

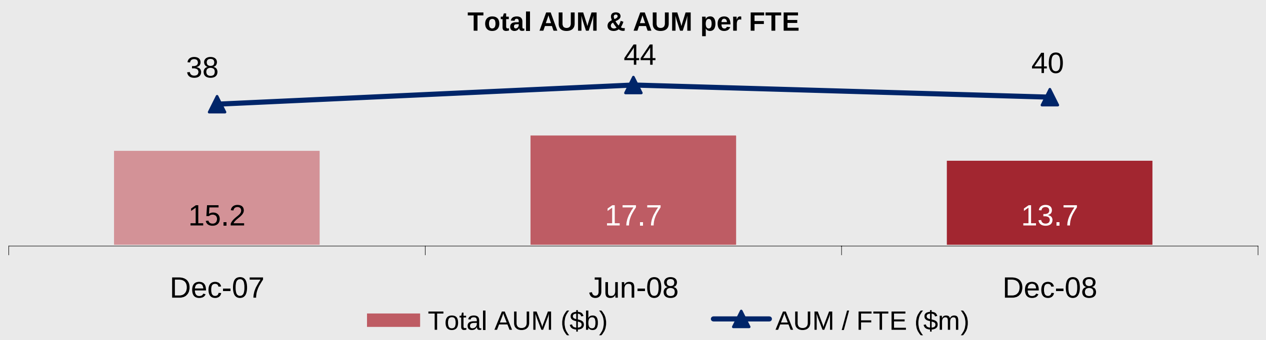
INVESTCORP

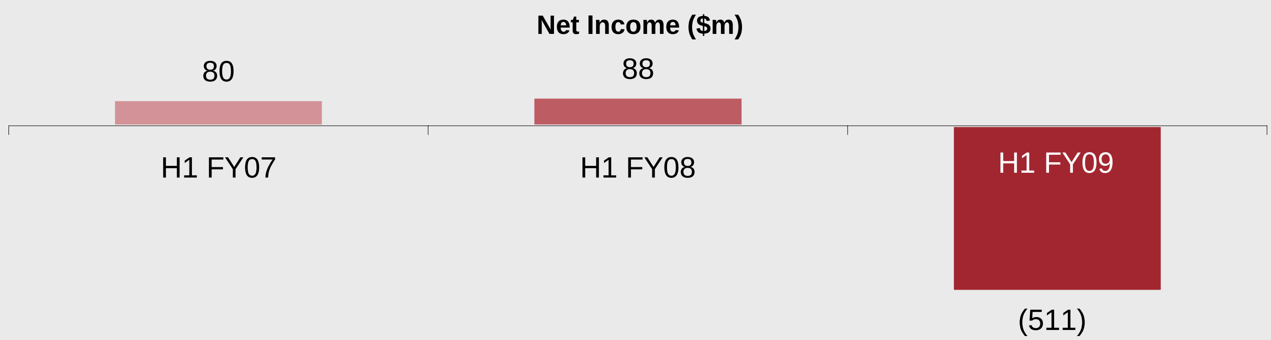
Interim Half-Year Fiscal 2009 (July-December 2008)

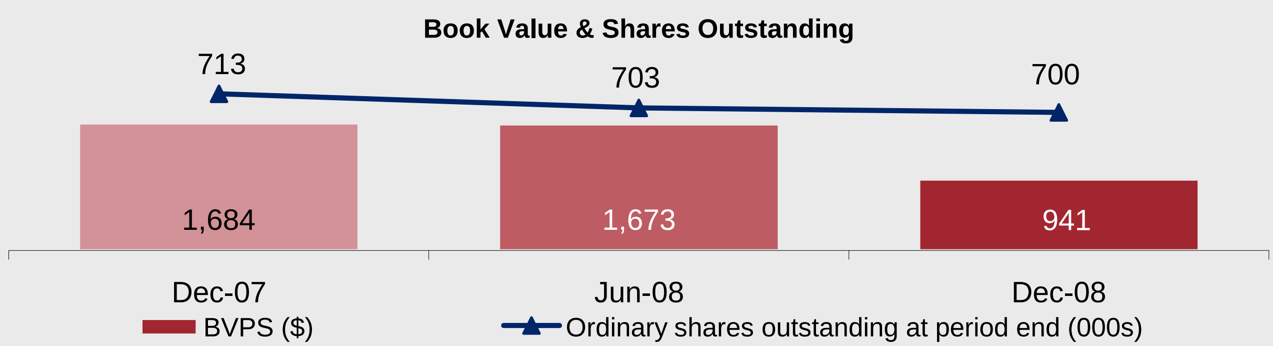
Management Discussion and Analysis

KEY PERFORMANCE INDICATORS

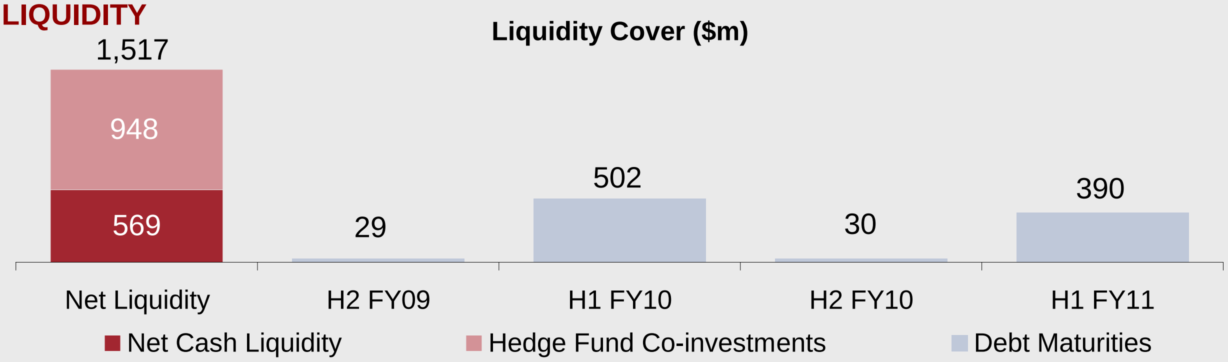
OVERALL





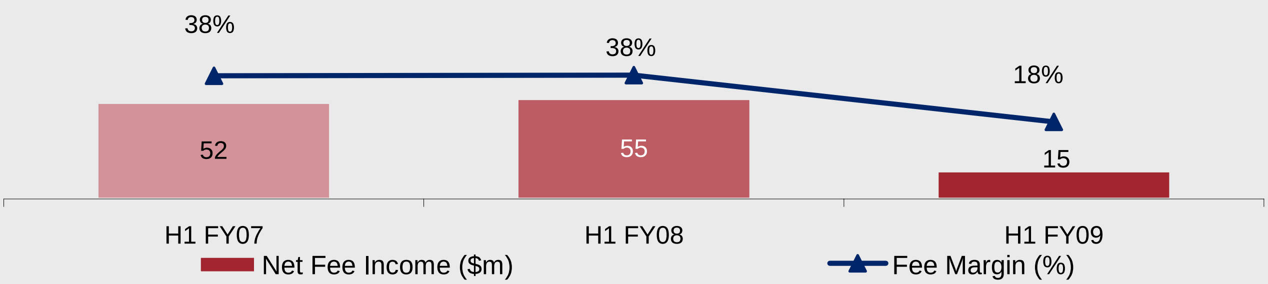


LIQUIDITY

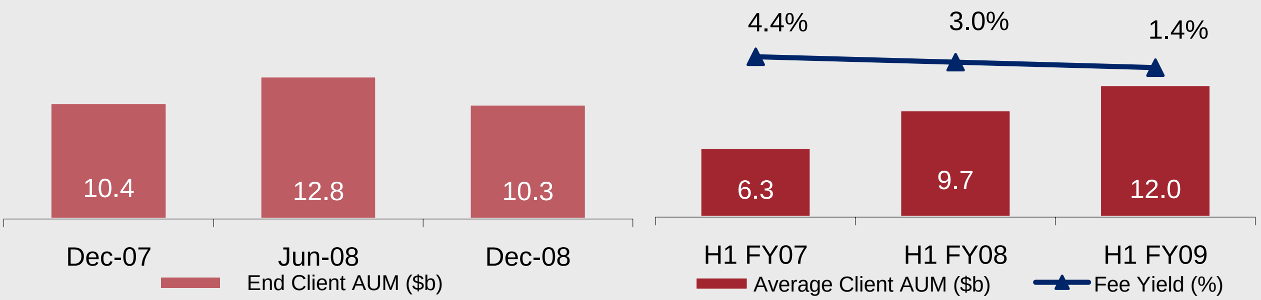


CLIENT BUSINESS

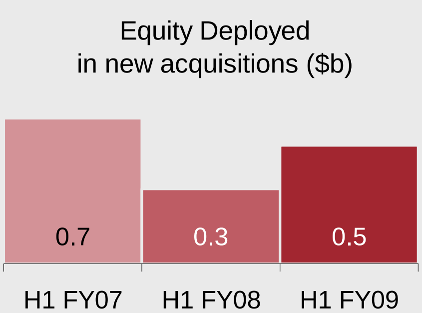
Net Fee Income & Margin

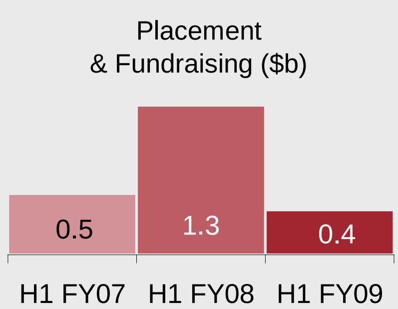


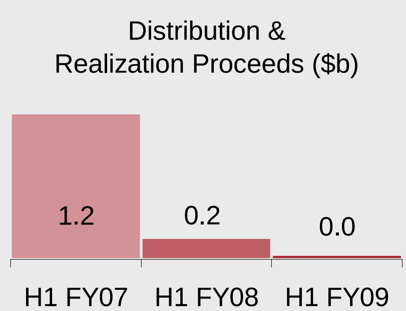
Client AUM and Gross Fee Yield [(1)]



Acquisitions, Fundraising & Distributions

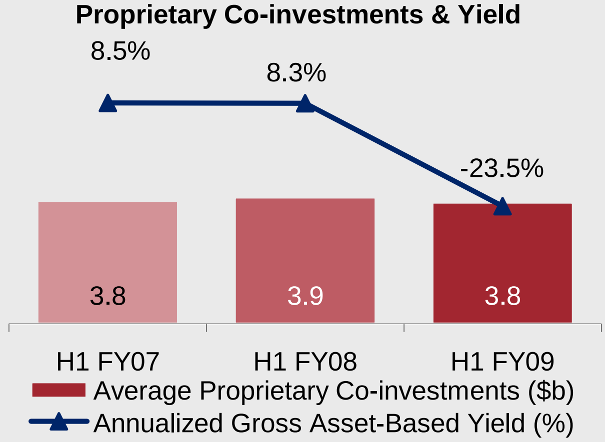




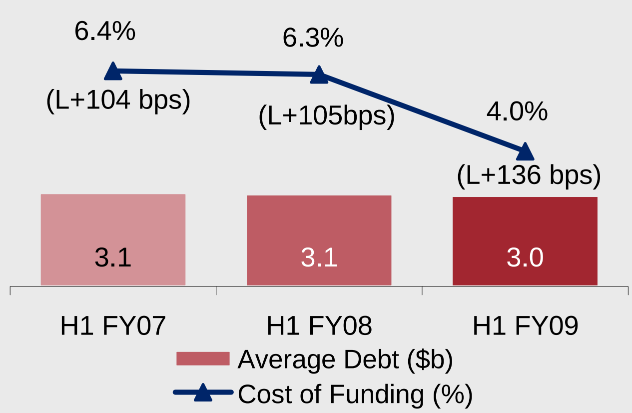


PROPRIETARY CO-INVESTMENT BUSINESS

Proprietary Co-investments & Yield



Debt & Cost of Funding



(1) Gross Fee Income as percentage of average client AUM

EXECUTIVE SUMMARY

The last six months of 2008, which comprise the first half of our current fiscal year ending June 2009, has been one of the most challenging periods for global financial markets in recent history. The scale of the global credit crunch and severity of major dislocations in the debt markets led to the US housing-led financial crisis spilling over into a synchronized global economic slowdown with most developed countries slipping into recession. This has led the IMF to revise its estimate for global growth in 2009 to the lowest in over 25 years, and the World Bank estimates that global trade will decline this year for the first time in a quarter-century.

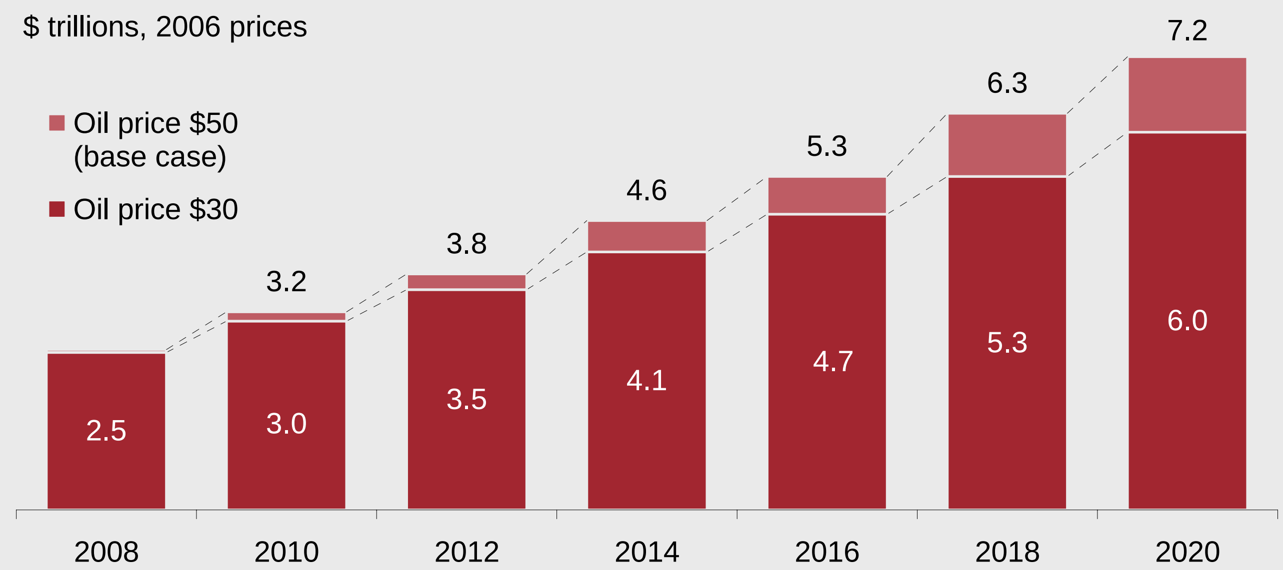
Excessive leverage has been the root cause of the credit crisis, with total credit market debt in the US at an all-time high. Global capital markets collapsed in a vicious cycle of re-pricing of risk, deleveraging, lack of liquidity and rapidly slowing economic activity. Corporate and sovereign default spreads have risen to all time highs, which together with the sharp decline in equity markets has increased the cost of capital for all businesses.

In response to this perfect storm, central banks have used extraordinary, coordinated and unconventional policies. Interest rates have been slashed to historically low levels and quantitative easing policies have followed massive liquidity support, debt guarantees and capital injections to banks and other financial institutions. Bank losses are predicted to reach more than $2 trillion globally and this will continue to drive further deleveraging and credit contraction, leading to a restructuring of the global banking industry. The process of balance sheet repair within the banking industry could be long and protracted, continuing to keep pressure on asset disposals. Governments all over the world are also introducing large fiscal stimulus packages to combat the contraction of consumption. The success of these measures will define the direction of global growth over the next few years.

The GCC region has also been directly impacted by the global credit crisis as stock markets have plummeted, generating significant losses for institutional and private investors. Policy concern about inflation and pressure for local currency appreciation has now dramatically changed to meeting liquidity challenges within each country arising from the fall in hydrocarbon revenues and the need to stem declines in local equities and real estate prices. Substantially lower oil prices, if they remain, are likely to impact regional budget surpluses and lead to some prioritization by GCC governments, businesses and investors with respect to projects announced and currently underway.

However, the GCC economies remain relatively better positioned then OECD countries because of the substantial savings generated over the past six years from current account surpluses. Despite the impact of recent declines in value of their investments, GCC total investable assets offshore are still projected at over $2 trillion and assets are projected to continue to grow as long as oil prices average above the respective break-even levels of each country.

