcorp's balance sheet co-investment in US and European buyouts at June 2009 was $769 million ($922 million at June 2008) across 23 companies. Please refer to the table in Note 10(a) of the Consolidated Financial Statements of Investcorp Bank BSC, which summarizes the June 30, 2008 and June 30, 2009 carrying values by vintage years.

Investcorp's portfolio is well diversified with relatively low exposure to cyclical industries such as consumer, retail and building products.

Investcorp's buyout portfolio at June 30, 2009

By geography

By sector



Despite the economic slowdown last year, Investcorp's buyout portfolio EBITDA increased marginally by 1% in 2008, compared to a 15% decline for S&P companies overall. Although portfolio EBITDA for 2009 is forecast to decrease versus 2008, this projected decline would have been significantly larger without several cost savings initiatives implemented by Investcorp's buyouts investment team. The team has targeted $500 million of annualized cost reductions throughout the investment portfolio, which is equivalent to approximately 40% of the forecast 2009 calendar year aggregate EBITDA of approximately $1.2 billion. In addition to cost savings and operational improvements, the private equity buyouts team has worked with portfolio management to focus on reducing capital expenditures; managing working capital; optimizing capital structures; addressing potential covenant issues; and pursuing growth initiatives and highly selective add-on acquisitions. This has resulted in an additional $225 million of cash savings from both working capital and capital expenditure projects.

The five largest PE buyout investments represent 56% of the total portfolio and 48% of total shareholders' equity.

Portfolio company ($ millions)	Carrying value, as at June 30, 2009	% of total	% of total S/H equity
TelePacific	164	21%	18%
N&W	122	16%	14%
Icopal	54	7%	6%
CEME	47	6%	5%
Polyconcept	46	6%	5%
Five biggest co-investments	**433**	**56%**	**48%**
Remaining co-investments	**336**	**44%**	**38%**
Total	**769**	**100%**	**86%**

Restructurings and portfolio support:

In this challenging environment, Investcorp may face the possibility of some portfolio companies entering into bankruptcy and limited exit opportunities for the next 18 months with potential future valuation write-downs. Investcorp is realistic and expects that exits in such difficult market conditions will be a challenge. The team will continue to concentrate on reducing any threat to portfolio company cash, decreasing costs and minimizing risk positions by conducting continuous reviews of the companies and their industries. At this time, the PE buyouts team believes that such actions will be able to contain the adverse impact of the current recessionary environment on the overall portfolio. At present, the average debt across the portfolio is relatively modest at 6.5x EBITDA. Investcorp has had only one bankruptcy in its portfolio since 2007, as a result of having invested in companies with a solid history of steady cash flow.

One portfolio company, Autodistribution, was restructured during FY09. Following a series of exceptionally challenging events including a deep recession in France that led to a sharp deterioration of demand in the automotive aftermarket, Autodistribution breached its loan agreements' covenants. An additional and sudden stress also impacted Autodistribution's balance sheet from new legislation in France, the 'Novelli law' passed in August 2008, which made it illegal for French companies to extend credit terms beyond 60 days. This resulted in the immediate need for an additional €73 million of funding to support working capital. Faced with this deteriorating situation Investcorp worked with another private equity firm, TowerBrook Investors, and found a mutually acceptable solution with Autodistribution's lenders. Investcorp and TowerBrook jointly invested a total of €110 million of new equity into the company. Under this agreement, TowerBrook became the majority shareholder and Investcorp reinvested €24 million in Autodistribution as a minority shareholder, while retaining significant governance rights. The additional equity was offered to Investcorp's original investors and was priced and structured to allow them to potentially fully recoup their initial and additional capital investment.

Two other companies in the portfolio, TimePartner and EnviroSolutions, have also required attention. TimePartner has breached a financial covenant due to the deteriorating German economy. During the last six months of 2008 the German temporary staffing industry collapsed, leading to a drop of over 40% in the number of people employed in this sector. As a result, progressively weakening sales across a relatively high fixed cost branch network led to rapid deterioration in the earnings of the company. Investcorp has been working with lenders to restructure TimePartner's balance sheet. EnviroSolutions' operating environment continues to be challenging and the buyouts team is working with management to address covenant and potential liquidity pressures.

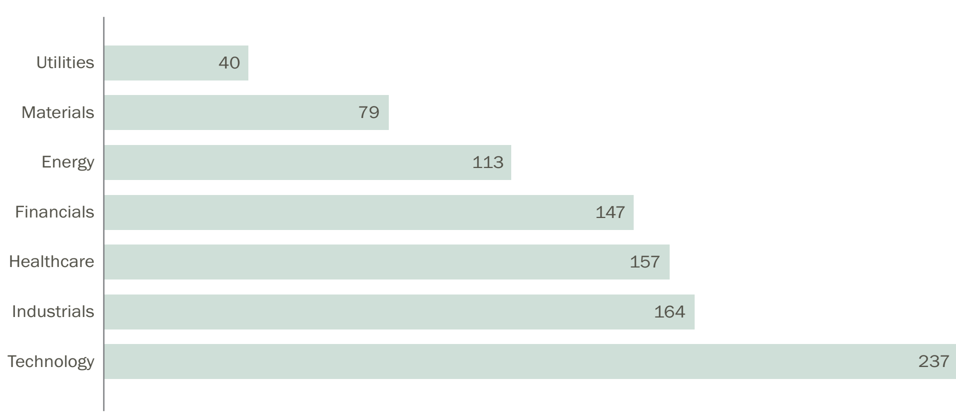
Investcorp estimates that it will use between 3% and 5% of the $4.4 billion of total equity originally invested in its existing portfolio in the form of support capital during this recession. Approximately half of that is already invested and the other half is expected to be needed over the next 18 months. Some portfolio companies may also require growth capital funding of a further 3% of initial equity invested.

Technology small-cap ('TSI')

Business environment:

Leading technology firms in all developed economies are feeling the impact of the global economic recession and, as a result, are making significant cuts to their revenue forecasts. Enterprise technology users are also tightening their capital budgets and delaying major software purchases. While technology M&A deals have slowed significantly, it remains the strongest sector by number of deals.

US M&A deals by industry type

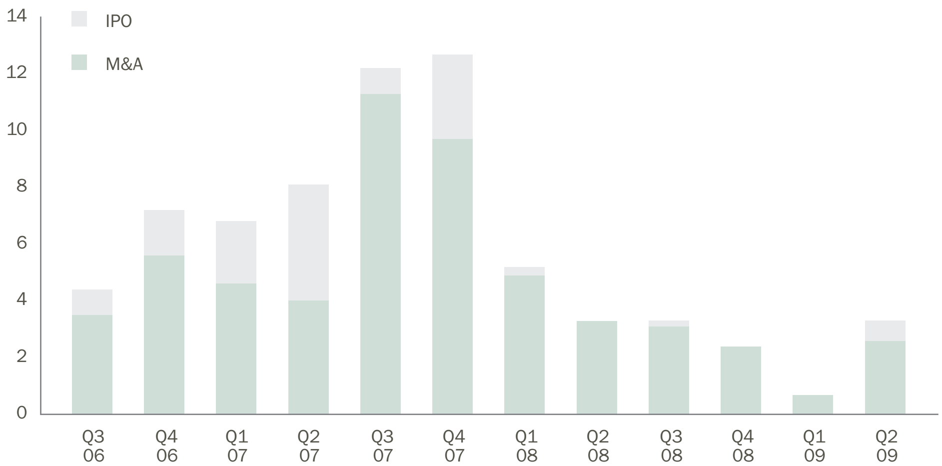


Source: Capital IQ

The mid-market sector continues to dominate and drive overall technology M&A activity. 85% of European technology deals and 78% of US technology deals have been valued between $20 million and $200 million.

Deal volume in technology sector

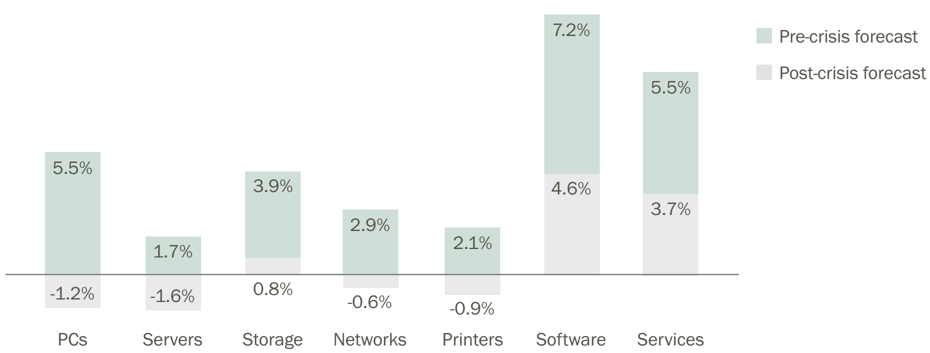
($ billions)



Source: VentureXpert

Technology spending in the US is projected to grow in 2009, albeit marginally, by 0.9%, despite continued difficulties for the US economy overall. According to the World Economic Forum, there are two main factors behind the sector's resilience. The first is that technology is constantly evolving and continues to make progress in a number of key areas. The second is that both the public and private sector have embraced technology as a major growth and productivity driver across all industries. In addition, the sector has benefited from renewed Federal and corporate focus on technology R&D as a primary competitive differentiator for the US economy.

