INVESTCORP

FINANCIAL RESULTS FOR YEAR ENDED JUNE 30, 2009

Message to shareholders

The Board of Directors of Investcorp has submitted the consolidated audited financial statements for Investcorp's 26th fiscal period ended June 30, 2009.

This fiscal year has seen the worst period of sustained stress to the world economy and financial markets in living memory, and this has had a severe impact on Investcorp and its clients, as it has on financial institutions and investors worldwide. It has been the most challenging year since our formation in 1982. Management has dealt with the challenges head on. We have continued open and constructive dialog with our clients, and we have pursued appropriate opportunistic investments to take advantage of current price dislocations. Crucially, we have protected the balance sheet by raising capital, reducing investment risk and mitigating re-financing risk by holding high levels of cash liquidity while, at the same time, de-leveraging the balance sheet. Our successful capital raise of over $500 million in this environment is clear evidence of the confidence of the market, of our shareholders and of our investors in the Firm.

Our Tier 1 capital adequacy ratio now stands at 20% (compared to 18% 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.

The systemic shock to the financial system that occurred from September 2008 has impacted financial performance in two ways: reducing fee income and lowering the book value of balance sheet co-investments, largely due to unrealized mark-to-market valuation declines.

Fiscal year 2009 (FY09) has therefore seen Investcorp's first ever loss. Prior to this, we had demonstrated a consistent record of profitability for over a quarter of a century. Gross operating loss for the year was $89.0 million, prior to 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. Total net loss for FY09 (12 months from July 2008 to June 2009) is therefore $780.6 million, of which $511.1 million was recorded in the first half of the fiscal year between July and 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 fiscal year was $129.4 million, compared to $382.9 million in the previous year, reflecting an unprecedented low level of investment acquisition and deal-by-deal placement that substantially affected activity fees. A fall in client assets under management, mainly due to redemptions from hedge funds, 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 co-investment 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.

At the end of FY09, Investcorp's Executive Chairman & 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. There have been two new senior appointments and the leadership team now comprises five senior partners: Nemir A. Kirdar; Mohammed Al-Shroogi, President, Gulf business; Rishi Kapoor, Chief Financial Officer; Christopher O'Brien, President, US and European business; and Mark Slaughter, Chief Administrative Officer.

Private clients in the Gulf have seen substantial value declines across their asset portfolios, the bursting of the regional real estate bubble and the drying up of liquidity markets. This has significantly reduced their appetite for investment activity in the near term 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. Total GCC and international placement and fund-raising activities in FY09, including the capital proceeds from preference shares, was $1.6 billion. Client assets under management declined to $8.9 billion from $12.8 billion at the end of FY08.

The Investcorp Private Equity 2007 Fund and Gulf Opportunity Fund I were closed during the year and Real Estate Mezzanine Fund II was launched. Investcorp also moved ahead with the MENA mezzanine debt financing business that will complement its existing private equity investment business in the region.

In the private equity buyout area, Investcorp's priority has been to ensure that its portfolio companies weather the economic crisis by focusing on operations and debt management. During the year, Investcorp acquired N&W Global Vending for an aggregate equity investment of €170 million, and several 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 our clients. Two other companies in the portfolio, TimePartner and EnviroSolutions, required attention to address covenant and liquidity pressures. Technology small-cap investment activity has slowed significantly but the mid-market sector in which Investcorp operates continues to be relatively active. Our third technology fund, Investcorp Technology Ventures III, made two new investments in FY09, a $40 million investment in FleetMatics, and a $43 million investment in TDX Group. The Gulf Opportunity Fund I completed its first two investments in Redington Gulf and L'azurde for a combined equity value of $228 million. There were no exits during the fiscal year.

US real estate market activity and performance continues to be depressed due to the dislocation in financing markets. The negative impact of the economic crisis on the US commercial real estate market accelerated during FY09. Lower consumer spending and high unemployment 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 opportunities in 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 its two real estate debt funds.

Given our financial results for FY09 and prevailing market conditions, for the first time in our history, we think it prudent not to pay a dividend on our ordinary shares.

Although the length and depth of the global recession is still uncertain, management believes that decisive action taken during this fiscal year has strengthened Investcorp to enable it to focus on the future and the business opportunities that now present themselves. We are committed to moving forward energetically.

In this year of extraordinary challenges, we pay tribute to the exceptional commitment, skill and professionalism of Investcorp's people, to the guidance of our Strategic Partnership Group in the Gulf and to the support of our shareholders and clients. The Board records its thanks to you all. As always, we are pleased to mark our appreciation of the longstanding support given to this Firm by the Government of the Kingdom of Bahrain.