GCC Foreign Assets*



* Assumes real return of 4% per annum and re-investment of interest income
Source: McKinsey & Co.

Investcorp Performance & Actions

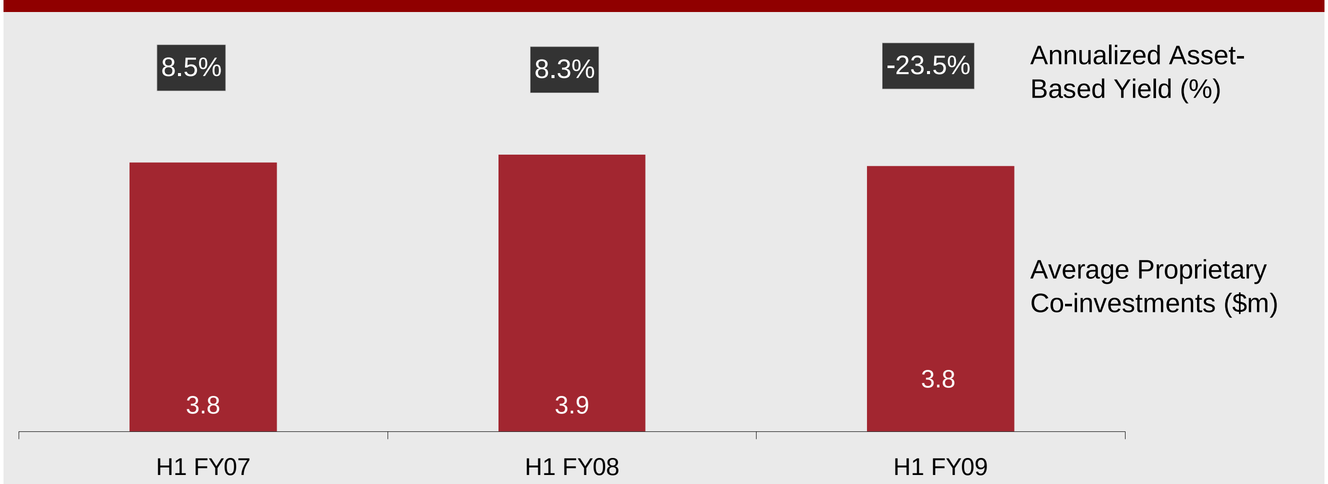
Clearly this is one of the most challenging periods in Investcorp's history. Extraordinarily difficult operating conditions have resulted in all asset values becoming highly correlated and caused a consequent sharp decline in value even across all alternative asset classes. Investcorp, whilst not directly exposed to sub-prime or other "toxic" assets or other high profile failures, has been impacted by the onslaught of systemic market events. Significant asset volatility and deleveraging has impacted returns on the company's proprietary balance sheet co-investments. The credit crunch has also reduced transactional activity, with clients preferring to preserve cash liquidity in the near-term. This has led to a reduction in AUM and lower activity fee income.

Notwithstanding, lower activity fee levels, AUM declines and the absence of performance fees, Investcorp still generated a net positive fee income of $15.1 million. Albeit lower than last year's net fee income of $54.6 million, the positive performance on the fee income front in H1 FY09 amidst such difficult conditions is a good outcome, and illustrates the benefits of Investcorp's successful efforts towards rapid growth in AUM and diversification across multiple product areas over recent years. The positive fee income is however offset by a significant net loss in Asset-Based income of $526.3 million, driven by mark-to-market declines in valuations of balance sheet co-investments in hedge funds, private equity and real estate. The combined result is a reported net loss of $511.1 million for H1 FY09 compared to net income of $87.8 million in H1 FY08.

Management Fee Income revenues were sustained in H1 FY09 from the ramp-up in client AUM during fiscal 2008 and, despite significant hedge fund redemptions and deleveraging by clients, increased by 10% year-on-year. Activity Fees fell 64% reflecting low investment deployment and placement activity.

The gross asset yield on proprietary co-investments for the six months was -23.5% compared to +8.3% for the same period a year ago and the average fee margin (net fee income / gross fee income) fell from 38% to 18%.

Average Proprietary Co-investments & Assets Yield



The pressure on valuations for private equity and real estate assets began in late 2007 and the downward valuation changes of companies and properties have therefore been reflected in Investcorp's earnings for both FY08 and FY09 to date. Absolute returns across each of Investcorp's balance sheet co-investment asset classes during the period are shown below. The extent of losses in asset-based income, when considered in the overall context of market returns during the same period, clearly demonstrate that alternative asset classes still continued to outperform traditional assets on a relative basis, but given the prevailing high correlations, themselves suffered significant absolute value declines.

	H1 FY09	CY 2008
Market Returns		
MSCI World (hedged)	-29.9%	-39.9%
MSCI GCC	-52.9%	-57.0%
Citigroup WGBI (hedged)	9.0%	9.2%
HFRI FoF Diversified Index	-18.7%	-20.6%
NCREIF Office Index	-9.5%	-7.3%
Investcorp's Asset Yields		
HF	-22.1%	-21.0%
PE	-11.1%	-13.1%
RE	-3.8%	-1.3%
Overall	-11.8%	-10.3%

Interest expense has fallen by 37% to $62.1 million from $98.8 million as a result of lower short term interest rates. Aggregate operating expenses decreased by 26% to $89.5 million from $121.0 million primarily due to a fall in staff costs as Investcorp moved quickly to re-align its expense base with the prevailing and expected operating environment in the near-term.

For the past six months, Investcorp has focused on strategies to align its business, people and balance sheet, not only to survive the current environment of stress and market volatility but also to emerge strong enough to take advantage of strategic and transactional opportunities that are expected to arise from the already unprecedented and any further unpredictable dislocation.

Increasing the capital base of the company, retaining high levels of liquidity and reducing balance sheet co-investment exposures, in particular to hedge funds, have been management's three major balance sheet priorities since September. These measures solidify capacity for new deal underwriting, support potential add-on funding requirements of existing portfolio companies, provide cover against illiquid markets and the resultant drop-off in short-term deposits and de-lever balance sheet risk. Very specifically, Investcorp has moved to successfully mitigate near-term refinancing risks posed by prevailing tight credit market conditions by lowering short-term debt and maintaining very high levels of liquidity on the balance sheet that comfortably covers all maturing debt over the next two years.

In November, the Board approved a new capital raise to facilitate further de-leveraging of the balance sheet and at the same time boost and protect the regulatory and economic capital cushion from the impact of asset based losses incurred in H1 FY09. The capital raise, which is currently in progress, is in the form of a private placement of Tier 1-eligible, non-cumulative, perpetual preference shares with a relatively small number of GCC based institutional and UHNWI investors. $26 million of preference share capital has been subscribed to as of December 31, 2008, with additional soft circles for significant amounts in the pipeline. Investcorp is targeting a final issue size of at least $250 million but based on current progress and expectations is likely to end up with final commitments in excess of the minimum amount. Book capital at December 31, 2008 was $708 million and regulatory capital adequacy was 13.1%.

Balance sheet co-investments in hedge funds have been reduced by 53% from $2.0 billion to $948 million, releasing economic capital and cash. The cash has been used to repay the majority of short term bank deposits thereby virtually eliminating any reliance on short-term sources of funding, and also to repay and prepay near-term maturing debt and increase cash liquidity. As a result, total assets fell from $4.8 billion to $3.7 billion and financial leverage, as at December 31, 2008, was 2.3x. Investcorp's target is to reduce leverage below 2.0x by the end of 2009.

High amounts of invested cash liquidity have been maintained throughout the six months and the mix of funding has been skewed towards longer average residual tenors (66 months). Total liquidity of $1.5 billion is sufficient to meet all remaining short term bank deposits and medium and long term debt obligations due over the next two years. This excludes the additional liquidity benefit of the preference share capital raise underway and also assumes under a worse case scenario that debt refinancing markets remain closed over this period.

The company has also reduced costs and streamlined operations in order to navigate through what could be a deep and protracted recession. In order to act in the longer term interest of all stakeholders and ensure that the business is in the right shape and size to address the fundamental changes in the financial industry, headcount reductions and redundancies of certain roles and positions across all parts of the business were implemented in December. These initiatives are aimed at reducing total run-rate fixed operating expenses by 25%.

All measures have been taken without compromising the quality and service provided to clients or Investcorp's fundamental business culture. Resources are being added in certain areas of the business, including client-facing roles or to staff new or growing areas of business such as private equity mezzanine debt and US real estate credit and mezzanine debt.

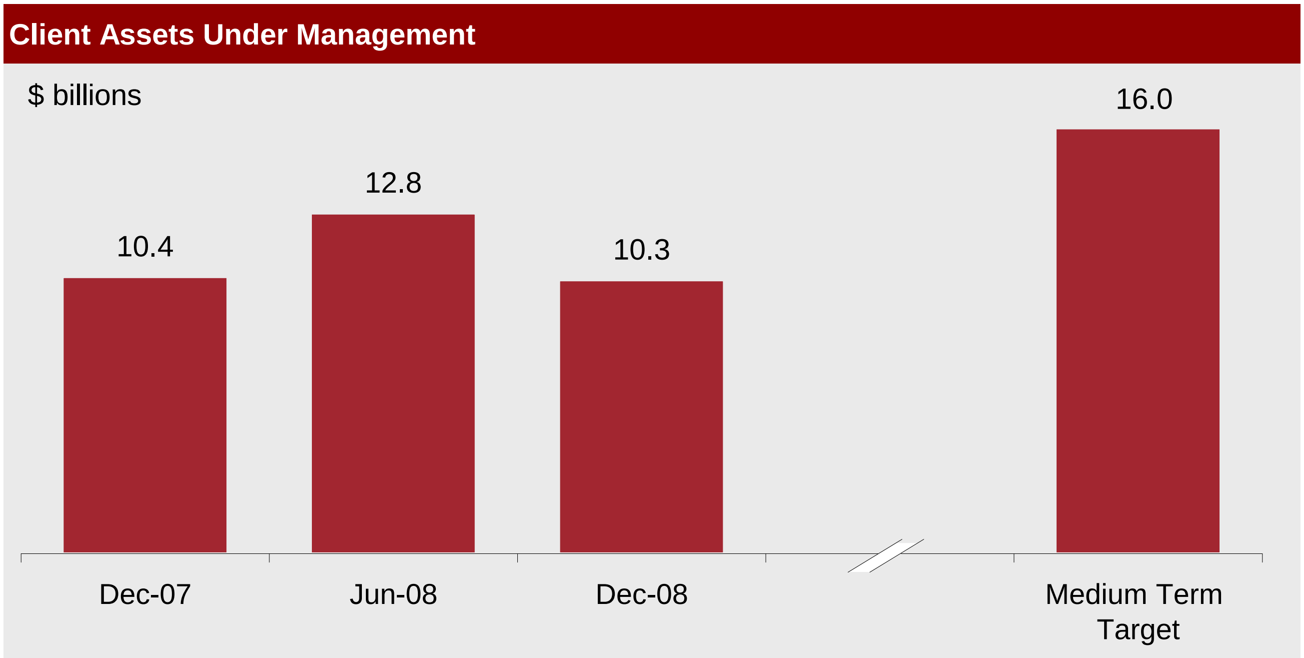
A more detailed analysis of the H1 FY09 fiscal results is provided in the Discussion of Results section.

Client Business

The team has been busy proactively reaching out to clients, both in Gulf and non-Gulf markets, to apprise them of the market environment, performance and actions taken to preserve and grow portfolio value. Like others, the GCC wealth market has been impacted by the steep declines in local and global investments. Although the shock of losses across the board has made UHNWI investors cautious on new investments, they are still indicating appetite for attractive investment opportunities that can weather the economic downturn. Gulf institutional investors that deploy surplus cash flow and are not reliant on use of leverage continue to maintain an open outlook to new investment commitments.

New client fundraising during the period was $387 million compared to $1,289 million in H1 FY08. Negative hedge fund performance and the added impact of de-leveraging combined with severe declines in their traditional asset portfolio values have driven private client redemptions during the period. In contrast, US based institutional clients have continued to be active investors in Investcorp's hedge fund platform and mandates approaching $750 million for separately managed accounts were secured and have commenced funding in H1 FY09. Hedge Fund client AUM fell from $5.5 billion to $3.1 billion over the six month period. Approximately one third of this decline was a direct result of deleveraging. Private equity and real estate AUM has remained steady.

Total client AUM thus fell by 20% from $12.8 billion to $10.3 billion.



Average client AUM, which drives management fees was $12.0 billion in H1 FY09 compared to $9.7 billion during H1 FY08.

Non-Gulf client AUM at December 2008 represents $2.3 billion (22%) of total client AUM, compared to $2.9 billion (22%) as at June 2008.

New client products under development include the likely launch of a mezzanine debt financing initiative in the MENA region and a second real estate mezzanine fund. Investcorp expects that the recession and market dislocation will open other new investment opportunities across Investcorp's different lines of business.

Client activity in H1 FY09 is more fully discussed in the Client Business Review section.

Investment Business

The sudden collapse of financial markets in late 2008 and the accelerating crisis affecting lenders globally has all but frozen private equity transactional activity. The resultant recession in economic activity and the more negative outlook for company earnings continues to therefore focus the attention of Investcorp's private equity team on preserving portfolio company EBITDA and managing their capital structures for a potentially deep and prolonged downturn.

Selectively, mid-market deals with lower leverage are still available but committing capital requires significant due diligence, consideration for the operating outlook and expected returns that can be achieved despite more conservative capital structures. As evidence of this, Investcorp's buyout team closed the acquisition of N&W Global Vending, a leading manufacturer of food and beverage vending machines for €170 million equity in November.

The current buyout portfolio is geographically split 51% in the US and 49% in Europe/UK. Excluding the underwriting of N&W, the largest investment in terms of current carrying value is Telepacific ($159 million, which includes substantial value appreciation since original acquisition in 1999, or 23% of book equity). No other individual investment carrying value represents more than 10% of book equity, except Icopal (10.3%).

Despite the general investment environment, the technology small cap sector is better positioned in a recessionary environment because of government and corporate focus on technology solutions to reduce costs and improve efficiency. Technology spending is in fact forecast to show some growth in 2009. Lower seller expectations are evidenced by significant declines in the revenue multiples used to value late-stage technology related businesses and there are attractive new investment opportunities. The technology small cap investment team made two new investments for its Fund III totaling $82 million, in Fleetmatics and TDX. TDX is involved in consumer debt collection and reflects the potential for technology solutions to the financial services sector.

The transactional environment in the Gulf continues to be strong, supported by positive, albeit lower, GDP growth outlook in 2009 despite smaller government budget surpluses. Investcorp's Gulf Growth Capital business signed two significant deals for Gulf Opportunity Fund 1 in H1 FY09. The first deal was the purchase of a significant interest in Redington Gulf a leading distributor and service provider of IT and telecom products in MENA. The second deal, to be closed imminently, is the purchase of a controlling interest in a leading designer, manufacturer and distributor of luxury goods in the Middle East.

Investcorp's recent experience in setting up this business suggests that the regional private equity industry will become bigger and play an important role in the development of the local economies as local companies will benefit from relevant private equity expertise and capabilities. In future, the returns in the Gulf are likely to be driven by active ownership rather than general market growth, multiple expansion or the use of leverage. Given the team Investcorp has in place, the dynamics of the business, and the appetite of its clients for such investments, Investcorp therefore remains very bullish about its own opportunity for private equity in the region.

The near systemic collapse of the banking system, dysfunctional credit and trading markets and the resultant bank de-leveraging spiral precipitated by the withdrawal of market liquidity, created the worst possible cocktail of factors for the hedge fund industry. Following the demise of Lehman, broker-dealers faced severe financing pressures themselves, finance available for hedge funds rapidly shrank and the price of financing increased sharply. Regulatory constraints on short-selling also had a negative impact, forcing the unwind of existing trades. The macro environment for hedge funds as an asset class in H1 FY09 was therefore the worst period in the industry's history and led many investors to redeem capital and de-leverage. Investcorp's Hedge Funds team believes that this period will lead to an acceleration of the trend towards institutionalization, where investors focus on transparency, risk management and customized solutions. The reduction of systemic risk and improving market liquidity now provide the environment for compelling near-term opportunities in several hedge fund strategies. The HF investment team has positioned portfolio asset allocations in a manner intended to take advantage of these opportunities. Strong returns generated by our flagship diversified fund-of-fund products in December and January underscore the potential for attractive returns from this asset class over the coming months.