Forecast on worldwide spending on IT



Source: IDC's Q2 and Q3 2008 Worldwide Black Books, Morgan Stanley Research

Top strategic investors have been significantly less acquisitive due to the current economic environment. This has lead to muted stock valuations and created a number of attractive opportunities for both add-on acquisitions and new investments. Likely acquirers are those with strong balance sheets and substantial cash balances.

Fundraising in the technology sector has been muted over the last 12 months. However, there are signs that this is coming to an end. Over the past three months, several technology-focused venture capital and private equity firms have successfully closed new funds. This is further proof of investor confidence in the strength of this sector.

Access to public capital via IPOs has also opened up very slightly but it remains highly selective. Venture capitalists continue to rationalize their portfolios aggressively, reflecting the lack of liquidity options and resulting in a substantial increase in the number of attractive, high quality private-to-private opportunities.

Blue-chip stocks with pristine balance sheets have been down 30% – 50% over the last 12 months. Valuations are more reasonable and the universe of mature technology companies with solid cash flow characteristics has increased substantially. Corporate carve-out activity for 2007 – 2008 equaled activity for 2003 – 2006 as companies have focused more heavily on their core operations.

Acquisition and realization activity:

Investcorp's technology investment business focuses on control-oriented investments in the IT and telecom sectors, with a preference for buyouts, corporate carve-outs and take-private transactions. It seeks to invest in profitable, growing companies with room for operational improvement. In general, the portfolio companies have limited direct exposure to the financial services industry and the team has been active in taking steps to insulate the few portfolio companies with direct exposure to the financial sector.

Fund III closed in January 2008 at $500 million and the team expects to make three to four investments per year with a target investment size of $25 to $50 million per deal. The team is targeting 10 – 12 investments overall.

A number of add-on investments have been made out of Fund II and two new investments have been made out of Fund III in FY09.

Acquisitions and add-ons

($ millions)	Sector	Company	Investment
Fund II (add-ons)	Communications infrastructure products	Antares	4.1
		Dialogic	5.0
		Kentrox	7.5
	Mobile data technologies and applications	InnerWireless (PanGo)	0.4
		Ubicom	0.5
	Digital content enablement	Magnum	0.9
		Moneybookers	8.5
		Zeta	3.0
Total Fund II (add-ons)			**29.9**
Fund III (acquisitions)	Mobile data technologies and applications	FleetMatics	40.0
	Enterprise software	TDX	43.0
Total Fund III (acquisitions)			**83.0**
Total acquisitions and add-ons			**112.9**

In July 2008, Fund III made a hybrid buyout-growth capital investment in FleetMatics, a leading telematics software solutions provider to the small-to-medium enterprise market. In December 2008, it signed a definitive agreement to acquire a 40% equity stake in UK-based TDX Group for £28 million ($43 million). TDX uses sophisticated analytic tools to maximize the recovery of defaulted consumer debt and is the largest and fastest growing player in the UK market. The company advises on more than 80% of the UK's Individual Voluntary Arrangements (IVAs) on behalf of creditors. IVAs are the process by which debtors negotiate a repayment plan with their creditors in order to avoid bankruptcy.

There were no exits during the 2009 fiscal year.

Portfolio:

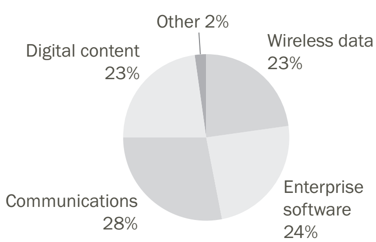
Fund I is fully invested and in harvest mode. Fund II is not making any new investments but has sufficient reserves for follow-on investments to support existing portfolio companies.

The carrying value of Investcorp's balance sheet co-investment exposure in TSI as at June 30, 2009 was $46.2 million.

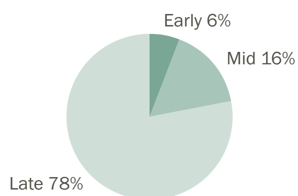
TSI Funds	Fund I	Fund II	Fund III
Fund size	$230 million	$300 million	$500 million
Vintage year	2001	2005	2008
% of commitments drawn	100%	89%	24%
Number of investments	24	12	3
Number of exits	20	3	0
Returned capital	$183 million	$37 million	$0 million
DPI	**88%**	**14%**	**0%**

Below are consolidated views of Fund I, Fund II and Fund III investments aggregated by sector, investment cycle and geography, as at June 30, 2009.

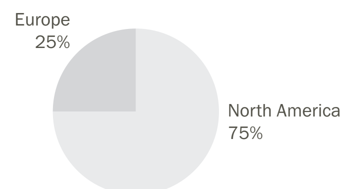
Sector



Stage



Geography



Outlook:

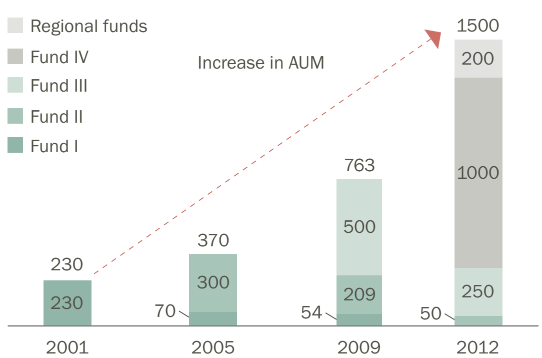
The investment team continues to see technology-enabled business models in software and IT services sectors that are well-positioned to withstand the impact of the economic slowdown, provided that end customers can see an acceptable return on investment before signing up for new deployments.

The investment team expects to see an increase in the number of opportunities that fit its highly selective deal criteria. Given the uncertain economic environment, it is highly focused on acquiring defensible businesses that are appropriately priced. Deal opportunities that were passed on over the last 12 – 24 months are beginning to return to the market on more favorable valuation terms, further validating the team's disciplined approach.

Over the medium-term, the business intends to grow assets under management to $1.5 billion, with an equal mix of international and Gulf-based investors.

TSI AUM growth plan

($ millions)



Private equity — technology small-cap portfolio

Investment ($ millions)	Investment theme	Location	Stage	Fund investment	Investcorp's exposure
Fund I (size: $230 m)				**51.2**	**4.3**
Genband (BayPackets)	Communications infrastructure products	US	Early	11.7	
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 II (size: $300 m)				**194.4**	**26.1**
Antares	Communications infrastructure products	US	Late	27.8	
Eicon (Dialogic)		US	Late	30.0	
Kentrox		US	Mid	26.2	
Magnum	Digital content enablement	US	Late	21.4	
Moneybookers		Europe	Late	24.5	
Zustek (Zeta Interactive)		US	Late	30.0	
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 III (size: $500 m)				**104.0**	**15.8**
Utimaco*/ 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	
Total unrealized portfolio				**349.5**	**46.2**

*Publicly listed investments

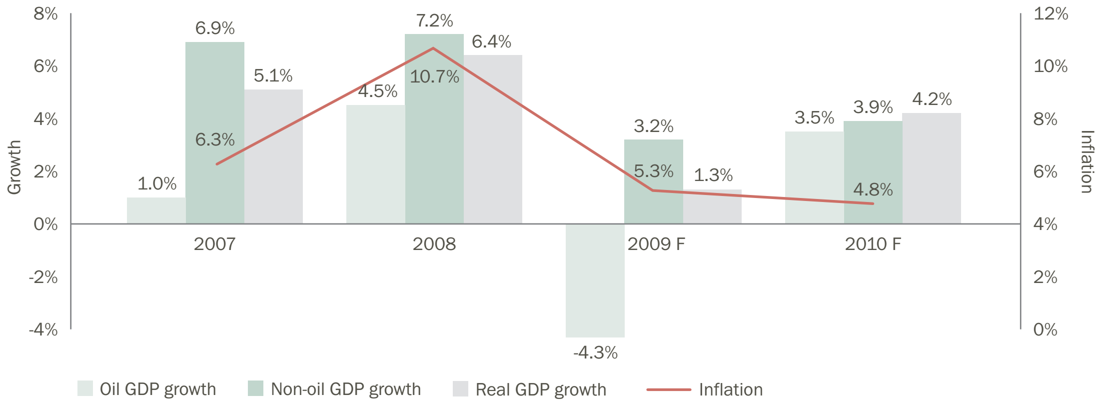
Gulf growth capital

Business environment:

This global financial crisis and the subsequent significant reduction in global economic growth have impacted the current economic environment across the Gulf, MENA and Turkey. This region has not been decoupled from the international markets and has seen a negative impact on regional financial markets, with lower energy prices and lower near-term economic growth. IPO activity in the MENA region declined by 87% during the first half of 2009 compared to the first half of 2008.

However, the crisis is certainly less acute in the Middle East compared to Western countries due to a number of structural forces. These include the resilience of the regional financial sector, the significant financial surpluses created in recent years and the deep reserves of available natural resources.