Signed on behalf of the Board of Directors

Abdul Rahman Salim Al-Ateeqi
Chairman of the Board

Nemir A. Kirdar
Executive Chairman & CEO

August 19, 2009

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED JUNE 30, 2009

$000s	2009	2008
FEE INCOME		
Management fees	107,359	136,464
Activity fees	21,715	221,483
Performance fees	301	24,952
Gross fee income (a)	129,375	382,899
ASSET BASED INCOME		
Private equity	12,389	20,610
Hedge funds	(323,797)	100,508
Real estate	20,153	26,257
Treasury and other asset based income	72,883	74,869
Asset based (loss) income (b)	(218,372)	222,244
Gross operating (loss) income (a) + (b)	(88,997)	605,143
Provisions	(22,246)	(5,410)
Interest expense	(114,976)	(159,896)
Operating expenses	(206,322)	(266,065)
Net operating (loss) income before fair value changes of private equity and real estate co-investments	(432,541)	173,772
Fair value changes of private equity and real estate co-investments (c)	(348,086)	(22,715)
NET (LOSS) INCOME	(780,627)	151,057
Basic and fully diluted (loss) earnings per ordinary share ($)	(1,120)	212
TOTAL REVENUE (a) + (b) + (c)	(437,083)	582,428

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2009

$000s	2009	2008
NET (LOSS) INCOME	(780,627)	151,057
Other comprehensive income		
Revaluation surplus on premises and equipment	11,240	-
Fair value changes - cash flow hedges	12,122	(2,446)
Fair value changes - available for sale investments	-	6,573
Others	-	(3,631)
Other comprehensive income	23,362	496
TOTAL COMPREHENSIVE (LOSS) INCOME	(757,265)	151,553

CONTACT DETAILS

Kingdom of Bahrain
Investcorp Bank B.S.C.
Investcorp House
P.O. Box 5340
Manama, Kingdom of Bahrain
Tel: +973 17532000

London
Investcorp International Ltd.
48 Grosvenor Street
London
W1K 3HW, UK
Tel: +44 (0)20 7629 6600

New York
Investcorp International Inc.
280 Park Avenue
New York
NY 10017, USA
Tel: +1 212 599 4700

The above have been extracted from the consolidated financial statements of Investcorp Bank B.S.C. audited by Ernst & Young

INVESTCORP

FINANCIAL RESULTS FOR YEAR ENDED JUNE 30, 2009

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2009

			Reserves							Fair value changes and revaluation reserve					
										Fair value changes					
$000s	Preference share capital	Ordinary share capital	Share premium	Statutory reserve	General reserve	Total reserves	Treasury shares	Retained * earnings	Proposed dividend	Private equity and real estate	Available for sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total fair value changes and revaluation reserve	Total equity
Balance at June 30, 2007	**200,000**	**200,000**	**501,670**	**97,116**	**50,000**	**648,786**	**(155,564)**	**443,248**	**75,724**	**(23,677)**	**-**	**(6,651)**	**-**	**(30,328)**	**1,381,866**
Total comprehensive income	-	-	-	-	-	-	-	147,426	-	-	6,573	(2,446)	-	4,127	151,553
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(3,876)	-	3,876	-	-	-	3,876	-
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	22,715		(22,715)				(22,715)	-
Preference shares redemption	(200,000)		-	-	-	-	14,032	(758)	-	-	-	-	-	-	(186,726)
Transfer to statutory reserve	-	-	-	2,884	-	2,884	-	(2,884)	-	-	-	-	-	-	-
Purchased during the year	-	-	-	-	-	-	(47,882)	-	-	-	-	-	-	-	(47,882)
Sold during the year	-	-	-	-	-	-	14,083	-	-	-	-	-	-	-	14,083
Gain (loss) on sale of treasury shares	-	-	2,301			2,301	(2,271)	(30)	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(75,724)	-	-	-	-	-	(75,724)
Proposed dividend	-	-	-	-	-	-	-	(63,278)	63,278	-	-	-	-		-
Balance at June 30, 2008	**-**	**200,000**	**503,971**	**100,000**	**50,000**	**653,971**	**(177,602)**	**542,563**	**63,278**	**(42,516)**	**6,573**	**(9,097)**	**-**	**(45,040)**	**1,237,170**
Total comprehensive loss	-	-	-	-	-	-	-	(780,627)	-	-	-	12,122	11,240	23,362	(757,265)
Transfer of realized losses to retained earnings	-	-	-	-	-	-	-	(93,571)	-	93,571	-	-	-	93,571	-
Transfer of unrealized losses to fair value changes	-	-	-	-	-	-	-	348,086		(348,086)	-	-		(348,086)	-
Depreciation transferred to retained earnings	-	-	-	-	-	-	-	475	-	-	-	-	(475)	(475)	-
Purchased during the year	-	-	-	-	-	-	(51,278)	-	-	-	-	-	-	-	(51,278)
Sold during the year	-	-	-	-	-	-	30,344	-	-	-	-	-	-	-	30,344
Loss on sale of treasury shares	-	-	(48,029)	-	-	(48,029)	48,029	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(63,278)	-	-	-	-	-	(63,278)
Preference share issuance proceeds	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	500,000
Share issue expenses	-	-	(947)	-	-	(947)	-	-	-	-	-	-	-	-	(947)
Balance at June 30, 2009	**500,000**	**200,000**	**454,995**	**100,000**	**50,000**	**604,995**	**(150,507)**	**16,926**	**-**	**(297,031)**	**6,573**	**3,025**	**10,765**	**(276,668)**	**894,746**