In US real estate, transaction volumes have dropped dramatically and finance is still relatively scarce, and is only offered at lower loan to value ratios with stricter underwriting standards. Operating fundamentals have been generally stable but are beginning to erode. In the medium term, Investcorp believes that historically high occupancy levels will support rents and low construction activity will help manage the supply-side, stabilizing the steady increase in capitalization rates which has negatively impacted valuations in H1 FY09.

Investcorp's Real Estate team has focused on maximizing portfolio investment value, particularly those properties held within the opportunistic sector (33% of co-investment exposure as at December 31, 2008). New investment activity has been slow and restricted to $45.7 million of investments for the mezzanine and credit funds. Investcorp believes that continuing opportunities in the debt space however, which are providing expected equity-like returns, will help re-ignite client appetite for this asset class in H2 FY09.

Investment activity in H1 FY09 is more fully discussed in the Investment Business Review section.

The twin pressures of steeply negative hedge fund returns for this half year, combined with unrealized mark-to-market driven declines in valuations of Investcorp's PE & RE portfolio, have reduced aggregate shareholders' book equity. Recognizing that these difficult times may continue for sometime, Investcorp is being proactive and very conservative in making sure that the balance sheet stays strong and the business is positioned for some of the opportunities that are presenting themselves in this environment. Over the coming months, senior management are therefore focused on completing the preference share capital raise currently underway and de-leveraging the balance sheet further in order to both reduce risk and mitigate against the possibility of tighter financing markets throughout 2009.

DISCUSSION OF RESULTS

NET INCOME

Revenues consist of (i) fees generated from transactional activity and client AUM and (ii) asset-based income earned on Investcorp's co-investment in various products.

$ millions	H1 FY09	H1 FY08	% Change B/(W)
Fee Income	86.0	144.2	(40%)
Asset-Based Income	(442.9)	163.3	>(100%)
Gross Revenues	**(357.0)**	**307.5**	**>(100%)**
Operating Expenses	(89.5)	(121.0)	26%
Interest Expense	(62.1)	(98.8)	37%
Provisions	(2.6)	-	-
Net Income	**(511.1)**	**87.8**	**>(100%)**

Gross revenues in the first half ended December 31, 2008 were negative $357.0 million (H1 FY08: positive $307.5 million) reflecting the severe return and operating environment that has negatively impacted fee income due to a significant reduction in transactional activity and asset-based income due to negative hedge fund returns and declining mark-to-market valuations of private equity and real estate investments.

Following a realignment of the business cost structure, operating expenses were 26% lower at $89.5 million (H1 FY08: $121.0 million). The full impact of the cost reduction program, including a 22% reduction in global headcount, will be evident in H2 FY09.

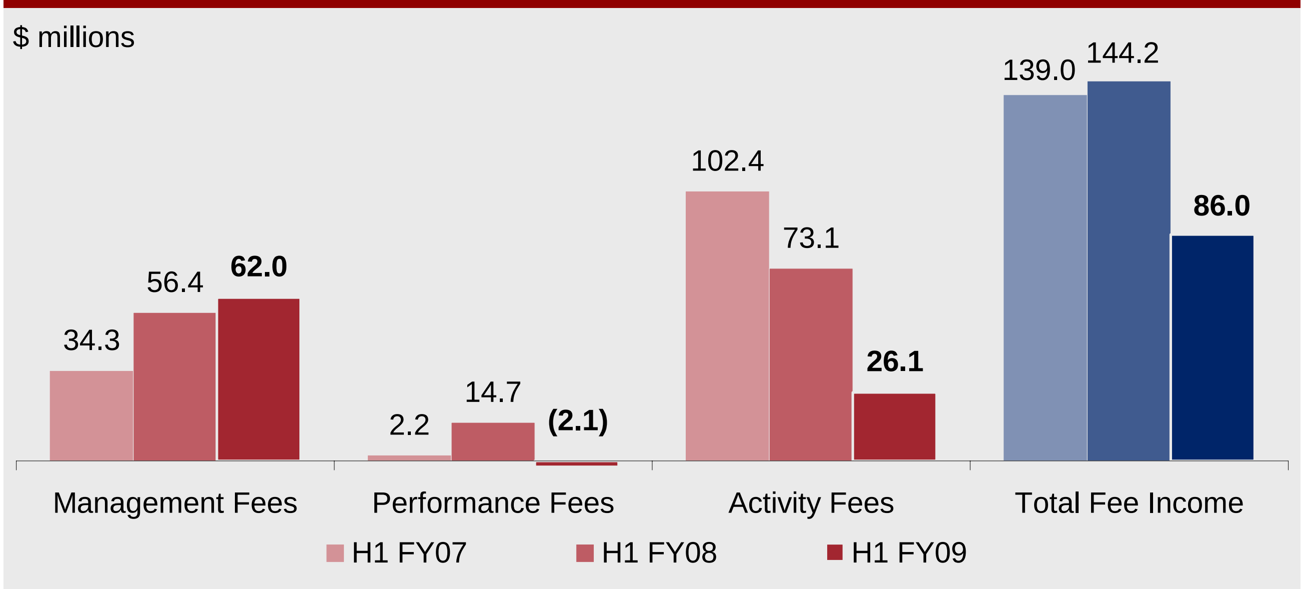
Interest expenses fell by 37% as a result of further sharp policy easing actions by the US Federal Reserve, which to some extent flowed through to the short term LIBOR rate which is the basis for Investcorp's cost of funding.

The overall net loss of $511.1 million in H1 FY09, compared to a profit of $87.8 million reported for the corresponding period last year, is therefore almost entirely due to the negative returns on Investcorp's proprietary investments. The decline in fee income due to lower transactional activity in H1 FY09 is offset by lower operating and interest expenses.

Fee Income

Gross fee income earned in H1 FY09 was $86.0 million, substantially lower than the $144.2 million reported for H1 FY08. In the poorest operating environment in Investcorp's 26-year history, activity fees fell 64% to $26.1 million, reflecting the low level of both capital deployment and placement in the six month period. Management fee income, on the other hand, grew by 10% to $62.0 million, underpinned by record placement and fundraising activity in the last two fiscal years, FY07 and FY08. No performance fees were booked in the half year due to the absence of any exit activity and a small amount of claw-back in hedge fund fees.

Fee Revenues by Category



Cost management initiatives throughout H1 FY09, including head-count reductions announced in December and lower variable incentive compensation in light of the lower activity fees reduced expenses attributable to fee income, which fell as a result by 21% to $70.8 million (H1 FY08: $89.6 million). The resulting reported net fee income is $15.1 million (H1 FY08: $54.6 million). The fee margin declined to 18% in this challenged environment compared to 38% in H1 FY08.

$ millions	H1 FY09	H1 FY08	% Change B/(W)
Management Fees	62.0	56.4	10%
Activity Fees	26.1	73.1	(64%)
Performance Fees	(2.1)	14.7	>(100%)
Fee Income	**86.0**	**144.2**	**(40%)**
Expenses & Taxes Attributable to Fee Income	(70.8)	(89.6)	21%
Net Fee Income	**15.1**	**54.6**	**(72%)**

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

Asset-based income

Gross asset-based losses for H1 FY09 were $442.9 million compared to asset-based income of $163.3 million in H1 FY08.

$ millions	H1 FY09	H1 FY08	% Change B/(W)
Gross Asset-Based Income	**(442.9)**	**163.3**	**>(100%)**
Expenses Attributable to Asset-Based Income	(18.7)	(31.4)	40%
Interest Expense	(62.1)	(98.8)	37%
Provisions	(2.6)	-	-
Net Asset-Based Income	**(526.3)**	**33.2**	**>(100%)**

The dramatic turnaround in gross asset-based income in H1 FY09 was mainly due to negative returns on the proprietary HF co-investments compared to the strong returns earned in H1 FY08. As a result there was a year-on-year drop of HF asset-based income of $502.0 million. The private equity and real estate balance sheet co-investment valuations have also been hit negatively by the fall in global market values. Treasury income including interest income on high levels of invested cash liquidity and the positive impact of interest rate risk management decisions had a positive contribution in H1 FY09.

Operating expenses attributable to asset-based income declined by 40% to $18.7 million (H1 FY08: $31.4 million), reflecting the absence of any carry payable on the co-investment returns based on the formulaic calculation described below.

Overall, the net asset-based loss was $526.3 million compared to H1 FY08 income of $33.2 million.

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.

Asset-based income by asset class

The average yield on HF co-investments for the six months in absolute terms was -22.1% compared to the HFRI[1] Fund of Funds Diversified Index return for the six months ended December 2008 of -18.7%.

[1] Hedge Fund Research Inc.

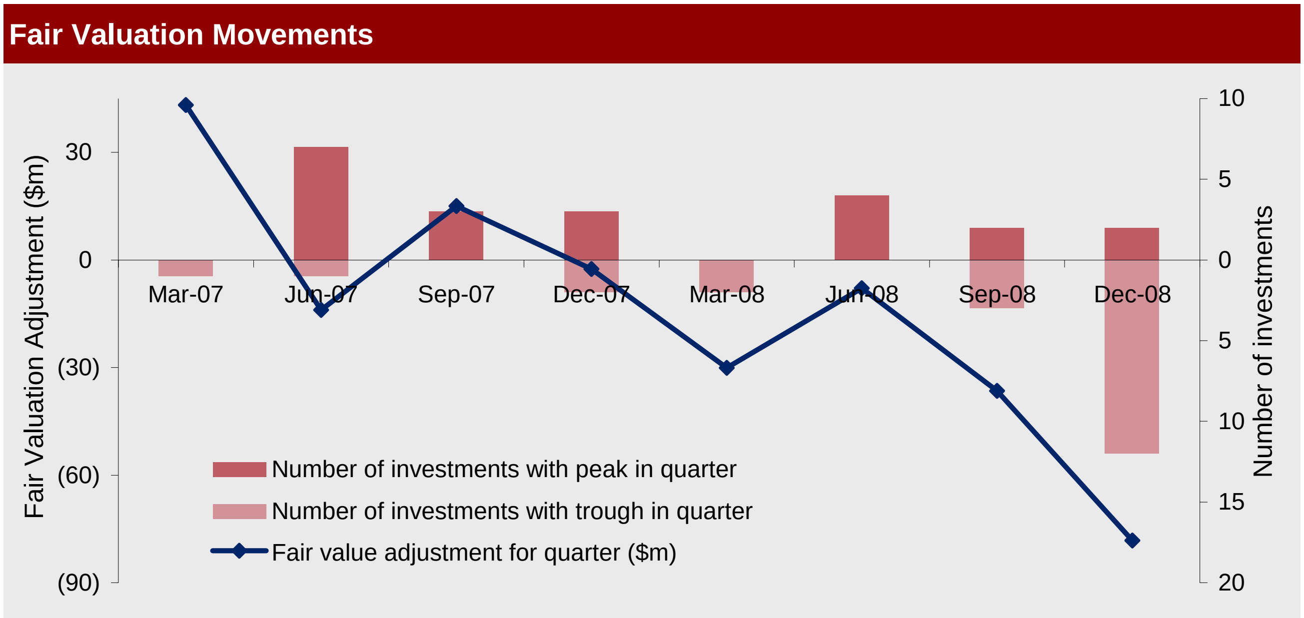
HF Asset-Based Income KPIs	**H1 FY09**	**H1 FY08**	**% Change B/(W)**
Asset-Based Income ($m)	(398)	104	>(100%)
Average Co-investments ($m)	1,800	1,922	(6.3%)
Absolute yield for period	-22.1%	5.4%	(27.5%)
3-month LIBOR	1.3%	2.5%	(1.2%)
Spread to 3-month LIBOR	**-23.5%**	**2.9%**	**(26.3%)**

The table below summarizes the primary drivers of asset-based income for PE:

PE Asset-Based Income KPIs	**H1 FY09**	**H1 FY08**	**% Change B/(W)**
Asset-Based Income ($m)	(95)	24	>(100%)
Average Co-investments (excluding underwriting) ($m)	857	831	3%
Yield on Co-investments (annualized)	(22.2%)	5.8%	(28%)

The gross annualized yield on PE assets was negative 22.2% for H1 FY09, compared to a positive 5.8% return in H1 FY08. This outcome reflects $117.0 million of net downward fair value adjustments to Investcorp's portfolio companies. Valuations were affected by the general decline in market multiples and the impact of the recessionary environment which was reflected in generally reduced EBITDA across the portfolio. Given the dislocations in public equity markets and the lack of recent comparable M&A transactions, greater emphasis was placed on DCF-implied multiples taking into account an expected difficult operating environment over the next 1-2 years.

Peak-to-trough valuation falls are reflected in the chart below. The impact of the economic environment on the operating earnings of the portfolio companies has been reflected in Investcorp's asset-based income over the last four quarters.



The overall yield on Investcorp's co-investment in RE is shown below:

RE Asset-Based Income KPIs	H1 FY09	H1 FY08	Change %
Asset-Based Income ($m)	(13)	11	>(100%)
Average Co-investments ($m)	340	391	(13.0%)
Yield on Co-Investments (annualized)	-7.6%	5.8%	(13.4%)

The asset-based losses on RE reflect a gross annualized yield of negative 7.6% for H1 FY09, compared to a positive 5.8% return in H1 FY08. Revaluation losses of $24.3 million have been partially offset by $11.6 million of income from the current yield generated by the rental income from underlying properties.

Interest expense

Total interest expense of $62.1 million in H1 FY09 was 37.2% lower than in the corresponding period last year. Investcorp generally runs a floating rate reset basis for its debt portfolio and most of this decrease is because of lower average short-term benchmark rates in the US. Average US dollar LIBOR fell approximately 2.5% year-on-year.

The average level of debt was slightly lower compared to H1 FY08 but the average tenor has lengthened.

$ millions	H1 FY09	H1 FY08	Change
Average interest-bearing liabilities	3,032	3,077	(45)
Interest expense	**62.1**	**98.8**	**(36.7)**
Average LIBOR (1-mo)	2.6%	5.2%	(2.6%)
Spread to LIBOR (1-mo)	1.4%	1.1%	0.3%
Cost of funding	**4.0%**	**6.3%**	**(2.3%)**

The average cost of funding as a spread to LIBOR was 136 bps, which appears significantly higher than last fiscal year. The increase in spread represents a combination of two factors. Firstly, there was ongoing dislocation between the LIBOR benchmark rates set by the British Bankers Association and the actual interbank rates that were pricing transactions in the market. European and GCC interbank activity traded at between 50bps and 100bps above the London rate-set throughout the last three months of H1 FY09. Secondly, as a result of Investcorp's initiative to reduce reliance on cheaper short-term funding, the overall mix of funded debt shifted more towards higher margin medium term liabilities which increased the overall average weighted cost of interest bearing liabilities.

$ millions	H1 FY09 vs. H1 FY08
Balance-related variance	1.4
LIBOR-related variance	40.0
Spread-related variance	(4.7)
Total variance	**36.7**

Operating expense

Total operating expenses of $89.5 million in H1 FY09 decreased by 26.0% (H1 FY08: $121 million). Staff compensation represented 42.3% of total operating expenses, a fall from 62.4% for the corresponding period last year, and compensation costs fell by 50% in absolute terms compared to H1 FY08 as a result of headcount reductions implemented in H1 FY09 and lower variable 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.

The fee margin in H1 FY09 as discussed above has fallen to 18% from 38% in H1 FY08 due to the proportionately low level of high margin activity fees. As a result of asset-based losses, the overall efficiency ratio (Opex / (Net Income + Opex)) was negative 21% in H1 FY09.