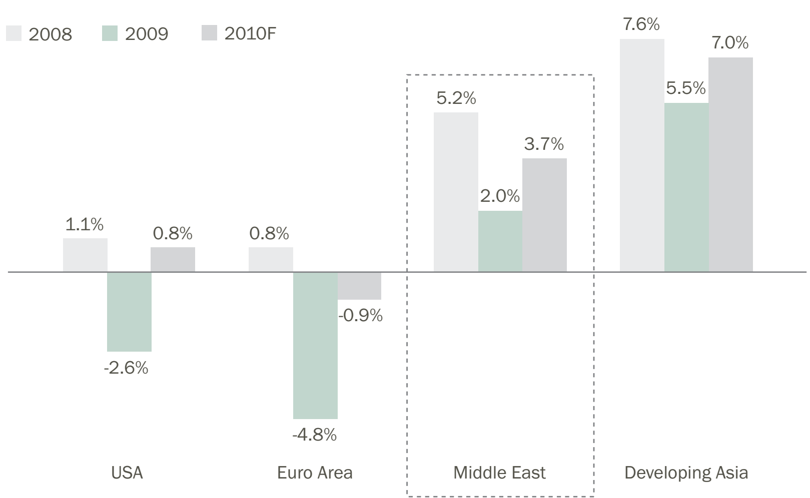
MENA growth and inflation



Source: IMF MENA Regional Economic Outlook Report May 2009

Although there has been a reduction to previous forecasts of economic growth in the region, a recession is not anticipated in the short-term. The IMF is forecasting GDP growth in the Middle East at 2.0% for 2009 and 3.7% in 2010, higher than the world average and significantly higher than in Western countries, where GDP is projected to contract in calendar year 2009.

GDP forecasts: Middle East amongst fastest growing economies globally

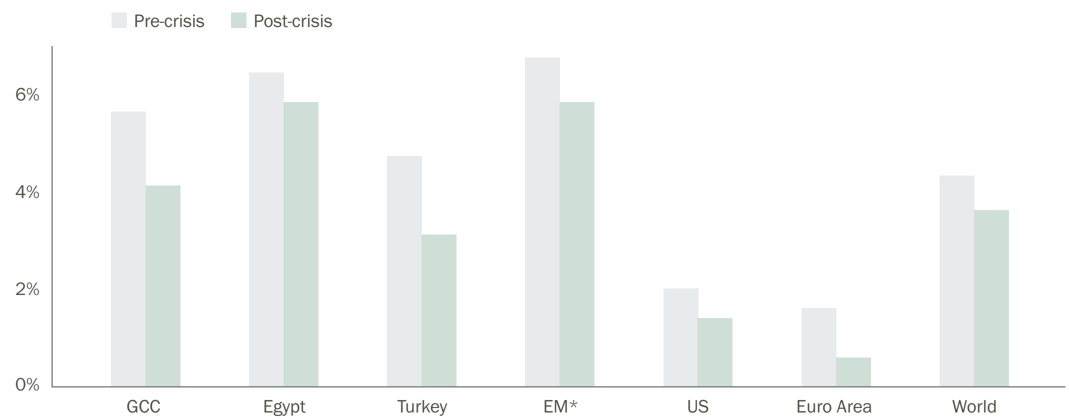


Source: IMF Report WEO July Update 2009

Action has been taken recently by the Governments within the GCC to stimulate their economies, improve infrastructure and make structural reforms. In addition there are significant regional competitive advantages due to cheap energy and labor, minimal fiscal costs and a strategic location between the East and West.

In the medium-term, these fundamental factors will continue to support economic expansion and augur well for steady and sustainable growth post 2009. Long-term economic growth, post-crisis, is predicted to decrease by approximately 1.5% versus pre-crisis projections but, post-crisis, the GCC compounded annual growth rate is still estimated to be a robust 4%.

Real GDP growth (2008 – 2013 compounded annual growth rate)



*Excluding Middle East, India and China

Source: IMF Estimates (October 2008) and Economist Intelligence Unit (February – April 2009)

Investment activities:

The Gulf growth capital investment fund, Gulf Opportunity Fund I (the 'Fund'), is a $951 million fund which will invest in 12 to 16 companies in MENA and Turkey, with a target holding period of three to six years. The timing of the Fund has benefited from the current regional economic outlook and a maturing investment climate.

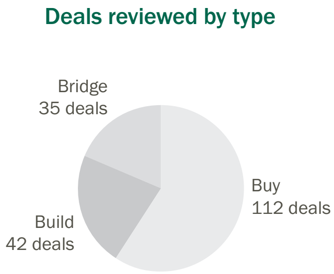
Although MENA and Turkey are projected to have strong medium-term growth, over the past 12 months public equity valuations and multiples in these markets have fallen to a greater extent than world equity indices. This is creating an attractive window of opportunity for growth capital investors in the region. Historically, the best performing private equity investments have been made in downturn years.

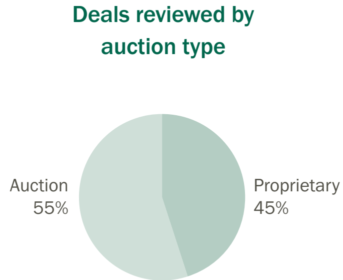
A gradual change of attitude among business owners is also supportive. Those that were formerly averse to selling are now open to financial investors. Some are still reluctant to release full ownership over the family business and the Fund is therefore prepared to look at minority interest investments which, at the same time, allow significant influence.

The Fund is also at a relatively early stage of its investment cycle with less than 25% of the Fund currently invested. This places the Fund at a distinct advantage to its core competitors who have less dry powder for investing and also pressure (versus their initial investment thesis) on portfolio companies that were acquired during the high valuation periods of 2006 to 2008.

The Fund will invest in a combination of: (i) 'Buyout' opportunities (majority and minority); (ii) 'Build' green-field ventures; and (iii) 'Bridge' opportunities, to bridge Western and Asian expertise, technology and franchises with market opportunities and players in the MENA region through acquisitions, relocation or joint ventures.

A total of 189 deals were reviewed during FY09, 20% of which were 'bridge', 20% 'build' and 60% 'buy' investments. Approximately half of the deal flow has been sourced through Investcorp's proprietary network, and the Fund has now developed an attractive pipeline of investment opportunities.





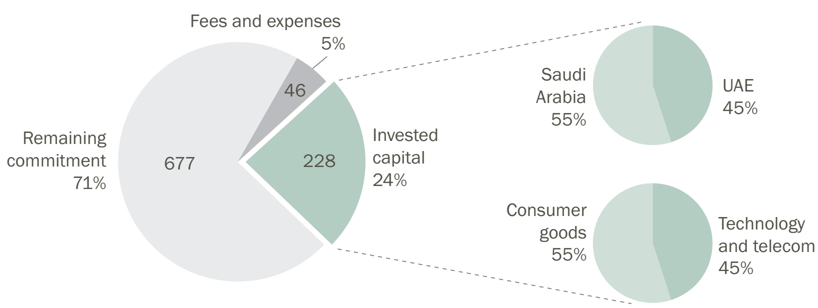
The Fund has closed two transactions in FY09 for a combined equity value of $228 million.

The first Fund investment was a 36% minority interest in Redington Gulf, the leading IT master distributor in the Middle East and Africa, which distributes IT and telecom products for global companies such as HP, Nokia, Acer and Samsung. IT master distributors are integrated supply chain management experts that provide the link between global equipment manufacturers and local resellers and retailers, who then sell the products to governments, companies and individuals. This investment, made as a capital increase, was closed in November 2008. Redington Gulf was previously a wholly owned subsidiary of Redington India Ltd, a prominent IT distributor listed in India, and operating in India, Asia, the Middle East and Africa. Redington Gulf has headquarters in Dubai, UAE.

The Fund closed its second investment in L'azurde, MENA's leading manufacturer and wholesaler of gold jewelry based in Riyadh, KSA. The investment was closed in March 2009 with the Fund leading a consortium in the acquisition of a 70% stake. The seller retained the remaining 30% interest highlighting the seller's belief in the significant value creation potential in the business. L'azurde is the uncontested market leader in the MENA region, nearly four times larger than its nearest competitor. The company has a high brand awareness and reputation among its customers, and has considerable growth opportunities in the GCC and wider MENA region. It has a long and well established track record, coupled with a highly attractive and resilient business model.

Overview of Gulf Opportunity Fund

($ millions)



Hedge funds ('HF') asset class

Business environment:

In 2008 the global financial system faced an unprecedented market failure and hedge funds were unable to play their traditional role of protecting capital in a downturn. The financial system in which hedge funds hold cash and securities, and through which they finance, execute and clear their trades, essentially stopped functioning. Banks around the world were forced to write-off hundreds of billions of dollars in losses from their holdings of toxic assets. As a result, they were forced to sell other assets to de-lever, dramatically reduce lending of all types, including to hedge funds, and to step back from market-making activities. This prevented their clients, including hedge funds, from executing effectively. Hence, like many other types of investors, hedge funds were victims of the banking crisis and a perfect storm of systemic events.