* Retained earnings other than unrealized fair value changes of private equity and real estate co-investments

CONSOLIDATED BALANCE SHEET

JUNE 30, 2009

$000s	June 30, 2009	June 30, 2008
ASSETS		
Cash and short-term funds	416,088	194,163
Deposits with financial institutions	713,217	257,407
Positive fair value of derivatives	56,150	62,191
Receivables and prepayments	335,741	459,580
Loans and advances	224,103	341,106
Co-investments		
Hedge funds	614,481	2,020,808
Private equity	903,391	1,029,142
Real estate	283,207	337,038
Total co-investments	1,801,079	3,386,988
Premises, equipment and other assets	73,986	64,892
TOTAL ASSETS	3,620,364	4,766,327
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits from financial institutions	15,000	385,469
Deposits from clients - short term	289,873	438,412
Negative fair value of derivatives	33,287	45,925
Unfunded deal acquisitions	-	234,321
Payables and accrued expenses	90,361	217,125
Deposits from clients - medium term	83,212	119,607
Medium-term debt	1,635,515	1,116,395
Long-term debt	578,370	971,903
TOTAL LIABILITIES	2,725,618	3,529,157
EQUITY		
Preference share capital	500,000	-
Ordinary shares' par value	200,000	200,000
Reserves	604,995	653,971
Treasury shares	(150,507)	(177,602)
Retained earnings other than unrealized fair value changes of private equity and real estate co-investments	16,926	542,563
Ordinary shareholders' equity other than unrealized fair value changes, revaluation reserve and proposed dividend	671,414	1,218,932
Proposed dividend	-	63,278
Unrealized fair value changes and revaluation reserve	(276,668)	(45,040)
TOTAL EQUITY	894,746	1,237,170
TOTAL LIABILITIES AND EQUITY	3,620,364	4,766,327

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

$000s	2009	2008
OPERATING ACTIVITIES		
Net (loss) income	(780,627)	151,057
Adjustments to reconcile net income to net cash:		
Fair value changes	348,086	22,715
Depreciation	7,245	6,699
Provisions for receivables and loans and advances	22,246	5,410
Amortization of transaction costs of borrowings	4,533	4,200
Net (loss) income adjusted for non-cash items	(398,517)	190,081
Changes in:		
Operating capital		
Receivables and prepayments	121,331	(195,830)
Loans and advances	97,265	(194,526)
Deposits from clients - short-term	(148,539)	(56,087)
Unfunded deal acquisitions	(234,321)	185,406
Payables and accrued expenses	(126,764)	(55,344)
Co-investments		
Hedge funds	1,406,327	(164,357)
Private equity	(116,059)	(293,538)
Real estate	(52,445)	24,714
Fair value of derivatives	18,342	(38,603)
Other assets	32	213
NET CASH FROM (USED IN) OPERATING ACTIVITIES	566,652	(597,871)
FINANCING ACTIVITIES		
Deposits from financial institutions	(370,469)	216,015
Deposits from clients - medium-term	(36,395)	(28,787)
Medium-term revolvers drawn	557,500	240,000
Medium-term debt issued (net of transaction costs)	-	132,127
Medium-term debt repaid	(42,000)	-
Long-term debt repaid	(407,263)	(25,620)
Treasury shares purchased (ordinary) - net	(20,934)	(33,799)
Share issue expenses	(947)	-
Preference share issuance proceeds (redemeed)	500,000	(186,726)
Dividends paid	(63,278)	(75,724)
NET CASH FROM FINANCING ACTIVITIES	116,214	237,486
INVESTING ACTIVITY		
Investment in premises and equipment	(5,131)	(5,827)
Net increase (decrease) in cash and cash equivalents	677,735	(366,212)
Cash and cash equivalents at beginning	451,570	817,782
Cash and cash equivalents at end	1,129,305	451,570
Cash and cash equivalents comprise:		
Cash balances with banks	35,100	63,192
Cash in transit	380,988	130,971
Deposits with financial institutions	713,217	257,407
	1,129,305	451,570
ADDITIONAL CASH FLOW INFORMATION		
Interest paid	(123,354)	(166,077)
Interest received	21,498	37,179