Opex Metrics	H1 FY09	H1 FY08
Staff Compensation ($ m)	*37.9*	*75.5*
Other Opex ($ m)	*51.6*	*45.5*
Total Opex ($ m)	89.5	121.0
Full Time Employees (FTEs)	339	396
Staff Compensation Per FTE ($ 000s)	112	191
Other Opex Per FTE ($ 000s)	152	115
Total Staff Cost / Total Opex	52%	69%
Fee Margin	18%	38%
Fee Opex / Fee Income	82%	62%
Opex / (Net Income + Opex)	-21%	58%

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, $m	Fee Income			Asset-Based Income			Total		
	H1 FY09	H1 FY08	Change	H1 FY09	H1 FY08	Change	H1 FY09	H1 FY08	Change
Private Equity	57.3	75.8	(24%)	(95.2)	24.3	>(100%)	(37.9)	100.1	>(100%)
Hedge Funds	23.6	43.8	(46%)	(398.1)	103.9	>(100%)	(374.5)	147.7	>(100%)
Real Estate	5.0	24.6	(80%)	(12.9)	11.3	>(100%)	(7.9)	35.8	>(100%)
Treasury & Liquidity	-	-	-	63.3	23.9	>100%	63.3	23.9	>100%
Revenue Contribution	**86.0**	**144.2**	**(40%)**	**(442.9)**	**163.3**	**>(100%)**	**(357.0)**	**307.5**	**>(100%)**
Operating Expenses	(70.8)	(89.6)	21%	(18.7)	(31.4)	40%	(89.5)	(121.0)	26%
Interest Expense	-	-	-	(62.1)	(98.8)	37%	(62.1)	(98.8)	37%
Provisions	-	-	-	(2.6)	-	-	(2.6)	-	-
Net Income	**15.1**	**54.6**	**(72%)**	**(526.3)**	**33.2**	**>(100%)**	**(511.1)**	**87.8**	**>(100%)**

Revenue contributions across all three business segments were negative in the six month period. Low activity fees, and as a result low overall fee income, were further reduced by substantial asset-based losses. Other asset-based income increased from $23.9 million to $63.3 million.

BALANCE SHEET

The key balance sheet metrics are shown in the table below. The discussion that follows will separately show the impact, on a December 2008 pro-forma basis, of $250 million in preference shares, which is Investcorp's targeted minimum issue size.

Balance Sheet Metrics	H1 FY09 Proforma*	H1 FY09	FY08
Total Assets	$ 3.9 billion	$ 3.7 billion	$ 4.8 billion
Financial Leverage**	1.8x	2.3x	2.5x
Shareholders' Book Equity	$ 0.9 billion	$ 0.7 billion	$ 1.2 billion
Regulatory Risk Asset Ratio (Basel II)	18.4%	13.1%	18.4%
Residual Maturity - Medium & Long Term Facilities	66 months	66 months	61 months

*Adjusted to show the impact of $250 million in preference shares, Investcorp's targeted minimum issue size

**Adjusted for transitory balances

Assets

Assets, $m	H1 FY09 Proforma*	H1 FY09	FY08	% Change
Cash & Equivalents	793	569	452	26%
HF Co-investments	948	948	2,021	(53%)
PE and RE Co-investments	1,400	1,400	1,366	2%
Other	757	757	928	(18%)
Total Assets	**3,899**	**3,675**	**4,766**	**(23%)**

*Adjusted to show the impact of $250 million in preference shares, Investcorp's targeted minimum issue size

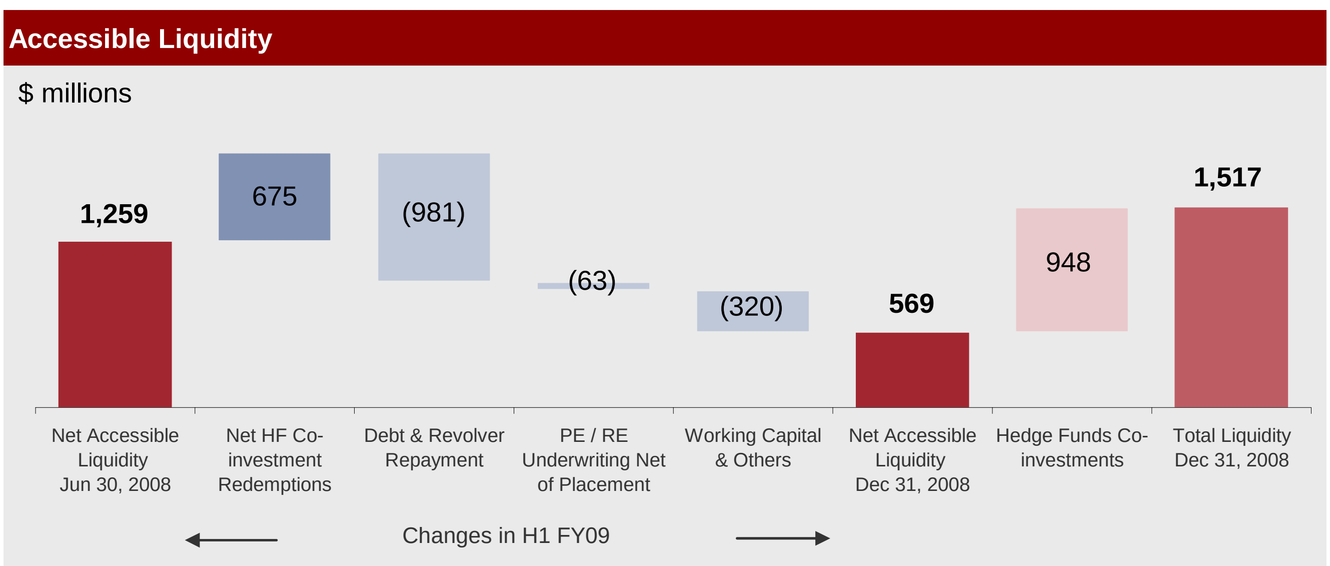
At December 2008, total assets were $3.7 billion, a decrease of $1.1 billion from the previous fiscal year-end (FY08: $4.8 billion). The fall in total assets is a result of the initiative to aggressively de-lever the balance sheet, primarily by redeeming hedge fund co-investments and using the cash proceeds to pay down debt.

Co-investments in HF are now half of June 2008 levels, representing 26% of total balance sheet assets and 25% of total HF AUM, consistent with Investcorp's philosophy to maintain a strong alignment of interest with its clients. PE and RE co-investment asset levels were steady at around $1.4 billion, reflecting one new private equity underwriting, some placement activity and the impact of decline in mark-to-market values. The placement team was also proactive in collecting receivables, which has reduced working capital.

Liquidity

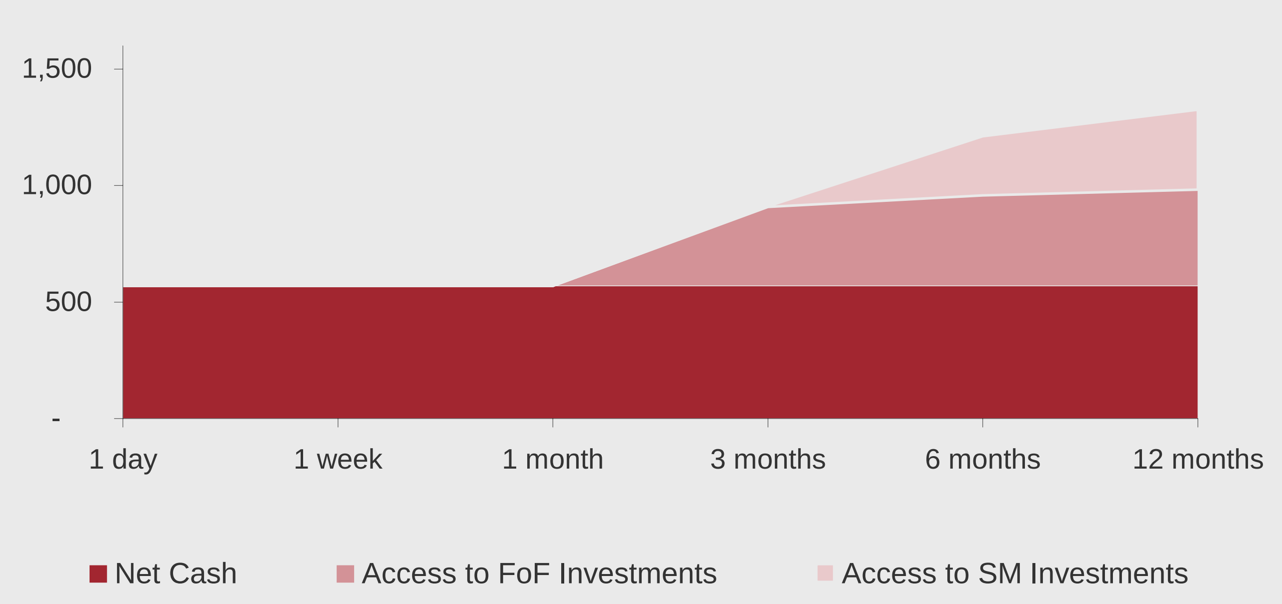
Investcorp's strategy throughout H1 FY09 has focused on maintaining a high level of cash liquidity and ensuring a strong buffer to cover near term cash flow commitments and maturing debt. Committed medium-term revolvers have been drawn and, together with proceeds from the reduction of HF co-investments, been used to pay down maturing uncommitted short-term interbank deposits and to prepay near-term maturities of long-term debt.

Total liquidity (net accessible cash plus hedge fund co-investments) as at December 31, 2008 was $1,517 million. The change in net accessible cash since June 2008 ($1.3 billion) is shown in the chart below and primarily reflects the payment of FY08 dividends, the repayment and prepayment of funded debt and the maturity of an unfunded bi-lateral revolver.



The graph below shows a time profile, as at December 31, 2008, of access to $1.5 billion of total liquidity. This is sourced from cash and cash equivalents of $0.6 billion and, if needed, further managed redemptions from HF co-investments of $0.9 billion. Of the total amount, $900 million is contractually available within a three-month period.

Liquidity Profile



Liabilities

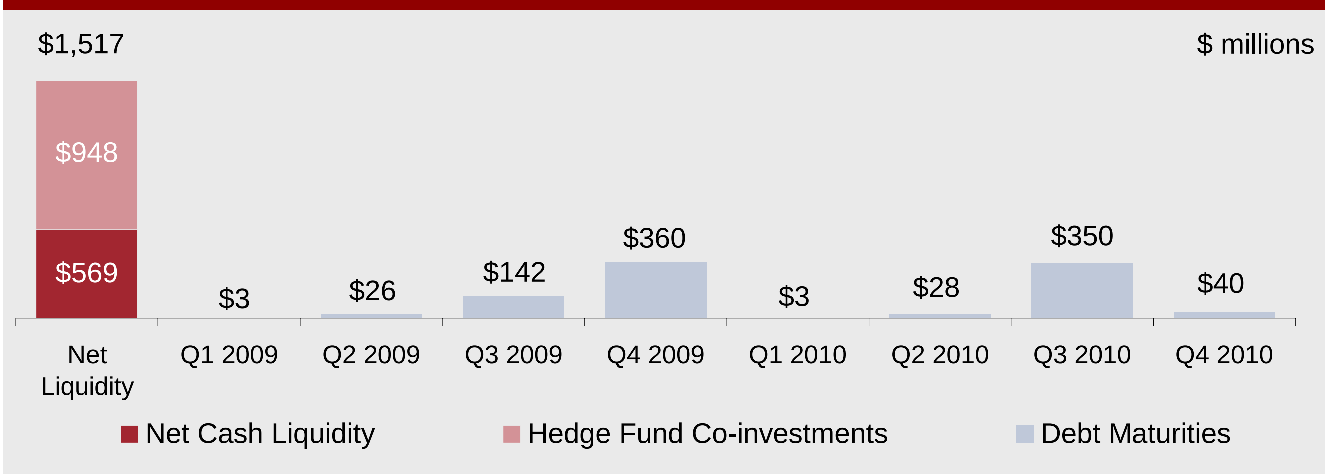
Liabilities, $m	H1 FY09	FY08	% Change
Short Term Deposits	333	824	(60%)
Medium Term Debt & Deposits	952	996	(4%)
Revolvers Drawn	798	240	>100%
Long Term Debt	644	972	(34%)
Other	239	497	(52%)
Total Liabilities	**2,966**	**3,529**	**(16%)**

Total liabilities decreased by 16% at December 2008 to $3.0 billion, compared to $3.5 billion as at June 2008. Although no new term funding facilities were arranged during the period, the mix of liabilities has changed significantly. Cash from hedge fund redemptions and the draw down of medium term revolvers has been used to pay down $491 million of short term deposits, retire $160 million of maturing long-term debt and prepay approximately $260 million of long term debt. The change in the tenor of liabilities lengthened the average residual maturity of medium and long-term facilities from 61 months to 66 months. The $258 million reduction in other liabilities is largely due to the funding in FY09 of acquisitions contracted in the previous fiscal year and included in other liabilities as at June 30, 2008.

Financial leverage, defined as liabilities adjusted for transitory balances divided over equity, fell to 2.3x as at December 2008, from 2.5x as at June 2008 and on a pro-forma basis, inclusive of a targeted minimum capital raise of $250 million, is 1.8x, well below external covenant ratios of 3.55x and consistent with an overall lower leverage target of below 2.0x.

Total liquidity remains adequate to cover all debt maturing over the next two years, even assuming the worse-case scenario that re-financing markets remain completely shut for the whole of calendar year 2009.

Liquidity Cover



Credit ratings

Investcorp maintained an investment grade credit rating throughout H1 FY09. However, despite recognizing the strength of Investcorp's Gulf-based franchise and alternative investment expertise, the Rating Agencies have issued revised rating outlooks to reflect downward earnings pressure on asset based income and the generally difficult business environment for the alternative investment industry.

Standard & Poor's announced a two notch downgrade of Investcorp in January. Their primary issue seems to be an extremely negative macro view about the future of private equity and hedge funds, which Investcorp fundamentally disagrees with. Although the public rating has been withdrawn, Standard & Poor's will continue to rate Investcorp on a private basis, as they did for the ten years between 1998-2007, and their views on the Company will continue to be available to lenders and other stakeholders that wish to access it.

Below is a summary of the Company's public credit ratings.

Agency	Rating	Comment
Capital Intelligence	A- Stable outlook	Rating and outlook confirmed in Feb '08
Moody's Investors Service	Baa3 Negative Outlook	Short-term deposit rating downgraded from P-2 to P-3 in Nov '08
FitchRatings	BBB Negative Outlook	Affirmed rating, changed outlook to negative in Nov '08

Fitch retained Investcorp's BBB rating but with a negative outlook due to the decline in Investcorp's capital ratio (prior to the addition of new capital from efforts presently underway) and negative shift in earnings.

Moody's downgraded Investcorp Bank B.S.C. and its subsidiary Investcorp S.A.'s long and short-term deposit ratings and the bank financial strength rating ("BFSR") by one notch from Baa2/Prime-2/C- to Baa3/Prime-3/D+. The downgrade reflects a secular long-term negative view on the alternative investment sector and its possible impact on Investcorp's financial strength. Moody's recognized the Company's commitment to raising new capital, de-leveraging its balance sheet and the strength of its client franchise.

The full reports by the rating agencies can be read online at www.investcorp.com.

Economic capital

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 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.

The Company uses an economic capital allocation approach as the main tool to manage internal capital. Medium-term capital requirements are determined by balance sheet size and risk profile.

Investcorp has managed through most of this crisis, which started in June 2007, with a strong capital base and without any of the toxic sub-prime or other structured assets on the balance sheet that continue to cause problems to Wall Street and many international banks. The Company has survived through a once-in-a-century event without having to scramble for cash or rely on government guarantees, funding or capital because of a conservative, risk management driven approach. The balance sheet was planned to withstand stress scenarios that will maintain an equity cushion even in the 99th percentile loss scenario.

However, having gone through more than a year of stressed conditions, economic capital levels have been impacted by the substantial declines in asset values in H1 FY09, which have eaten up the equity cushion.

The $1 billion reduction in balance sheet co-investments has released economic capital from the balance sheet. New preference share capital is intended to further boost economic capital and help meet Investcorp's deleveraging objectives and support new underwriting and new business initiatives from a position of strength.

The events of the last two quarters and the ongoing uncertainty about the future global economic situation has led to a more conservative risk approach to balance sheet management, based around smaller amounts of co-investment and lower leverage.