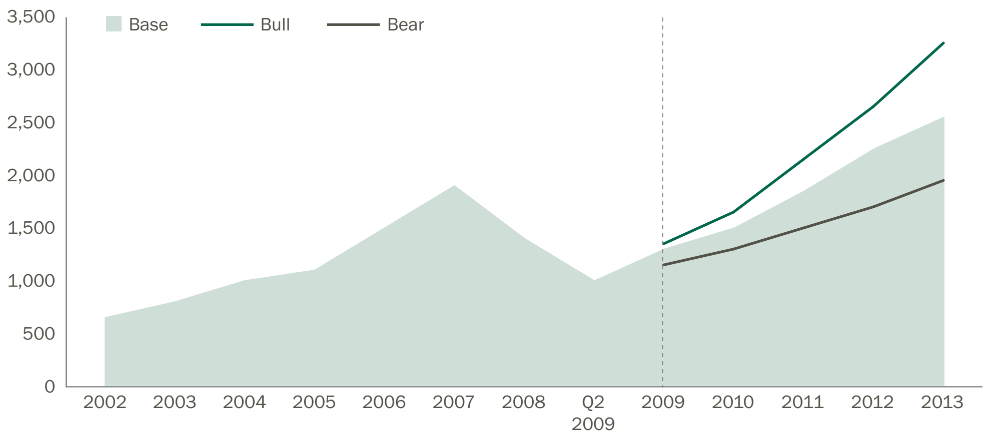
After the bankruptcy of Lehman Brothers, banks stopped lending to investors and to each other, leading to drying up of liquidity. Hedge funds were stripped of the traditional tools they use, such as short selling. This forced hedge funds to cover positions and realize losses where they would otherwise have generated profits. Following the Lehman bankruptcy, between September and December 2008, the HFR Fund of Hedge Fund Composite index fell 15.9%, while the S&P 500 fell 28.9%. A bulk of the losses for the hedge funds industry in 2008 were caused during this post Lehman bankruptcy crisis period when an unparalleled confluence of events prevented hedge funds from protecting capital.

Investors in hedge funds, nursing losses in other asset classes, scrambled to raise liquidity and put in redemptions on an unmatched scale. This put further pressure on hedge funds that were struggling in an already difficult environment.

Global hedge fund assets have now fallen from their peak of $1.9 trillion and are expected to bottom out around $1 trillion. Nonetheless, this asset class is projected to at least double and possibly triple in size over the next five years.

Hedge fund assets

($ billions)



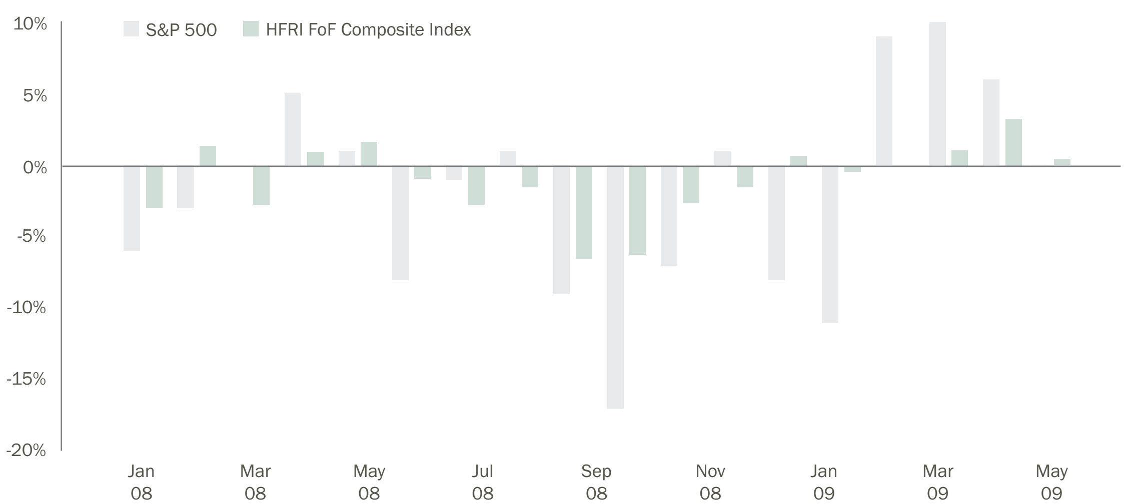
Source: Hedge Fund Research, Bank of New York, and Casey Quirk and Associates analysis 2009

Clearly, such an extraordinary combination of events had not been seen previously in modern markets. While it is difficult to say that the industry will never see such a period again, Investcorp believes that actions taken by governments and regulatory agencies worldwide have reduced the probability of a large systemic banking shock. While institutions may still fail, they are unlikely to have as large or serious an impact on markets as the Lehman bankruptcy.

Investcorp funds had no material direct exposure to Lehman Brothers and the overall direct impact of the Lehman Brothers bankruptcy was minimal. Investcorp funds also had no exposure to investments related to Bernard L. Madoff Investment Securities LLC.

The impact of the Lehman bankruptcy on the global financial markets now appears to be over. Hedge funds were able to protect capital during the down markets of January and February 2009 and have continued to post strong returns for the first half of the 2009 calendar year that are uncorrelated to directional equity markets.

HFRI FoF Composite Index vs S&P 500 Index



Sources: HFRI & S&P

Investcorp's business model:

Investcorp believes that the lasting impact of this crisis will be the acceleration of a trend towards institutionalization of the hedge fund industry and a convergence with Investcorp's approach to hedge fund investing across a number of areas:

Transparency and managed accounts: Investors will increasingly move away from managers who provide little or no transparency. Nearly 70% of Investcorp's portfolio is transparent at the individual position level (daily transaction-level and daily and monthly position-level data) and a sizeable portion is in managed accounts.

Innovative risk management: Investors will demand better risk analysis and will no longer accept summary risk information or a manager's word that risk is 'under control'. Investcorp conducts comprehensive risk analysis of its investments for its entire hedge fund program.

Custom solutions: Investors will demand custom solutions tailored to their individual risk preferences. A sizeable component of Investcorp's assets is managed as custom accounts for some of the world's largest institutional investors.

Co-investment: Investors will require meaningful alignment of interest between the manager and the client. Even with a significant reduction of its proprietary co-investment in hedge funds, Investcorp continues to be the largest investor in its hedge fund program.

Institutional funding arrangements: Investors will require committed long-term funding arrangements. Investcorp utilizes its institutional relationships in negotiating attractive financing terms and robust documentation.

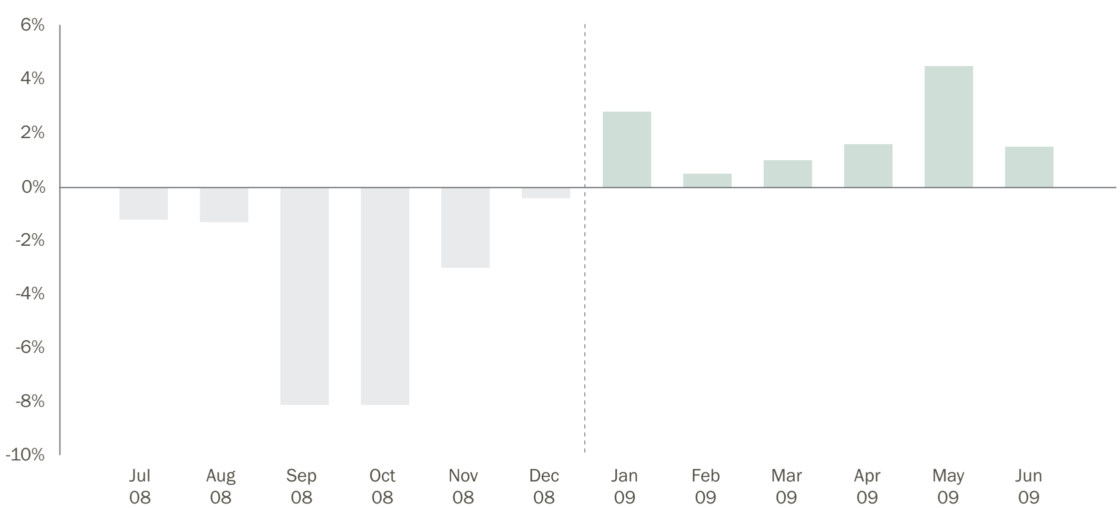
Investcorp also emphasizes a preference for managers who have independent service providers and strong infrastructures and processes in place to control fraud. Managed accounts are used to control operational and market risk and Investcorp seeks to obtain full transparency from its underlying managers.

Investcorp's hedge fund portfolio:

(i) Performance

Proprietary co-investment returns from hedge funds for H2 FY09 reflect a stabilization of the asset class after the systemic crisis in September and the subsequent market fall-out through December. They are a stark contrast to the returns reported in H1 FY09. Monthly returns in each of the last six months of FY09 were positive and have reflected a lowering of systemic risk and an increase in market liquidity, factors which are prerequisites for positive hedge fund performance.

Investcorp hedge fund proprietary returns



(ii) Portfolio positioning

Throughout the second half of FY09, the portfolio was positioned to take advantage of opportunities available in relative value strategies that were affected by liquidity driven dislocations (fixed income relative value and convertible arbitrage). The portfolio was also positioned to exploit the opportunities available in Macro strategies. Investcorp continues to remain positive on these strategies and also expects that credit and distressed strategies will outperform equity oriented strategies (event driven, long-short equities) in the current environment. A high level of portfolio insurance was maintained during the crisis, but the allocation has been pared back recently.

Although the worst of the crisis has passed, economic fundamentals are still weak and any recovery is likely to be mild. Investcorp's portfolio investment strategy has therefore concentrated on avoiding aggressive directional positions, to stay liquid and flexible in what continues to be an uncertain environment.

(iii) Liquidity

Investcorp has been prudently managing the liquidity of its hedge fund portfolios through the crisis. While many managers imposed redemption gates, Investcorp did not impose any gates for its clients and met their redemption requests in full. It also generated $1.1 billion of liquidity for Investcorp's balance sheet during the fiscal year, in support of Investcorp's balance sheet de-leveraging plans. Of this, approximately $1 billion was funded from fund of funds redemptions and $0.1 billion from single managers. Despite meeting the liquidity requirements of its clients including Investcorp Treasury, the integrity, diversification and liquidity profile of the HF portfolios were preserved. Through the crisis, strategy allocations were kept consistent with the investment views held by the investment team. As a result, Investcorp's co-investment portfolio generated a 12.3% non-dollar weighted return in the first half of calendar year 2009.

Investcorp's current co-investment portfolio reflects high liquidity accessibility. Approximately 57% of investments can be redeemed within three months, and approximately 72% can be redeemed within six months. The investments in the single manager platform also exhibit an excellent liquidity profile, with 74% of current investments available for redemption within three months.

Liquidity profiles of HF portfolio	Fund of funds	Single managers	Total portfolio
Within 1 month	21%	21%	21%
Within 3 months	28%	74%	57%
Within 6 months	68%	74%	72%
Within 12 months	84%	74%	78%

(iv) Exposure

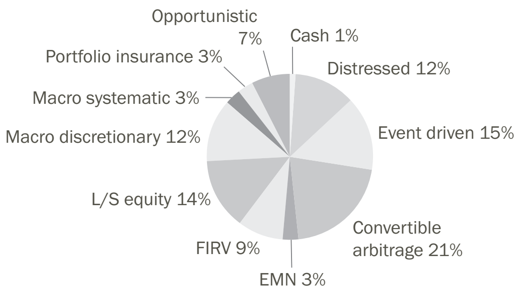
Investcorp's proprietary co-investment includes investments in its fund of funds products as well as its single manager program. As at June 30, 2009, Investcorp had a gross hedge fund exposure of $845 million, with $457 million in fund of funds and $388 million in single managers. There is $230 million of third-party provided leverage embedded in Investcorp's fund of funds exposure, resulting in $614 million of net cash investment in aggregate. Investments in fund of funds products are in diversified portfolios across different strategies, while Investcorp's investments in the single manager platform are across seven specific hedge fund strategies.

Investcorp's single managers are listed below:

Investment manager	Investment strategy	Launch date	Location
Interlachen Capital Management LLC	Multi strategy	April 2006	Minneapolis, Minnesota
Cura Capital Management LLC	Relative value	December 2004	New York, New York
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
Hawkstone Capital LLC	European long/short	October 2008	New York, New York

Details of the strategy allocations across the total portfolio as at June 30, 2009 are shown below:

Exposure by strategy



All alternative and conventional asset classes exhibited a high correlation to each other during the market's systemic crisis over the last 12 months. However, over the medium-term, Investcorp's proprietary co-investment in a diversified strategy hedge fund portfolio shows low correlation to other conventional asset classes.

	Last 5 years		Since inception	
Correlation to other asset classes	**DSF**	IBF	**DSF**	IBF
Correlation to S&P 500 Index	**0.51**	0.55	**0.36**	0.38
Correlation to NASDAQ Index	**0.52**	0.57	**0.30**	0.35
Correlation to MSCI World Index	**0.62**	0.66	**0.44**	0.45
Correlation to Citigroup WGBI Index	**(0.32)**	(0.31)	**(0.11)**	(0.05)

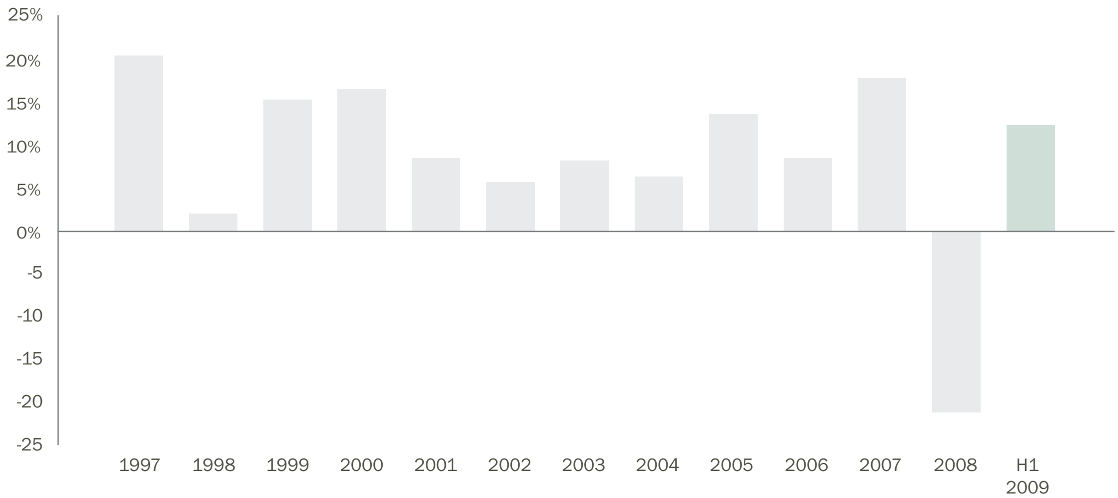
Details of proprietary and client AUM as at June 30, 2009 and 2008 are shown below:

Hedge funds AUM ($ millions)	**FY09**	FY08
Clients		
Diversified FoF	**708**	1,438
Theme FoF	**148**	412
Structured products	**83**	1,418
Customized accounts	**1,006**	639
Single manager platform	**1,148**	1,641
Total client AUM	**3,094**	5,549
Proprietary co-investments		
Fund of Funds (FoF)	**457**	1,536
Single manager platform	**388**	529
Total proprietary co-investments	**845**	2,065
Affiliates	**13**	305
Grand total	**3,952**	7,920

Outlook:

The Investcorp hedge funds business has been in operation for over 13 years. During that time, the industry has survived several bull and bear markets. The events of 2008, however, were well beyond any expectations and calendar year 2008 was the first ever year of negative returns on Investcorp's hedge fund co-investment.

Investcorp hedge fund total return



Investcorp has examined the lessons to be learned from this experience, incorporated them into the investment process and implemented the necessary changes across portfolios via re-balancing. With such enhancements, Investcorp is optimistic about future performance, especially given the attractive opportunities in the markets.

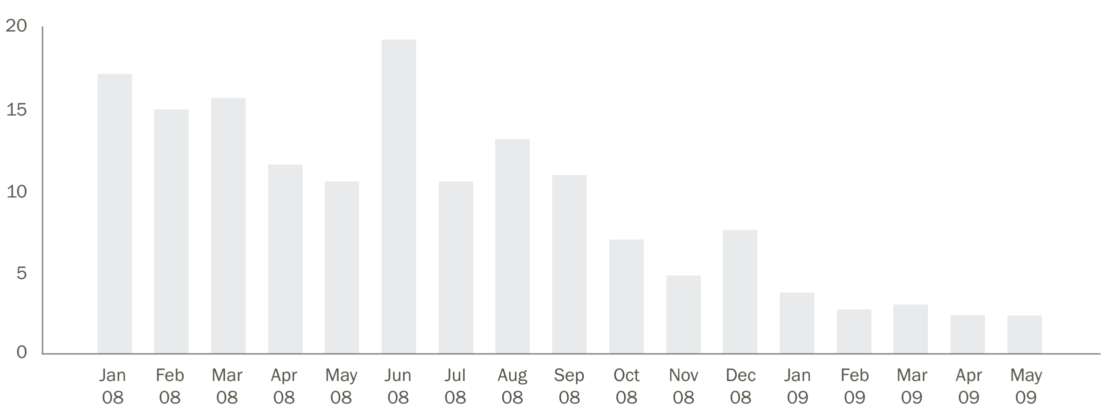
Real estate ('RE') asset class

Business environment:

In the US real estate market, the availability of debt and equity capital remains highly constrained and property purchases continue to be almost non-existent. Transaction volumes are significantly down due to the US recession, the ongoing dislocation in financing markets which makes it difficult to re-finance assets, and due to a mismatch in pricing expectations of buyers and sellers. All markets have been affected and investors are highly cautious, particularly with regard to valuations. Specific locations such as New York City and its surrounding metropolitan area, southern Florida, Silicon Valley and the Midwest are struggling. Other markets such as Seattle, Washington D.C. and Texas are more stable.