Book capital

Equity, $m	H1 FY09 Proforma*	H1 FY09	FY08	% Change
Ordinary Share Capital	659	659	1,176	(44%)
Preference Share Capital	250	26	-	-
Proposed Common Share Dividends	-	-	63	(100%)
Fair Value & Revaluation Adjustments	24	24	(3)	>100%
Net Book Equity	**932**	**708**	**1,237**	**(43%)**

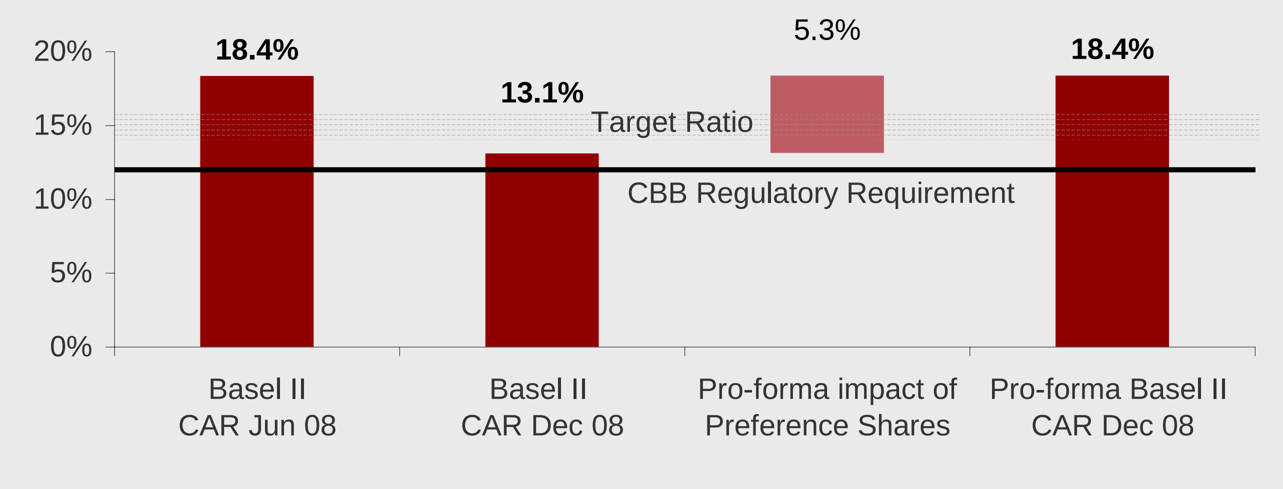
*Adjusted to show the impact of $250 million in preference shares, Investcorp's targeted minimum issue size

Net book equity (including fair value adjustments) at December 31, 2008, was $708 million and $932 million on a pro-forma basis. The decrease from June 30, 2008 substantially reflects the H1 FY09 outcome of negative asset based earnings.

Regulatory capital under Basel II

The Basel II Capital Adequacy Ratio as at December 31, 2008 was 13.1%, and on a pro-forma basis was 18.4%, which is in excess of the CBB's regulatory minimum requirement and consistent with Investcorp's stated target levels for regulatory capital in the mid-teens.

Regulatory CAR



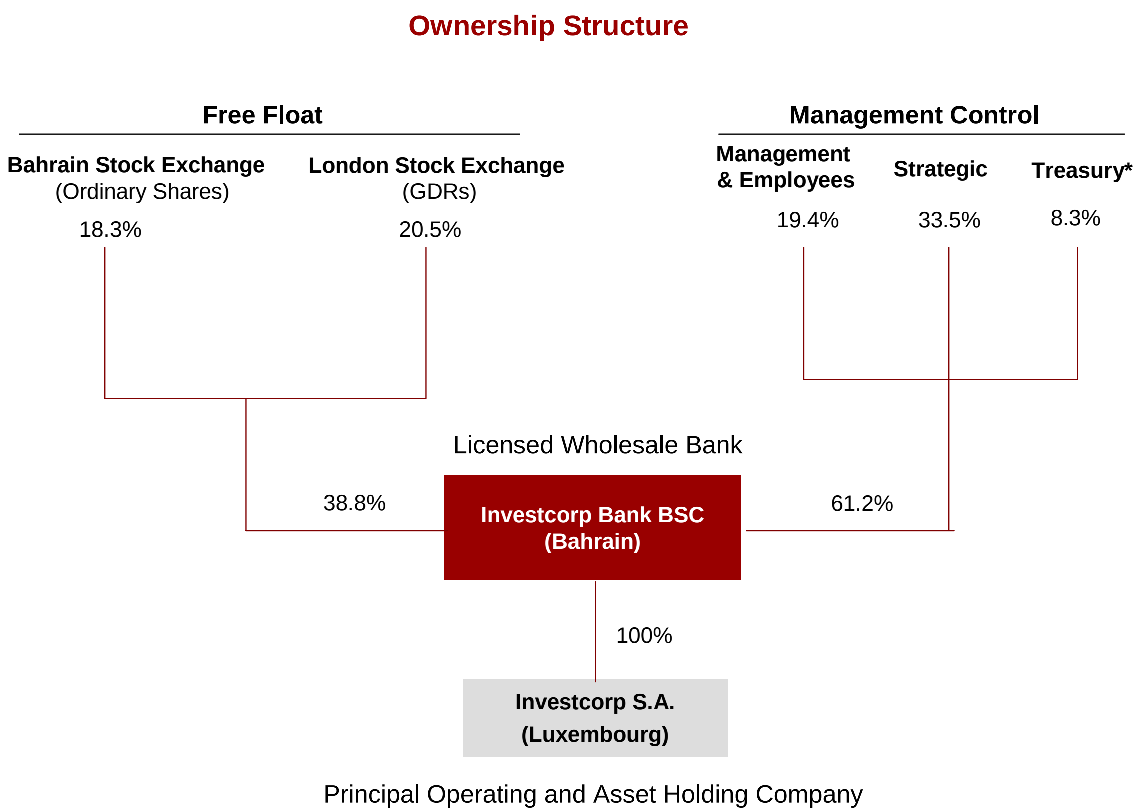
The relevant risk weights across each asset category, applied as of December 31, 2008, are summarized below.

Asset Class / Segment	Basel II Methodology Dec '08	Basel II Risk Weight H1 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 & 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 H1 FY09, Investcorp completed the formal, independent, CBB-mandated risk assessment which represents the Pillar 2 requirement of Basel II. A detailed report, prepared by CBB-appointed independent consultants, has been provided to the CBB. The outcome of this assessment, now subject to further review and comment by the CBB, will eventually determine a specific risk-based minimum CAR target for Investcorp which may differ from the current 12% minimum requirement under Basel II.

Shareholder base



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

At December 2008, Investcorp remains a management controlled company, controlling the voting of 61.2% of the ordinary shares of the Company in concert with strategic shareholders. The public float of 38.8% is held between owners holding ordinary shares on the Bahrain Stock Exchange (18.3%) and those holding GDRs on the London Stock Exchange (20.5%).

The average traded daily volume in H1 FY09 on the London Stock Exchange was 33,113 GDRs, which represents an average traded weekly value of approximately $1.3 million and is equivalent to a turnover of 1.0% per week of issued GDRs.

On December 1, 2008, the UK Financial Services Authority (the ‘FSA’) announced its proposal for restructuring the listing regime in the UK. The FSA maintains an official list of all securities that it has approved for trading on the financial exchanges in the UK (the ‘Official List’). It is now proposing to re-label and reclassify the existing listing segmentation of the Official List. 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 is currently conducting further consultation regarding the proposal and aims to provide feedback on the results of that process in the summer of 2009.

CLIENT BUSINESS REVIEW

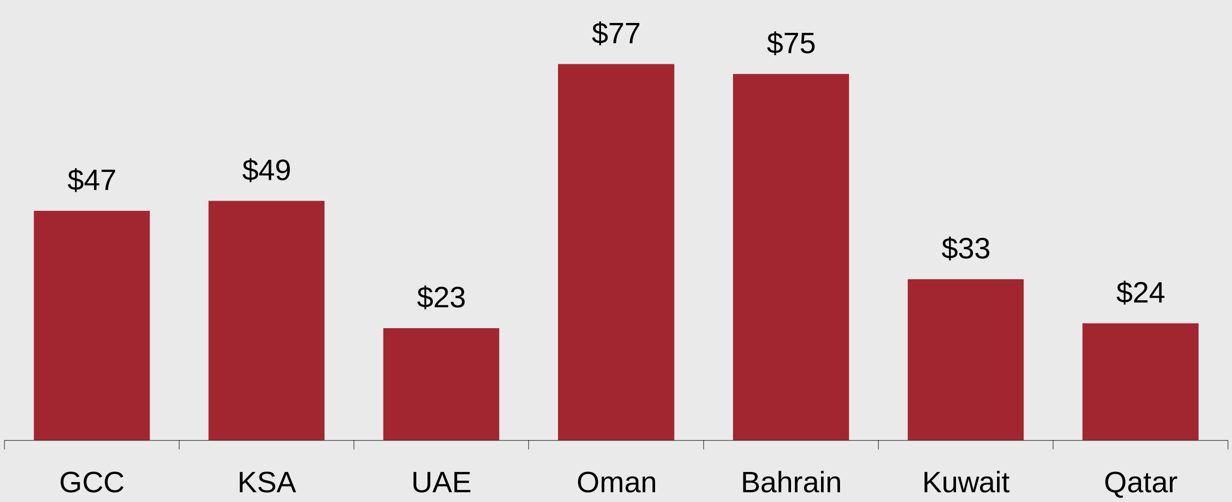
Market Environment in GCC

Impact of lower oil prices on wealth creation

Although the GCC has made steps towards diversification from hydrocarbon income within the last few years, revenues from hydrocarbons remain at the core of most GCC economies, accounting for 32% of GDP, 74% of total exports and 84% of budget revenues. The diversification strategy was designed to stimulate wealth creation by encouraging a wider mix of businesses and reduce the reliance on the public sector. The GCC governments' ability to maintain the scale and pace of their diversification will be directly affected by the revenues they receive from hydrocarbon sales.

The larger GCC government budgets and investment programs in the Middle East will remain in surplus, unless oil falls below $50 per barrel and remains there for a sustained period.

Break-Even Oil Prices 2008 ($/bbl)



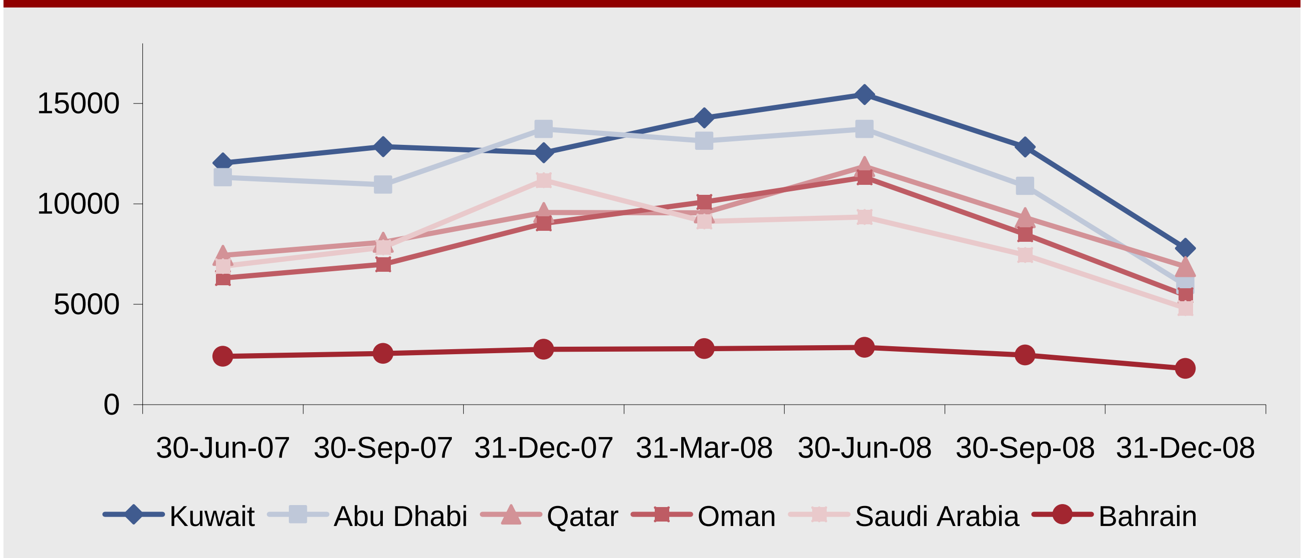
Source: GIH Research

A study by McKinsey highlights that even at $30 per barrel, GCC economies will still be able to generate one and a half trillion dollars in foreign assets over the next five years. Middle Eastern governments have amassed huge reserve funds over the past five years, saving 70% of their surplus oil revenues. They have an estimated $1.5 trillion of capital which they can deploy to support regional growth if the outlook deteriorates further in 2009. This will act as a stabilizing factor to regional wealth creation and support continued Gulf-based development projects. Estimated total investable assets in the region remain close to $3 trillion and despite the impact of a precipitous fall in oil prices, the IMF is still forecasting a growth rate of 3.9% in GDP for the Middle East through 2009 (vs. 6.1% in 2008), much higher relative to the western world.

Impact of credit crunch on Gulf liquidity

The impact of the credit crisis has now begun to affect the Middle East region, with downward pressure on real estate prices and local equities, in addition to the loss of billions of dollars in current revenues from lower energy prices.

Performance of GCC Stock Market Indices



Declining oil revenues coupled with a freeze in global capital markets have led to a steep contraction in regional market liquidity. With the global downturn, foreign direct investment will drop significantly and the Gulf will need to compete to attract capital.

The GCC policy makers have recognized these issues. Using their sovereign wealth reserves, they have taken a number of steps to inject liquidity and capital into the banking system and support asset prices. They are also expected to use their reserves to maintain capital spending on infrastructure and vital services despite the sharp falls in hydrocarbon revenue and support strategic businesses.

Client appetite for alternative assets

Despite the relatively better macro outlook in the Gulf, the appetite of private clients and local institutional investors for new investments has been affected by asset price declines in the last six months and the associated need to de-lever their own investment activity at an accelerated pace.

Compared to that of international clients, local investable wealth remains significant and private clients, who are averse to holding cash, have an appetite for risk. Investcorp expects that private clients will wait to see how quickly markets recover before committing new money to investments. They will sit on cash until they are confident of a turnaround or see asset prices fall to levels that become compelling entry points.

Investcorp also believes that clients will still have an appetite for alternative assets once the markets in the Gulf have settled, as there are few choices available to them to deploy their wealth. If anything, this crisis has demonstrated that the markets and the investment avenues in the Gulf remain limited primarily to the stock markets and real estate, both of which are thinly traded and therefore volatile. Investcorp expects to differentiate itself from both the local and international competition and take market share by demonstrating the relative attractiveness of its range of product offerings.

PERFORMANCE

Placement and fund-raising

The severe market disruptions have dominated the client agenda during the first half of FY09. The sudden impact of losses is keeping the UHNWI[2] market cautious about making new investments and private client investors are, in the near-term, looking for a reduction in systemic risk and normalization of capital markets. Saudi Arabia and Oman seem to have been the least impacted due to a very conservative asset allocation. The UAE and Kuwait have been the most impacted. Gulf institutional investors that use leverage, and are concerned about upcoming debt re-financing, have been reluctant to make investment commitments.

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[2] Ultra-High Net Worth Individuals (UHNWI) hold at least $30 million in financial assets

This has dampened Investcorp's placement activity in H1 FY09 and will also likely affect placement activity in H2 FY09. Clients who were leveraged investors in Hedge Funds experienced the same severe decline in portfolio returns as direct equity investors. Notwithstanding the disappointing calendar 2008 performance, the fact that Investcorp did not have exposure to Madoff and did not raise redemption gates are mitigating factors and reflect well on Investcorp's hedge fund platform and its risk management capabilities. These may be key differentiators going forward, as investors re-evaluate their asset allocations to funds of hedge funds.

In this context, the focus of Investcorp's placement team has been to keep clients up to date on their portfolio performance and provide advice on asset allocation, risk and leverage. Keeping close to clients and providing continued transparency on portfolio performance in H2 FY09 will help the relationship team understand client sentiment and investment outlook.