Transaction volume

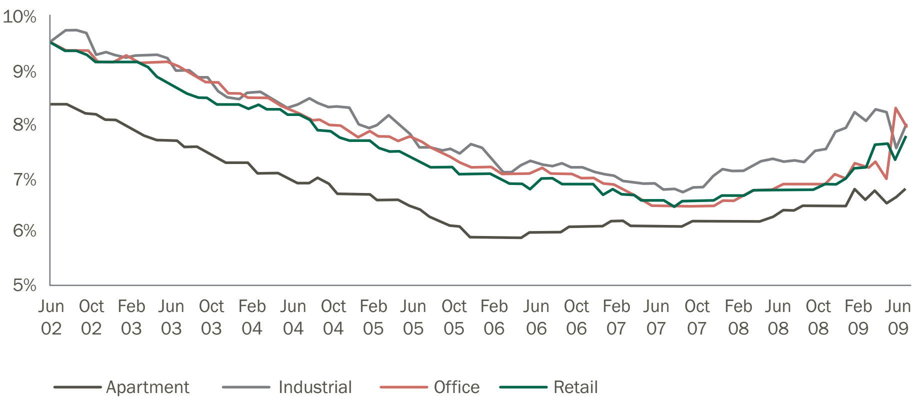
($ billions)



Sources: Jones Lang LaSalle, Real Capital Analytics

As real estate prices soared through the middle of 2007, capitalization rates, a common measure of initial return on real estate investments, fell to 6% and below. This was the lowest level in decades and reflected the fact that investors were accepting lower returns despite the risk. The severe dislocation in the credit markets that began in the second half of 2007 accelerated the decline of a residential market that was already dropping and started to affect the commercial real estate sector. The negative impact on the commercial real estate market has since accelerated even more.

Cap rates



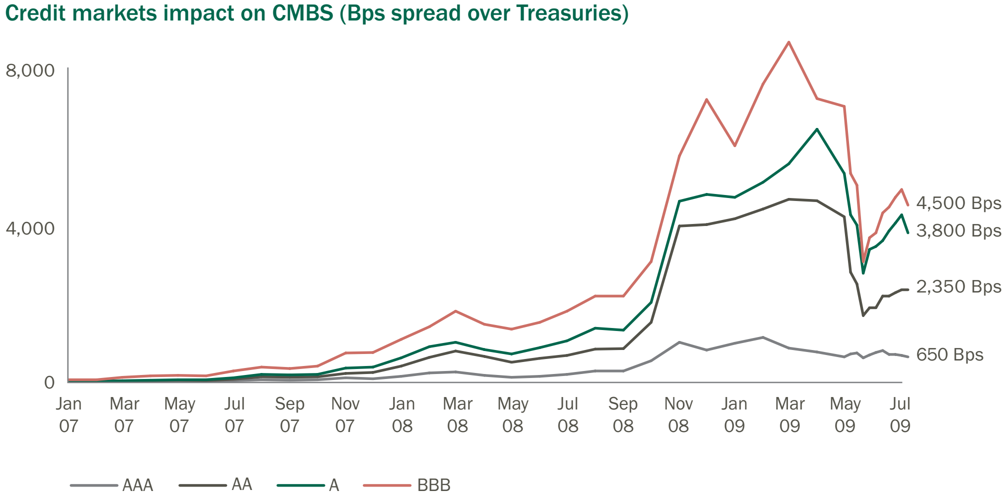
Sources: Jones Lang LaSalle, Real Capital Analytics

The vacancy rate for US apartments hit a 22-year high in the second quarter of the 2009 calendar year, as rising unemployment reduced demand. Vacancy levels nationally rose to 7.5% between April and June, up from 6.1% a year earlier.

Hotels have also been suffering from the reduction in consumer spending and lower corporate travel expenditure. In March 2009, hotel revenue per available room in the US was down 18% compared with March 2008, the worst performance since 1932. New York has been especially hit, with hotel revenue down 35% and effective rents of commercial buildings down 40%. According to Morgan Stanley, hotel loan delinquencies, currently at 4.7%, are likely to reach the previous recession's peak of 8.2% during 2009. Performance in 2009 is likely to be very challenging, exacerbated by rising unemployment.

Vacancy in the retail sector is also on the rise as consumer spending has dropped notably. In addition, occupancy in the office sector has dropped as a number of office users have reduced their workforce and need less office space.

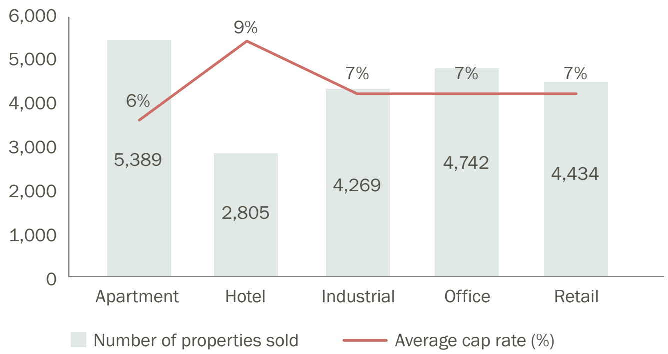
Credit markets impact on CMBS (Bps spread over Treasuries)



Source: Jones Lang LaSalle, Commercial Mortgage Alert (AAA), Real Capital Analytics

In 2008, US commercial real estate's operating fundamentals slowly declined but were mitigated by limited new supply and high occupancy rates by historical standards. In the first quarter of 2009, the decline in operating fundamentals accelerated with downward pressure on rents and occupancies as economic activity slowed. Leasing rates in virtually all markets are now in decline and concessions are increasing. Net Operating Income ('NOI') is beginning to fall and in certain markets, such as New York and Florida, steep declines are taking place.

Type of property sold vs average cap rate (Q2 2007 – Q2 2009)



Source: Real Capital Analytics

All of these factors are pushing down valuations and increasing capitalization rates across all commercial real estate market sectors. However, despite the downward valuation pressures on equity, supply is under control and there are still good levels of occupancy for 'grade A' commercial properties, especially those in top-tier locations. Acquisitions of good quality debt-securing commercial property have continued and are expected to become a growing investment opportunity, particularly as assets resulting from distress and recapitalization situations become available over the next three years. Credit conditions have tightened generally and over $500 billion of debt needs to be refinanced in the next two years. Investors are indicating that the best opportunities are in the established real estate markets of North America and Western Europe. 34% of capital raised by private real estate funds in 2009 is now allocated to debt investments, compared to 17% in 2008.

Portfolio activity:

In FY09, Investcorp's real estate team funded the $77.1 million Best Western Hotel acquisition, which was signed in FY08, and made follow-on investments to existing equity portfolios totaling $36.1 million. In addition, the real estate business deployed $111.4 million of capital into debt investments. These investments include $14.7 million for debt investments within the existing property portfolio. The remaining $96.7 million was invested through Investcorp's two closed-end funds dedicated to making debt investments. $71.2 million was invested in three new portfolios: Coast Guard Headquarters, Veritas Self-Storage and the GSC Loan portfolio. $25.5 million was used to increase the initial investment in the 8th Avenue Hotels portfolio and the Multi-State Hotel portfolio debt acquired in FY08.

Real estate debt investments FY09 ($ millions)	Property name	Value
Deal-by-deal	Best Western Hotel	12.9
	Weststate	1.8
	Total deal-by-deal	**14.7**
Investcorp Real Estate Credit Fund	Coast Guard Headquarters	39.8
(IRECF)	Veritas Self-Storage Portfolio	15.0
	GSC Loan Portfolio	8.4
	8th Ave Hotels	15.0
	Multi-State Hotel Portfolio	10.5
	IRECF total investment	**88.7**
Mezzanine Fund I	GSC Loan Portfolio	8.0
Total debt investments		**111.4**

In January, Investcorp acquired the Best Western Hotel, a 334-room limited-service hotel located in the Times Square submarket of Manhattan, New York, for $77.1 million. The investment thesis involves a comprehensive $11.5 million renovation program to upgrade the overall appeal and competitive position in order to increase room revenues and achieve higher average daily rates. The equity investment followed the purchase of $12.9 million of discounted mezzanine debt in December 2008.

The US Mezzanine Fund I, created in 2006, has now been fully invested. $100 million has been invested and $8 million is held in reserves. The Investcorp Real Estate Credit Fund, created in 2008, is also fully deployed with $171 million invested and $6 million held in reserves.

In November 2008, the real estate team sold Southgate Office Plaza from the Old Real Estate Fund portfolio. This property was purchased in December 2000 and was not placed with investors. This exit concludes the Old Real Estate Fund portfolio.

In March 2009, Holiday Isle, part of the Opportunity III portfolio, was restructured following the decline in condominium pricing in South Florida and the challenged cash flow outlook for the property. Investcorp has retained an option to acquire a 50% interest in the property over the next three years, providing an opportunity to participate in future development, sale or recapitalization.

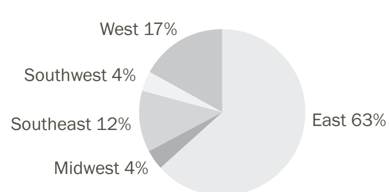
In June 2009, Investcorp closed on the sale of the remaining condominium units at Amelia Lakes. The property was acquired in March 2005 and underwent a successful conversion from apartments to condominium ownership. The majority of the units were sold to individual buyers with the last 51 units sold to a single buyer. This investment was originally held on Investcorp's balance sheet and was not placed with investors. The investment generated a property level IRR of 13% over a four-year investment period and a 1.4x equity multiple.