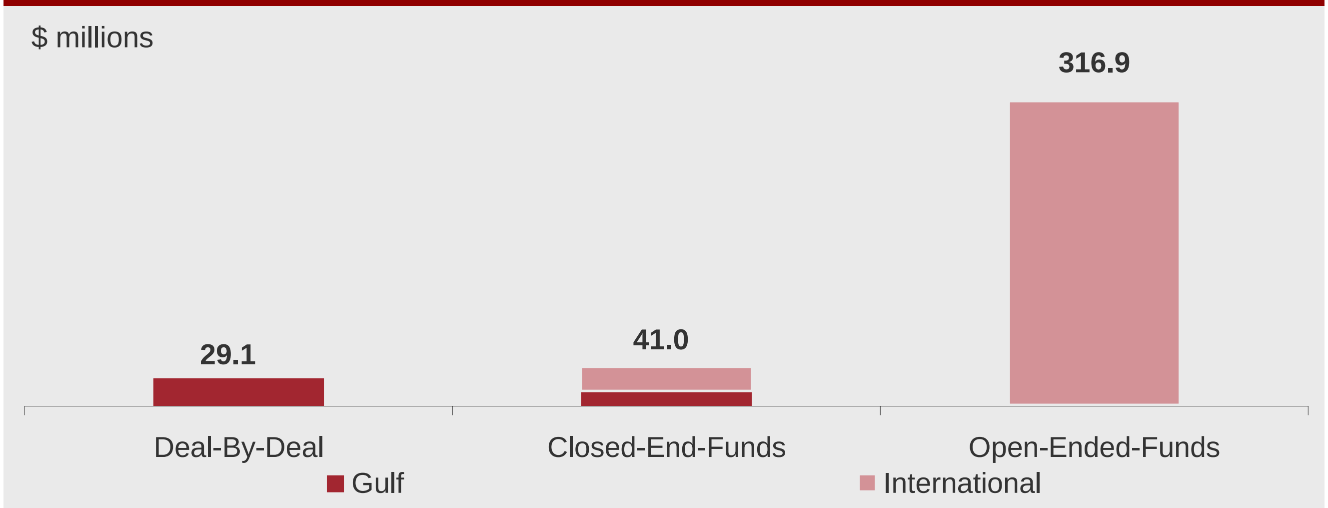
This focus has been balanced with some 'business-as-usual' placement of private equity and real estate deals. Over the first half of FY09, Investcorp placed $29 million of private equity buyouts and real estate deal-by-deal product offerings with Gulf clients, including the completion of CEME and launching the recent N&W private equity and the Best Western real estate transactions. The deal-by-deal approach remains valid, even more so as private clients currently shy away from making significant commitments to blind pools. Private clients are, more than ever, keen to see the details of a deal before deciding to participate and they will continue to pay for that option.

There were no private equity exits, and only one real estate exit, during H1 FY09, resulting in no benefit from the usual re-investment of exit proceeds. However, there have been continued dividend payments from the income-producing real estate portfolios.

Total GCC and international placement and fund-raising activities in H1 FY09 raised $0.4 billion, compared to $1.3 billion in H1 FY08.

Fundraising, $m	**H1 FY09**			**H1 FY08**			**Change**
	Gulf	**Non-Gulf**	**Total**	**Gulf**	**Non-Gulf**	**Total**	
Private Equity	40	25	65	506	253	759	(695)
Real Estate	6	-	6	116	-	116	(111)
Hedge Funds	1	316	317	153	260	413	(96)
TOTAL	**47**	**341**	**387**	**776**	**513**	**1,289**	**(902)**

Fundraising H1 FY09



During H1 FY09, the final close of the Gulf Growth Capital line of business's **Gulf Opportunity Fund I** was completed. Investcorp has committed $75 million to the fund, in line with its co-investment philosophy.

The Investcorp Real Estate Mezzanine Fund I, a $108 million vehicle, created in FY07 to originate and acquire mezzanine debt and similar debt-oriented investments in commercial real estate was fully deployed in H1 FY08. Investcorp's real estate team has therefore launched **Investcorp Real Estate Mezzanine Fund II**, targeting up to $250 million in total commitment size. Initial marketing has been completed and an initial close is planned for Q1 CY09 with a final closing targeted before the end of the fiscal year.

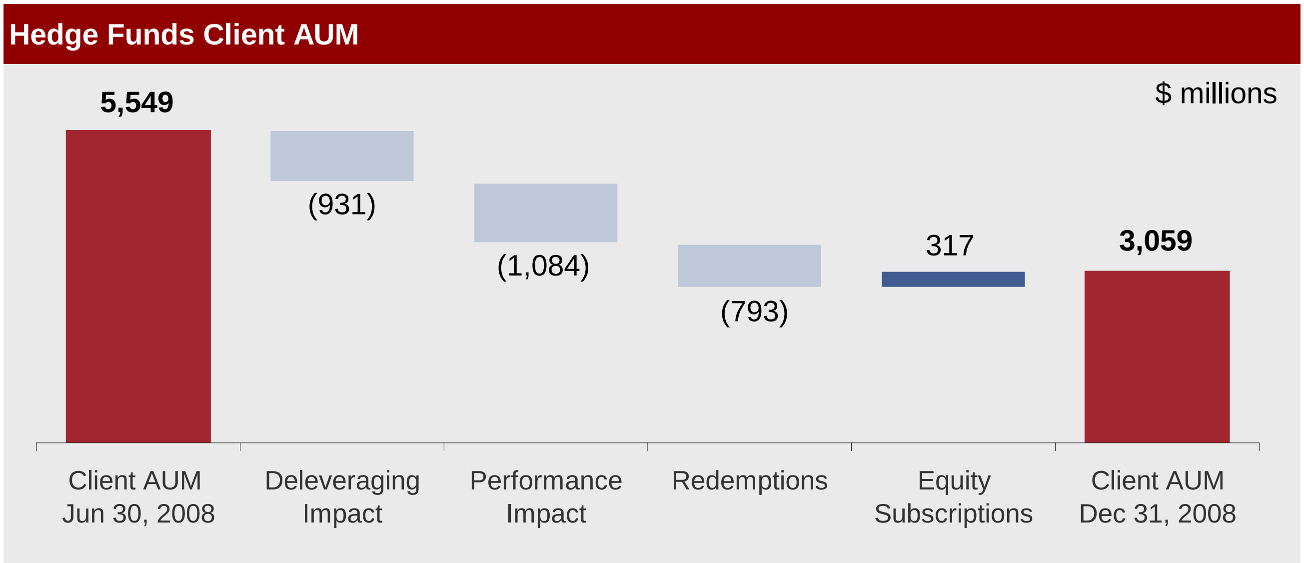
The final close of the **private equity fund for US/EU buyouts** will be in H2 FY09. $746 million has been raised in the fund as of December 31, 2008.

Investcorp is also close to launching a new business initiative that will focus on **debt financing in the MENA region, in particular focusing on mezzanine debt investments**. This initiative is a response to the opportunities resulting from anticipated strong growth in private equity in the MENA region, as well as to the opportunity to provide financing to support the growth and development of regional companies. Both of these trends mean that mezzanine debt is expected to provide an attractive income-yielding investment opportunity for Investcorp clients and the new initiative will also complement Investcorp's Gulf Growth Capital business that makes private equity investments in the MENA region.

Separately, preliminary planning is underway on a strategy specific vehicle, which might be offered to investors in H2 FY09, for investing in distressed real estate and land.

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.

Total hedge fund AUM decreased by 48% over the year from $7.9 billion to $4.1 billion including a reduction of approximately $1 billion of proprietary co-investments. Client HF AUM decreased by 45% from $5.5 billion to $3.1 billion. The decrease in AUM has been driven by a combination of de-leveraging, redemptions and negative performance. Some of the de-leveraging has been done to lower the risk profile of various products in the current volatile markets. In addition, redemption has been forced on holders of structured hedge fund products due to the embedded leverage.



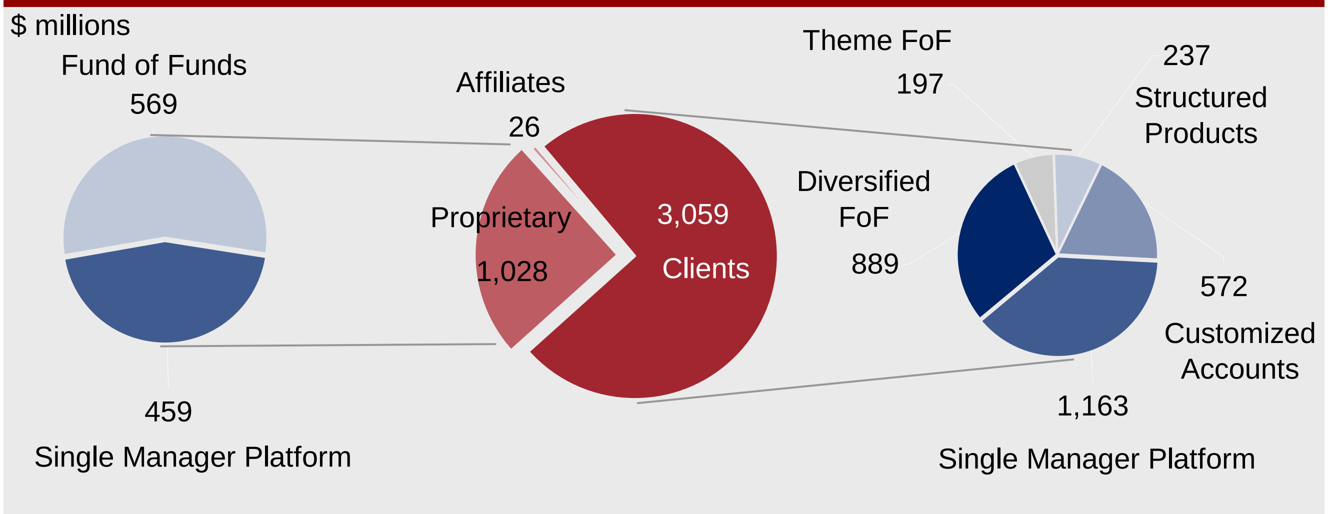
Surveys of the High Net Worth investors indicate that advisors and clients are maintaining a positive outlook on hedge funds, but near-term liquidity concerns are forcing some reductions in allocations. Investors with leveraged products experienced larger drawdowns and may forego hedge fund investing for an extended period of time.

However, the financial crisis has created some attractive niche opportunities in a number of asset classes with limited or no directional risk and with asymmetric return-risk payoffs. Investcorp is evaluating a fund to take advantage of these opportunities. Such a fund would target high rates of return with little or no directional market risk, executed through a limited number of highly specialized managers. Most investments in the fund will be done through managed accounts with high levels of transparency and control.

Investcorp also believes that Funds of Funds stand to benefit from the turbulence. As in previous bubbles, investors who grew confident in their abilities to take control of their portfolios when the markets were up will now seek quality advisors with whom they can work in a consultative manner. Investcorp believes that Fund of Funds providers who can position themselves as true advisors will be in a strong position in 2009, when there is likely to be a clear separation of firms with truly institutionally-appealing capabilities.

Institutions seek certain key attributes from managers they invest with such as: an ability to create customized products, strong investment risk and operational risk monitoring, a depth of research resources (which the client can tap into), proprietary capital commitment and excellence in client reporting. Investcorp believes that the industry direction should favor Investcorp's Fund of Funds products and the Single Manager Platform. This is evidenced by important and sizeable mandates from US institutional clients in H1 FY09 that will be funded gradually through calendar 2009.

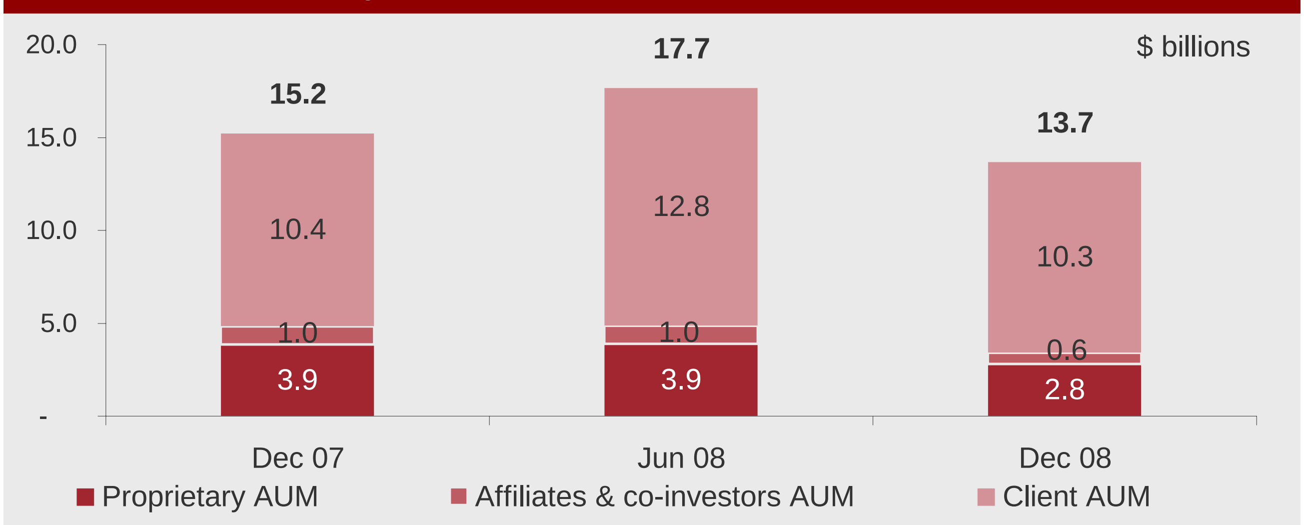
Hedge Funds AUM



Assets under management

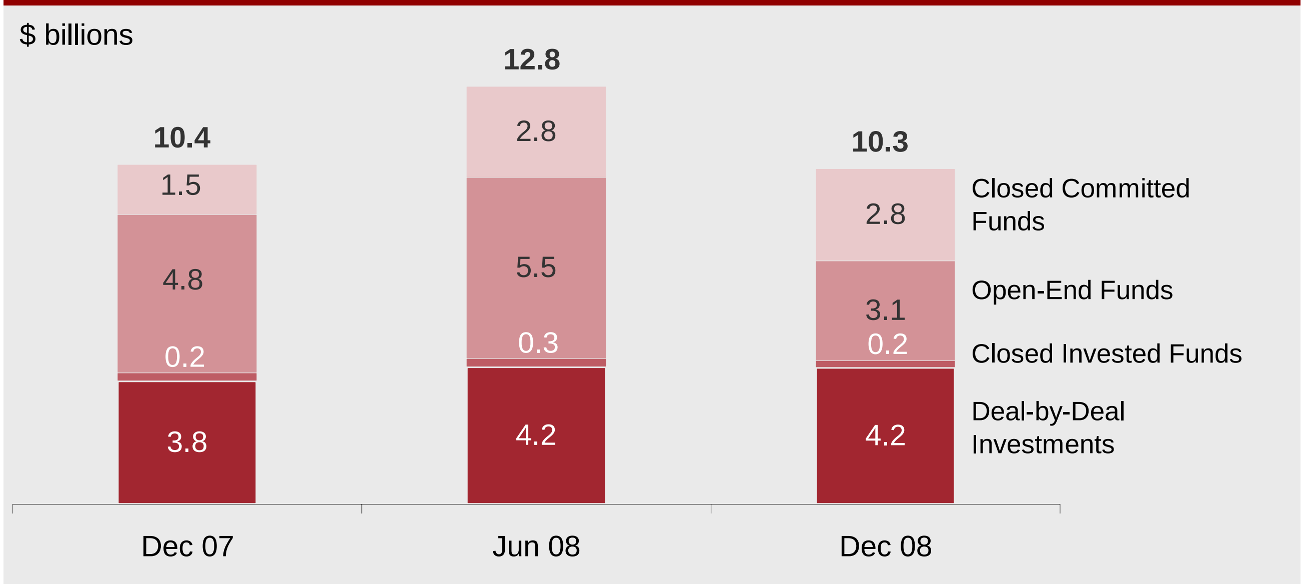
Total AUM, including proprietary co-investments, has decreased over the last 12 months from $15.2 billion as at December 31, 2007 to $13.7 billion as at December 31, 2008.

Total Assets Under Management



Client AUM declined by 20% from $12.8 billion at June 30, 2008 to $10.3 billion, reflecting the significant amount of hedge fund redemptions in the last quarter of 2008.