Portfolio:

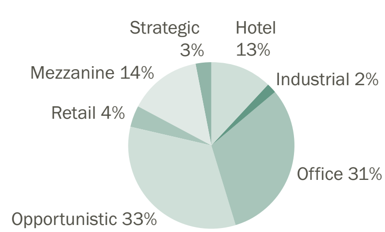
At June 2009, Investcorp's real estate balance sheet co-investment portfolio totaled $283.2 million (FY08: $337.0 million), consisting of $168.3 million of fair valued equity investments and $114.9 million of held-to-maturity debt investments, held at cost less provisions for impairment.

Investcorp's real estate co-investments at June 30, 2009

By geography



By sector



Investcorp continues to be primarily focused on income-producing commercial real estate assets that have no meaningful exposure to sub-prime or residential sectors.

Overall Investcorp's real estate property portfolio has felt the impact of the correction in the market as 'mark-to-market' values have declined throughout. The carrying values by each vintage year are shown below.

Investcorp co-investments by year ($ millions)	Carrying values as of June 30, 2009	Carrying values as of June 30, 2008	Change %
Vintage FY03	0.7	2.4	(71.2%)
Vintage FY04	0.1	0.1	(11.3%)
Vintage FY05	16.3	22.7	(28.4%)
Vintage FY06	69.4	62.1	11.8%
Vintage FY07	46.1	54.6	(15.5%)
Vintage FY08	114.8	176.2	(34.8%)
Others	35.8	18.9	88.8%
Total	**283.2**	337.0	(16.0%)

There are 21 active investment portfolios of which 12 are on or ahead of investment plan. Nine are behind plan as at June 2009. The table below shows a classification of the current state of the 21 portfolios.

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

The challenging portfolios are weighted to those holding hotel, condominium developments and retail developments in struggling regions where the economic environment has generally slowed down the pace of sales and unit prices. The asset management team has focused on cash flow and capital reserve management, tenant retention and expense reduction programs in order to improve or sustain operating performance. Leasing activity for longer term and larger transactions has become more challenging.

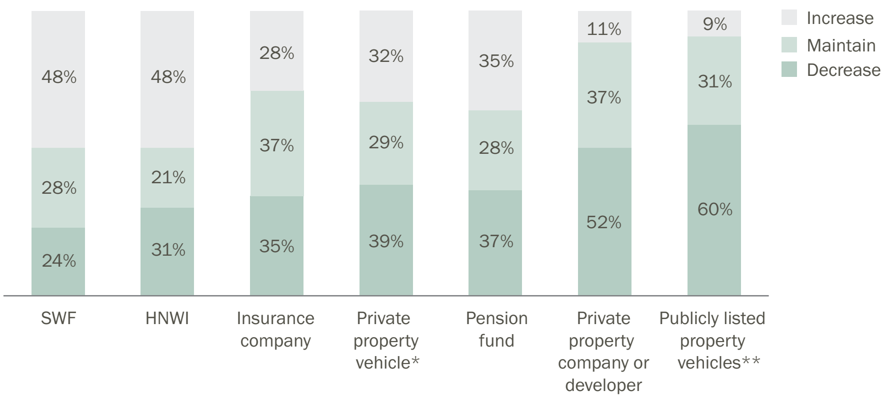
280 Park Avenue is one of the larger investment properties in the challenging category. Execution of the business plan to grow NOI is compromised due to declining rental rates and weak tenant demand in Manhattan. Initiatives to reduce operating expenses have therefore been implemented and capital expenditures reduced or eliminated in 2009 and for the foreseeable future. The carrying value has been marked down by 33% during FY09.

Outlook:

The opportunity to invest, at favorable prices, in sound US commercial real estate assets is available although in lower deal values. Real estate debt is particularly interesting. Overleveraged buyers are being forced to recapitalize, and lenders, who need to liquidate to address balance sheet issues, are being forced to sell outright. At the same time, dislocation in the capital markets has made mortgage debt scarce, so other forms of debt capital are needed to fill the gap. There is an investment opportunity created by this combination of the availability of strong assets, distressed sellers and the scarcity of debt capital.

Further, on the demand side, real estate asset allocations of sovereign wealth funds and high-net-worth individuals are supportive and reflect their perception of investment opportunities.

Expectations of real estate from different investor groups



Source: DTZ Research
*e.g. Opportunity Funds, Private Hedge Funds, Limited Partnership
**e.g. Listed Fund, Company, REIT

Investcorp real estate has established a third real estate debt fund, Mezzanine Fund II, to invest in and originate commercial real estate debt, with fundraising for a $250 million size targeted to close by the first quarter of calendar 2010. The fundraising will target institutions in Europe as well as Investcorp's traditional Gulf clients.

Investcorp has a powerful position in the US real estate debt business. The team has strong buying capacity and relevant expertise, plus industry relationships built over 30 years in US real estate.

Real estate portfolio

Investcorp co-investment by year ($ millions)	Transaction size	Properties original/ current	Sector (of remaining properties)	Geographic location (of remaining properties)*	Carrying value, as of June 30, 2009
Diversified II	99	7/3	Office and Industrial	W	0.7
Vintage FY03	**99**				**0.7**
Empire Mountain Village	142	1/1	Opportunistic	W	0.1
Vintage FY04	**142**				**0.1**
Commercial IV	392	12/8	Office	E	0.9
Diversified V	145	5/1	Office	E	0.7
W South Beach	345	1/1	Opportunistic	SE	5.6
Opportunity I	92	3/2	Opportunistic	E/SE	9.1
Vintage FY05	**974**				**16.3**
Commercial V	256	3/3	Office and Retail	E/SE	22.7
Retail III	239	8/8	Retail	MW	1.4
Retail IV	407	29/23	Retail	SW	2.0
Opportunity II	97	3/3	Opportunistic	W/SE	18.7
Opportunity III	284	3/3	Opportunistic	E/SE	24.6
Vintage FY06	**1,283**				**69.4**
Diversified VI	279	2/2	Retail and Hotel	SE/SW/MW	3.1
Diversified VII	209	4/4	Industrial/ Office/Hotel	E/MW	13.7
Hotel**	450	9/9	Hotel	E/SE/SW/MW	8.5
Bravern	893	1/1	Opportunistic	W	20.8
Vintage FY07	**1,831**				**46.1**
280 Park Avenue	1,459	1/1	Office	E	52.5
Diversified VIII	258	5/5	Office/Hotel	W/SW/MW/SE	18.9
Highgrove	148	1/1	Opportunistic	E	4.1
Weststate	388	1/1	Opportunistic	W	10.9
Best Western	176	1/1	Hotel	E	28.5
Vintage FY08	**2,428**				**114.8**
Mezzanine investments	284	n.a.			27.4
Strategic investments	n.a.	n.a.			8.3
Others	**284**	**n.a.**			**35.8**
Total	**7,040**	**81**			**283.2**

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

** Includes Norfolk Marriott Waterside acquisition from FY08

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 widespread nature of the current economic contraction in Europe has had a severe impact on the confidence of N&W's vending operator customers, who are unable to predict near-term demand with any certainty and thus cannot commit to medium-term investment plans. This has affected N&W's trading results in recent months. However, given the company's strong competitive positioning, it has been able to continue gaining market share as this environment has also led to some of N&W's competitors facing financial challenges and customers consolidating suppliers. In view of continued uncertainty and low order build up, N&W management has identified a broad set of production efficiency, procurement and SG&A cost reduction initiatives that will have a combined annualized EBITDA impact of over €25 million. The implementation of the first two waves of initiatives is complete and further measures will be implemented throughout the rest of 2009 and 2010.

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 systems and specific industrial applications. In the medium-term, the company anticipates significant growth in its coffee division, driven by espresso and pad-filter machines taking share from traditional filter coffee machines. CEME's sales in the appliances division are expected to benefit as steam generators continue to gain share from traditional irons and as condensing boilers increase penetration of European markets.

CEME's growth strategy encompasses: (i) maintaining its market leadership in the growing coffee and steam markets; (ii) extending its product range to address applications in adjacent industrial, appliances, technical and vending machine markets; (iii) expanding its geographical footprint particularly in North America and following the international expansion of its customers; and (iv) pursuing add-on acquisitions. CEME's current initiatives include focused work on short-term efficiency initiatives to maintain the company's performance in light of the deteriorating economic environment, key customer projects including Keurig, Nespresso and Coca-Cola, continued screening of acquisition targets; developing/formalizing CEME's industrial strategy and the build up of its finance function.

Market volumes of pumps and valves for espresso machines, cleaning machines and steam iron generators have deteriorated since the fourth quarter of 2008, 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. Monthly sales have started to improve since May 2009, with a strong order book building up for June and July, indicating that the market decline may have bottomed out.

The acquisition closed in July 2008.

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. 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 increasing integration with existing customers and developing new customers through better sales-force effectiveness, amongst other initiatives. Add-on acquisitions are also being evaluated for this investment.

The acquisition closed in May 2008.

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. In anticipation of the difficult environment, the company took extraordinary steps to lower its cost structure in 2008, including circulation, printing cost and headcount reductions. It is also in the process of implementing additional cuts that will include salary and benefit reductions for all employees. Randall-Reilly continues to develop its acquisition pipeline, as acquisitions remain an important tenet to growing the business and generating equity value.

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, Berlin has possessed opportunities for future growth including: (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) 'tuck-in' 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. The management team is therefore extremely focused on growth and improving performance, 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, lean manufacturing, contracting best practices, 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 also initiated a broad and structured cost cutting program, with its new CEO leading a process to rebase the company's plan and articulate priorities to ensure strong long-term positioning, while at the same time taking remedial actions, including streamlining the company's manufacturing setup.

The acquisition closed in July 2007.

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, the company has performed strongly, mainly 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 the current calendar year but projects a modest decline in new oil and gas inspection and staffing projects in the latter part of 2009 through 2010 due to cutbacks in exploration and production expenditure by its clients in this period of oil price volatility. Management expects to mitigate in part this market slowdown by continued development of its service offering and by focusing its resources on growth geographies and key clients. 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 industrial and marine as well as in 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.

TimePartner is a German supplier of temporary staffing services with leading market and customer positions in the logistics, engineering and aviation segments. Since acquisition, the company has implemented a number of strategic and operational initiatives, including hiring a new Chief Executive Officer with over 20 years of service industry experience, and hiring senior executives in marketing, finance and technology functions. An important element of TimePartner's growth plan has involved strategic and 'tuck-in' acquisitions.

Due to the deterioration in the German economic environment since the second half of 2008, management has been focusing on the productivity of external personnel and reduction of internal costs. However, these efforts have been countered by the severe economic downturn as the German economy entered into a general recession in the summer of 2008. In the last six months of 2008, the German temporary staffing industry collapsed, with a drop of over 40% in the number of people employed in this sector.

As a result, progressively weakening sales across a relatively high fixed-cost branch network led to rapid deterioration in the earnings of the company. Emergency cost reduction measures launched by management in Q3 2008 could only partially off-set this rapid earnings decline, leading to 2008 EBITDA coming in 33% below the corresponding prior year period. Unfortunately this trend also continued during the first months of 2009 and put the company under severe financial constraints. Although TimePartner continued to generate positive operating cash flow even in this severe demand environment, its over-leveraged balance sheet meant that debt service obligations were not sustainable.

Faced with this deteriorating situation, in December 2008 Investcorp started engaging with the existing lenders of TimePartner regarding a restructuring of the company's balance sheet. An agreement in principle was reached in June 2009 on a restructuring and the transfer of Investcorp's ownership in TimePartner to a trustee (subject to final documentation currently ongoing).

The acquisition closed in July 2006.

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.

In 2008 FleetPride closed seven acquisitions representing $48 million in aggregate annual sales. 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.

Overall demand in 2009 continues to be affected by a downturn in the trucking sector that started in late 2006 and accelerated in the fourth quarter of 2008. Operating conditions have remained challenging in 2009 and the lack of market visibility that exists is significant. Management has already 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 has realized a significant cash benefit from working capital reductions 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 acquired Anjac, the third largest distributor. Orexad now has over 247 distribution outlets, including 67 acquired from Anjac, with a presence across all regions of France. The company enjoys a substantial competitive advantage due to its large customer reach, ability to negotiate with suppliers, and broad product offering.

Orexad has continued to pursue strategic as well as 'tuck-in' acquisitions with the intention of expanding its base across Europe and is evaluating selected acquisition opportunities (particularly outside France) to take advantage of potentially depressed valuations to continue building the group. In addition to external growth, the company has, since acquisition, successfully implemented strategies for fast organic growth, including sales and marketing initiatives, hiring senior executives to add depth to the already strong management team and implementing best practices.

The industrial parts and supplies market is driven by the general level of economic activity, with the most important factor being the trend in industrial production. In light of the continued difficult market conditions, management is implementing cost cutting measures to reduce the group's cost base by approximately 10%. The first two steps of the cost reduction program have been implemented with further measures being considered in the next six months.

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 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 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 over 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.

In April 2008, CCC Information Services and Mitchell International, Inc. signed a merger agreement. In March 2009, the parties mutually decided to terminate this agreement following court proceedings initiated by the US Federal Trade Commission (the 'FTC') because of the FTC's view that the merger created a risk of having an anti-competitive impact on the estimatics and total loss markets. While CCC and Mitchell disagreed with the FTC's conclusion, they agreed not to pursue the merger any further as both companies decided that this was no longer in the best interest of either party.

CCC remains focused on growth, with a particular focus on several key new product areas that could create meaningful uplift in future years. The company is also investing in cost savings initiatives in order to drive profitability in 2009 and onwards.

The acquisition closed in February 2006.

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.

Despite unfavorable markets and foreign exchange rates, Polyconcept delivered a 2008 operating-cash flow and net debt in line with budget. Operating cost reductions of €6 million were achieved in 2008, and additional cost savings of €12 million will be implemented in 2009. Second and third wave plans have been launched or are in the process of being developed, and are expected to save additional expenses. Price increases implemented as of January 1, 2009 in Europe (15%) and North America (between 5% and 10%) have added to the price increases successfully implemented in the fourth quarter of calendar 2008.

Market conditions are expected to remain difficult throughout 2009. The revenue decline experienced in the first two quarters and the shift in product mix towards lower value products are forecasted to continue and to put pressure on industry margins. Management is implementing a comprehensive fixed operating cost reduction program and is undertaking a full review to adapt its business platform to the new economic environment.

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 Am-Pac Tire Distributors (one of ATD's largest competitors) in December 2008.

ATD remains focused on medium-term strategic objectives to drive revenue and profitability. It believes the strong growth in high and ultra-high performance tires will continue and believes that it is well positioned to continue to benefit from the new demand. ATD has continued to grow organically and faster than the market by leveraging scale and superior distribution capabilities to take market share. 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 facing ATD in 2009 is the effect of the overall economy on the demand for replacement tires as consumers may continue to defer purchases in the short-term. With unit volumes likely to remain significantly below the prior year, ATD is seeking to drive greater profitability through realization of cost synergies related to the Am-Pac acquisition and by continuing to take market share from smaller competitors that are less equipped to handle the downturn. The company's integration plan for Am-Pac involves rationalizing facilities, converting systems and integrating other operating components throughout 2009. Meanwhile, ATD is continuing to take operating expenses out of the core business in order to maintain ample liquidity during the difficult economic period.

The acquisition closed in March 2005.

Vintage 2001 investments

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.

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 provides AMI with additional liquidity.

Housing market conditions have remained difficult in 2009, with new housing starts and home sales figures significantly lower than 2008 levels. In view of the market softness, AMI management is aggressively reducing the company's cost base, amounting to $30 million in savings on a cumulative basis over the past two years, which is intended to accelerate the company's EBITDA improvement once the industry recovers. Procurement initiatives, freight and efficiency improvements and overhead reductions, could yield up to $50 million of additional cost savings in 2009. The company is also focused on managing the capital structure to reduce the company's cash interest expense and debt burden.

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. These included the December 2008 acquisition of CB NET Services Limited, an international payment efficiency company based in London, which has strengthened Accuity's European presence.

The acquisition was closed in November 2004.

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 US. 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 affected by a regional slowdown in construction and demolition volumes driven by a soft residential and commercial construction market. This is particularly acute in regions that experienced a large boom in residential construction activity over the prior three years. In addition, incremental capacity has come on line within select market areas impacting the supply of disposal within its markets and the price it is able to charge customers. As a result, the current focus of the EnviroSolutions management team is on short-term action to grow volumes, implement strategic price increases and control costs to help mitigate the effect of the slowing economy.

The acquisition closed in December 2003.

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

Revenue grew modestly in 2008 due to growth in Europe and price increases, which were partially offset by a decline in orders. EBITDA decline was driven by substantial increases in raw material prices and lower US volume. The company implemented a 7% price increase (consistent with industry) in July 2008 to mitigate the negative impact of raw material cost increases.

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 2008 and is doing the same in 2009, with initiatives that include salary increase suspensions, pension contribution cuts, and trade show cutbacks. The company is also embarking on a plan to further consolidate its manufacturing operations in the US. 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, product development, 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 in the past 12 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, based in the US, continues to maintain an attractive growth trajectory despite economic softness in its California and Nevada marketplace. TelePacific continues to realize attractive revenue growth, customer additions and low customer churn, all among the best in the competitive local exchange carrier 'CLEC' industry. TelePacific's acquisitions, Arrival Communications, Pac-West and MPower, are proving to be significantly revenue and margin accretive, resulting in an overall positive outlook for the company. The company is also experiencing improved labor productivity, largely driven by realized synergies from these acquisitions. TelePacific surpassed the 1,000,000 lines provisioned mark in 2008 and currently serves in excess of 50,000 customers.

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 churn appears under control and despite a spike in churn levels in late 2007 and early 2008 this has fallen to historic levels. The economic climate may affect performance in 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.