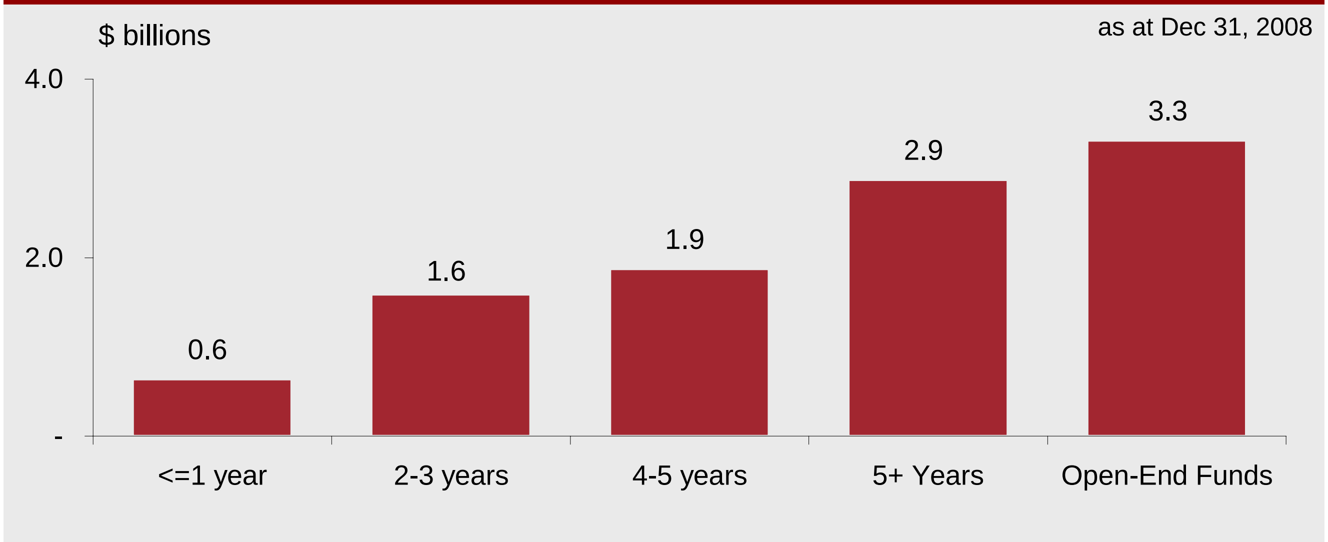
Total Client AUM



Total proprietary co-investments reduced in H1 FY09 by $1.1 billion (28%) from $3.9 billion to $2.8 billion; and affiliates and co-investors decreased by $0.4 billion (40%) from $1.0 billion to $0.6 billion.

The amounts committed for closed-end funds complement the traditional Investcorp classification of AUM, which in the past has mainly reflected cash invested by clients on a deal-by-deal basis. These funds, because of their long-dated contractual commitment periods, provide visibility to a recurring stream of fee revenue well into the future.

Client AUM Tenor



Open-End Funds have proven to be less sticky over the past six months than has been the case historically, primarily because of the very high redemptions in hedge funds and the fact that Investcorp did not impose any redemption gates on clients.

INVESTCORP

Key AUM performance indicators (by asset class)

Assets Under Management, $m	Hedge Funds	Private Equity	Real Estate	Corporate Support	Total
December 31, 2008					
Investcorp Co-Investment	1,028	1,313	473	-	2,814
Clients	3,059	5,087	1,885	255	10,285
Affiliates and co-investors	26	519	41	-	586
Total AUM at Dec 31, 2008	**4,113**	**6,919**	**2,398**	**255**	**13,685**
June 30, 2008					
Investcorp Co-Investment	2,065	1,355	475	-	3,895
Clients	5,549	5,235	1,879	143	12,806
Affiliates and co-investors	305	633	40	-	979
Total AUM at Jun 30, 2008	**7,920**	**7,223**	**2,393**	**143**	**17,680**

INVESTMENT BUSINESS REVIEW

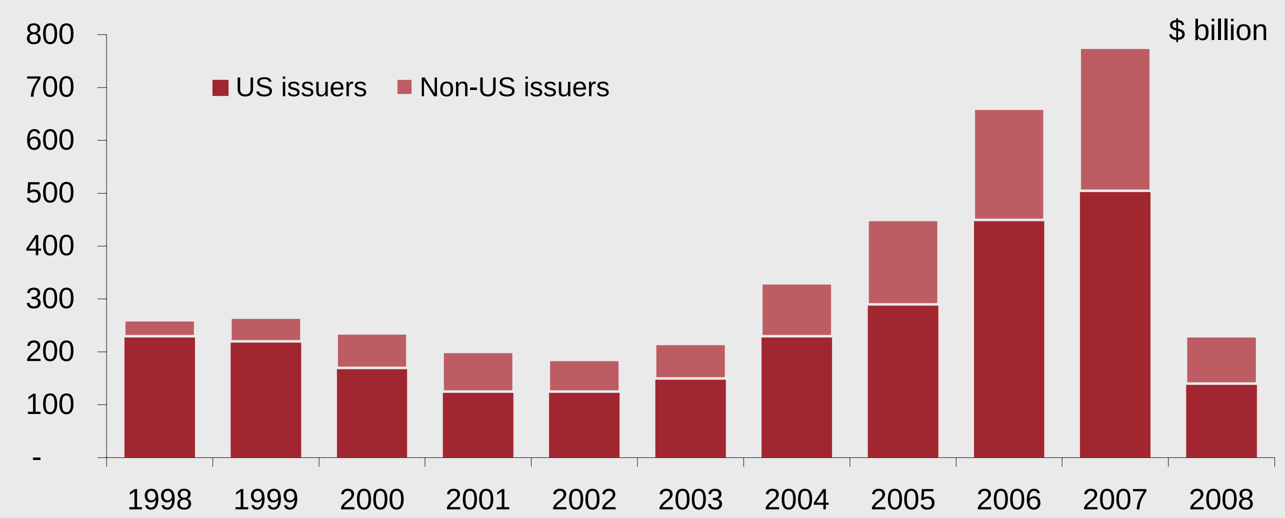
US and European buyouts ('buyout')

Business environment:

The transatlantic private equity buyout market has witnessed a marked slowdown in transactional activity and a dramatic shift in sentiment driven by the credit crunch and downshifting of economic growth. The continued deterioration of economic conditions in the US and Europe has resulted in a slowdown in business earnings growth.

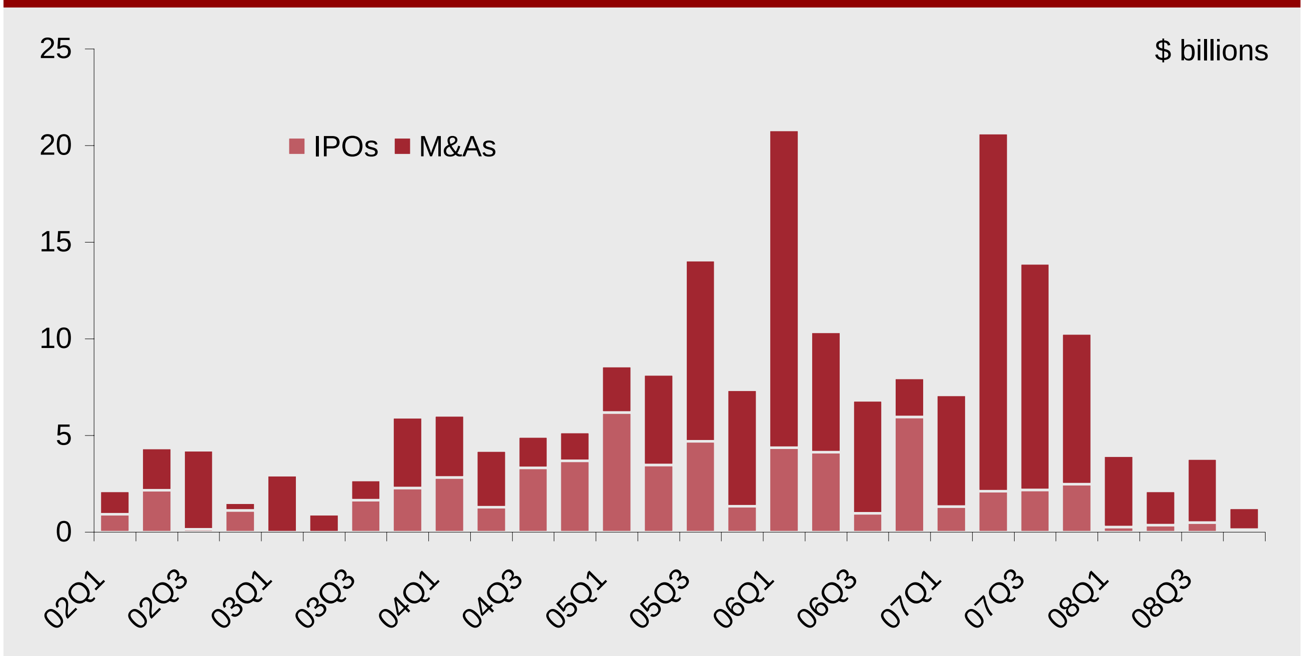
Given the global financial crisis, the major issues currently facing private equity firms are the continued financial market turbulence and weakening liquidity in the capital markets and the impact of a broader global recession on current portfolios of investments. While there are only a limited number of sellers of quality businesses today, the inability to obtain debt financing on acceptable terms and pricing has greatly curtailed LBO transactions. Other than on a very selective basis, with significant equity and strong sponsorship, senior lenders do not appear to be willing to underwrite new deals of almost any size in the US and Europe until the credit markets stabilize. The timing of such stabilization remains uncertain. As such, in the near-term, private equity firms will be more inwardly focused on enhancing operating performance in their existing portfolio companies, which have been impacted by the current economic slowdown. Many contemplated exits will be delayed and holding periods are likely to be longer until the financial crisis subsides. Although uncertain, the leverage market conditions may slowly improve as US and European government initiatives to provide liquidity and encourage lending begin to have some impact.

Global New-Issue Leveraged Loan Volume



Source: Standard & Poor's LCD

Deal Volume in Buyouts Sector for US and Europe



Source: VentureXpert

Currently, weakening earnings growth and lower valuation multiples are leading to a gradual reversal of previous valuation gains in the unrealized portfolio. Investcorp believes that some of these conditions should revert back to normal over the long-term as market conditions improve. Private equity returns are subject to cycles, and the expectation is that investors who commit capital during an economic downturn similar to the one currently being experienced are likely to reap the benefits once the cycle turns around. Investcorp encourages its clients to diversify across vintage years, strategies, industries and geographic regions in order to manage portfolio risk.

Acquisition activity:

Consistent with the overall private equity buyout market, FY09 is turning out to be a year where quality deals are scarce and the availability of high quality companies through conventional sales processes has slowed. The PE deal team therefore remains patient in this highly uncertain environment in order to secure an investment angle and to be sure of the ability to drive value post acquisition, acknowledging that expected deal returns must work under the current requirement for conservative capital structures.

Since the conventional deal flow in the industry largely came to a halt in the last quarter, the deal team is increasingly focusing deal sourcing on developing non-conventional prospects. These include partnering with corporations to facilitate off-balance sheet investment opportunities; investing in overleveraged private equity situations as a means to de-risk their capital structure; teaming up with executives to execute industry roll-ups; and pursuing ‘proprietary’ public-to-private opportunities. They are also prepared to explore creative financing structures to facilitate deal execution, including all-equity financed deals.

All new deal efforts are conducted under the assumption that the economies both in the US and in Europe will experience a recession that will last 12 to 18 months, and that there is unlikely to be a rebound until well into 2010. Thus, due diligence of potential acquisitions requires significant time in understanding the potential impact of a recession on the industry and the target company. The investment threshold for recession sensitive businesses (e.g., consumer discretionary, construction) is extremely high.

During H1 FY09, the PE buyouts team acquired **N&W Global Vending** (‘N&W’) for an aggregate equity deployment of €170 million. The company, headquartered in Italy, is a leading manufacturer of food and beverage vending machines that sell refreshment items for immediate consumption. It is the market leader and only pan-European manufacturer of vending machines offering a full range of products 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 has completed two small add-on acquisitions: one company based in Oregon (E.H. Burrell) and another New York-based (Automotive Brake Co. of Newburgh). 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 deals were funded through cash resources, required no add-on capital from Investcorp and were acquired at attractive valuation multiples.

Realization activity:

On the realization side, the exit options have narrowed significantly. Limits on leverage have stalled private sales and the public markets have become inhospitable to IPOs. Investcorp has historically held on to investments for a longer period during such market periods and will do so now, looking to exit once the economic environment and capital market activity becomes more supportive.

Portfolio performance:

The carrying value of Investcorp's balance sheet co-investment in US and European buyout investments at December 2008 was $945 million (June 2008: $922 million) across 23 companies. Please refer to the table in Note 8 of the Consolidated Financial Statements of Investcorp Bank BSC which summarizes the December 31, 2008 and June 30, 2008 carrying values by vintage years.

Although the operating performance of Investcorp's private equity buyout portfolio companies has been impacted by the economic slowdown, the portfolio is relatively healthy, outperforming competition and generally generating positive free cash flow with adequate liquidity and covenant cushions to weather the environment. Since the companies are generally not in capital intensive or consumer-related sectors they are not expected to be hit as hard as other businesses in a period of prolonged economic slowdown. Through the execution of Investcorp's Value Enhancement Model ("VEM") and value creation initiatives, identified in due diligence and the post-acquisition phase, Investcorp expects that the PE management team will be better able to mitigate the impact of the downturn on the portfolio companies. The current environment, where operating improvement and value creation within the portfolio are the key drivers to success, should play well to Investcorp's strengths.

However, given the slow growth environment, a small number of the portfolio companies may require add-on support capital to de-lever until the difficult market conditions improve. Valuations could also face downward pressure if there are further declines in earnings growth or valuation multiples beyond current expectations.

The current buyout portfolio contains two individual exposures, TelePacific and Icopal, in excess of 10% of shareholders' equity. The balance sheet exposure amount for TelePacific has not changed significantly since June 2008, and includes a substantial cumulative value appreciation since its original acquisition in 1999 that is embedded in the carrying value.

The five largest PE investments represent 54% of the total PE portfolio and 73% of the total shareholders' equity.

Portfolio Company	Carrying Value, as at Dec 31, 2008 ($m)	% of Total	% of Total S/H Equity	% of Total Pro-forma S/H Equity*
N&W (underwriting)	178	19%	25%	19%
TelePacific	159	17%	23%	17%
Icopal	73	8%	10%	8%
CEME	54	6%	8%	6%
Polyconcept	49	5%	7%	5%
Five Biggest Co-investments	514	54%	73%	55%
Remaining Co-investments	431	46%	61%	46%
Total	**945**	**100%**	**133%**	**101%**

*Adjusted to show the impact of $250 million in preference shares, Investcorp's targeted minimum issue size

The overall geographical distribution of the PE co-investment portfolio at December 2008, including the amount currently being underwritten for placement in FY09, is 51% US and 49% Europe/UK (June 2008: 57% US and 43% Europe/UK). The change reflects the acquisition of N&W in Europe.

The current economic downturn represents an opportunity for many of the portfolio companies to continue to take share from weakened competitors. As a result, the PE team has actively sought to build portfolio companies by investing prudently for the future. This includes executing add-on acquisitions at attractive multiples and implementing strategic initiatives such as new product and market development, as well as working with the management teams at all of the portfolio companies to put in place programs to preserve current profitability assuming a sales contraction of more than 10% in 2009.

Outlook:

The continued and accelerated globalization of the economy as a whole has also impacted private equity and added additional complexity, as investment opportunities are increasingly taking on a global dimension. Investment teams with local expertise are best able to understand these businesses, perform local due diligence, find and recruit local management and they will better grasp the sectors and geographies in which these companies operate and should make better investment decisions. Over the longer term, the private equity business will continue to evolve, and private equity firms that have global experience combined with local expertise and a proven ability to actively manage their portfolio companies and create value independent of market cycles are most likely to succeed and outperform other asset classes.

Investcorp believes that its global approach provides it with an excellent understanding of the international marketplace and the ability to spot emerging trends early, giving the Company a competitive advantage in due diligence, executing transatlantic transactions, and identifying value creation plans that require an understanding of international markets and business practices. Its strong institutional credibility and longstanding relationships with sellers, intermediaries, and debt providers is critical today for deal execution.

The next few years should therefore offer attractive investment opportunities as the new reality of lower prices takes hold and a large number of companies look to seek fresh capital in what will most likely continue to be an illiquid and credit constrained environment.

Technology small-cap ('TSI')

Business environment:

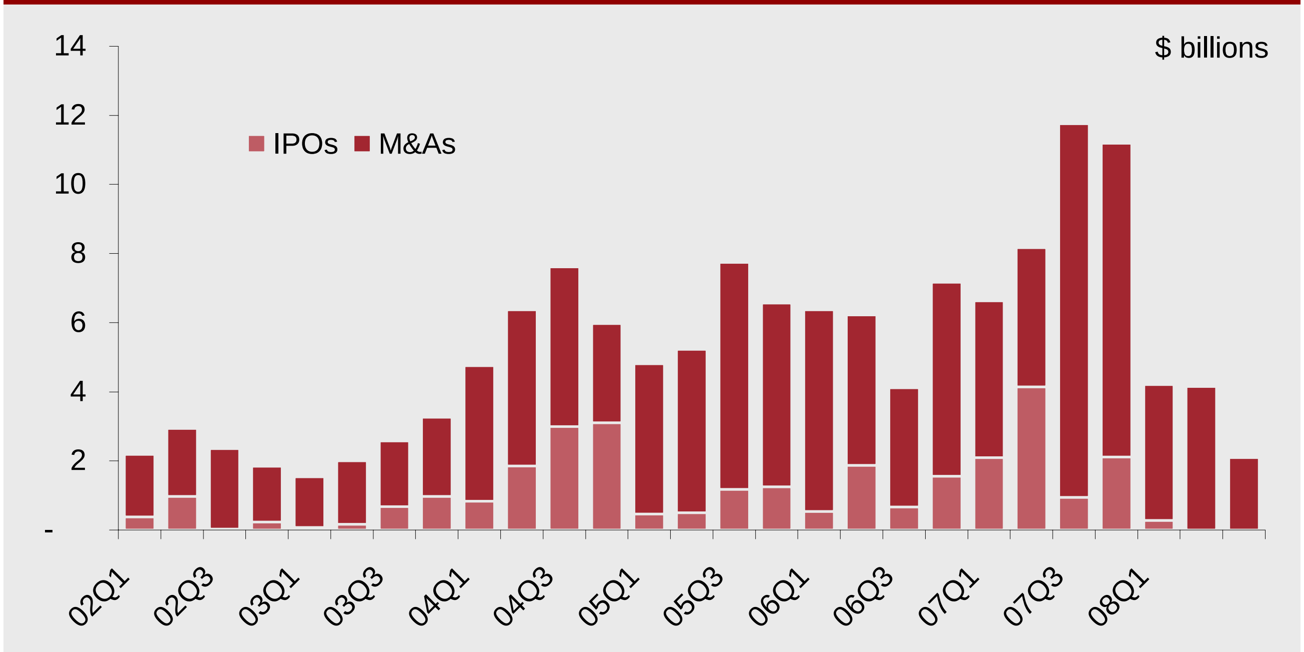
The technology sector has not been immune to recessionary pressures; with capex budgets becoming tighter and most companies cutting down their discretionary IT spending. The collapse of the financial services industry, which has traditionally been a big user and early adopter of new technology, is having a material impact on the overall health of the IT sector.

Whereas most technology sub-sectors are likely to be effected in some manner, consumer electronics, semiconductor capital equipment and telecommunications equipment are some of the sub-sectors that seem to have been more severely impacted than others. The last quarter of calendar year 2008 is reported to have been the weakest quarter for holiday consumer electronics sales in the US in over two decades. The semiconductor capital equipment industry had a decline of 29% in revenue in 2008 and current expectations are for an additional 40% decline in 2009. Research estimates that major carrier US capex spends will reduce by approximately 15% to 25% in 2009; driving down the demand for telecommunications equipment.

The performance of the Nasdaq Composite Index, which rose 9.8% in 2007, has been a perfect illustration of the decline, closing down 31.2% in the second half of 2008 and down 40.5% for the year.

The venture capital community has also been impacted by this slowdown. Liquidity generated by mergers and acquisitions of venture-backed companies in the US fell to $3.9 billion in the fourth quarter of 2008, the lowest quarterly amount since 1999, with no successful initial public offerings. Overall in 2008, venture-backed companies only generated $24.1 billion of liquidity via mergers and acquisitions and initial public offerings, down 58% compared to the same period in 2007. The $551 million earned from initial public offerings in 2008 marks a decline in excess of 90% from 2007 levels, with little improvement expected until late 2009, according to the Dow Jones Venture Source.

Deal Volume in Technology Sector for US and Europe



Source: VentureXpert

Fundraising, while having slowed from 2007 levels, was still relatively healthy, with 55 venture capital firms raising $8.1 billion in the third quarter of 2008.

Despite these negative headwinds, the technology sector is relatively much better positioned in the current recessionary environment. The current macro-environment has led to a renewed corporate and federal focus on technology research and development as one of the key drivers for long-term competitive differentiation for the US economy. In its latest research, Interactive Data Corporation expects that global IT spending will still grow by 2.6% in 2009 despite an expected contraction in the economy. Technology innovation continues to grow and will continue to get funded. The IT services sector is expected to grow at 3.7% in 2009 as more corporates focused on cost cuts will look to outsource key business processes to IT services firms. The software industry is expected to grow at over 4.6% in 2009. Another big growth area is expected to be technology solutions that help banking institutions deal with and recover delinquent consumer debt and free-up capital by enabling the sale of distressed assets.

Acquisition and realization activity:

The overall negative sentiment in the economy is resulting in a meaningful re-adjustment of seller expectations, with average acquisition EBITDA and revenue multiples for potential new investments coming down by 20% to 40% from early 2008 levels. The current environment is therefore attractive for new investment opportunities.

The technology IPO market was all but shut down in H1 FY09 and is likely to remain very weak through 2009. As a result, solid and profitable, but relatively young technology companies are increasingly turning to sponsors such as Investcorp to provide the necessary capital to fund near-term growth and expansion plans. In addition, a number of large IT conglomerates are increasingly looking to carve-out non-core divisions.

In H1 FY09 the TSI team made two new acquisitions, representing further investments of $82 million by Fund III, and deployed $11.7 million follow-on funding across various investments in Fund II. The table below summarizes the investments and acquisitions made in H1 FY09. The total deployment of $93.7 million of equity represents 13% of AUM.

Acquisitions & Add-ons, $m	Company	Sector	Investment
Fund II (Add-ons)	Antares	Communications Infrastructure Products	3.3
	Dialogic		5.0
	Kentrox		2.0
	InnerWireless (PanGo)	Mobile Data Technologies and Applications	0.2
	Magnum	Digital Content Enablement	0.9
	Moneybookers		0.4
Fund III (Acquisitions)	FleetMatics	Mobile Data Technologies and Applications	40.0
	TDX	Enterprise Software	42.0
Total Acquisitions and Add-ons			**93.7**

In July, 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, Fund III signed a definitive agreement to acquire a 40% equity stake in TDX Group for £28 million ($42 million). TDX, based in the UK, is the largest and fastest growing player in the UK market that uses sophisticated analytic tools to maximize the recovery of defaulted consumer debt and advises on more than 80% of the UK's Individual Voluntary Arrangements (IVAs) on behalf of creditors, the process by which debtors negotiate a repayment plan with their creditors in order to avoid bankruptcy.

There were no exits during the six month period.

Portfolio:

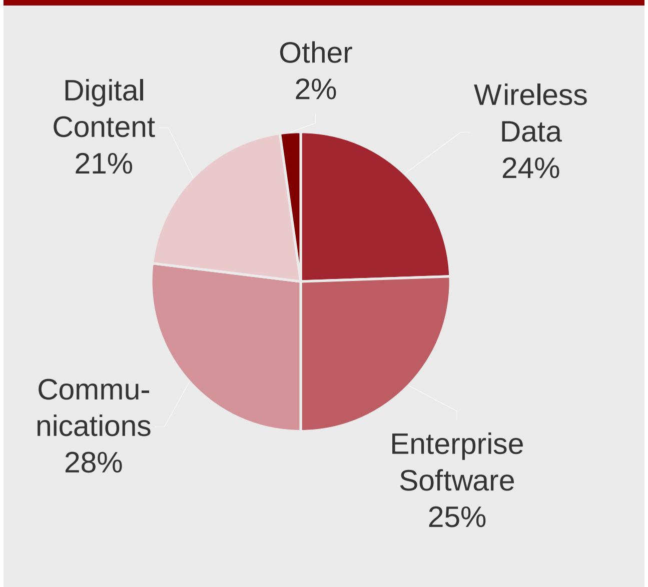
Relative to the broader market performance, Investcorp's technology portfolio has witnessed a much smaller decline in valuation, with only a small number of companies facing challenges. The technology team continues to work actively with the senior management of all portfolio companies in terms of planning their future corporate strategy, and ensuring that companies are streamlined to withstand the current recession and deliver on their 2009 budgets.

Fund I (Vintage Year 2001) has invested $187 million across 24 companies with 20 full and partial realizations. It has returned 86% of the committed capital back to investors, giving a DPI (distributions over paid-in capital) of 86%. It maintains cash reserves for investing in follow-on rounds of financing in existing portfolio companies and for covering fund expenses. Fund II (Vintage Year 2005), with capital commitments of $300 million, is 86% drawn and invested in 12 companies. The fund has returned 12% of committed capital, giving a DPI of 14%. Fund III (Vintage Year 2008) with capital commitments of $500 million, is 23% drawn and invested in three companies.

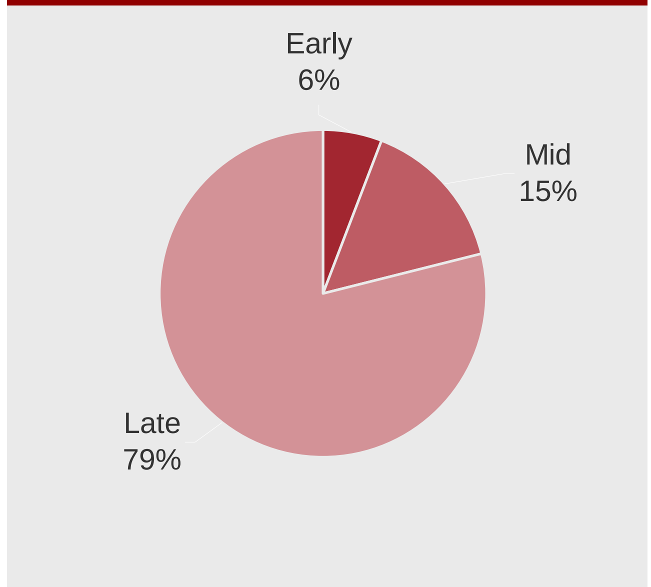
The carrying value of Investcorp's balance sheet co-investment in TSI investments at December 2008 was $39.1 million (June 2008: $34.2 million) across the three funds.

Below are consolidated views of Fund I, Fund II & III aggregated investments by sector, investment cycle and geography as at December 31, 2008:

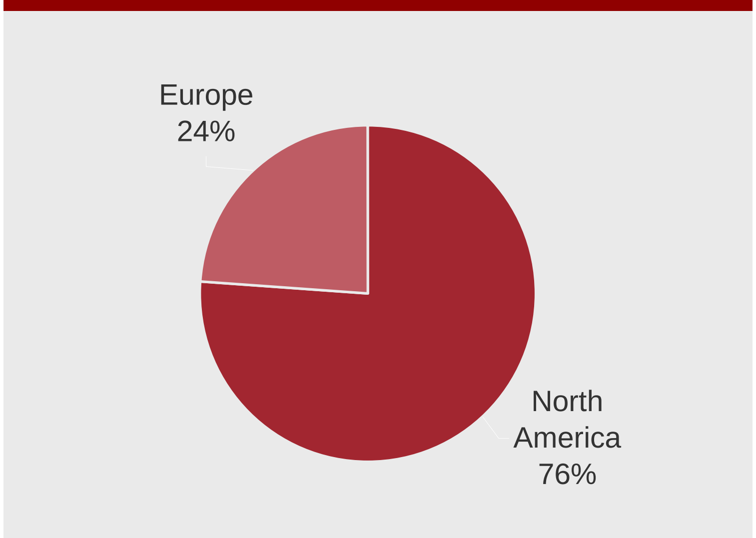
Sector



Stage



Geography

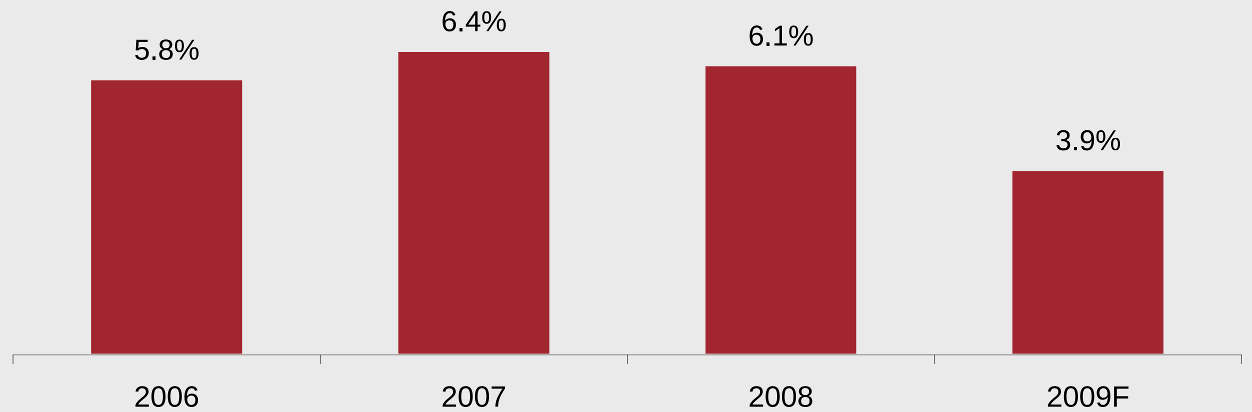


Gulf growth capital ('GGC')

Business environment:

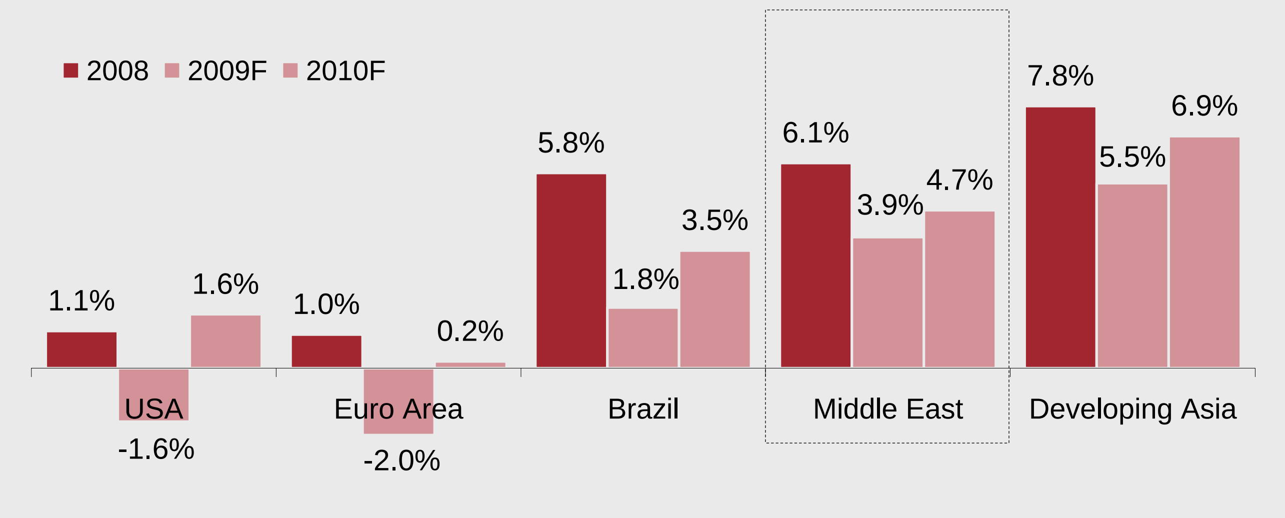
The global financial and economic crisis has started to impact the Gulf region, as ongoing liquidity issues and lower than expected GDP growth begin to filter into the investment market. However, MENA economies are more robust and fundamentally different from other economies. The sub-prime crisis has had no major impact on the macroeconomic fundamentals of the MENA region. While GDP growth forecasts were revised downward in all markets, especially in the West, which had substantially entered into recession by the end of 2008, the medium-term outlook remains positive with Middle East GDP growth of 6.1% in 2008 and expected to be 3.9% in 2009 and 4.7% in 2010.

GDP Forecasts: Strong Middle East GDP Growth



Source: IMF Report WEO January 2009

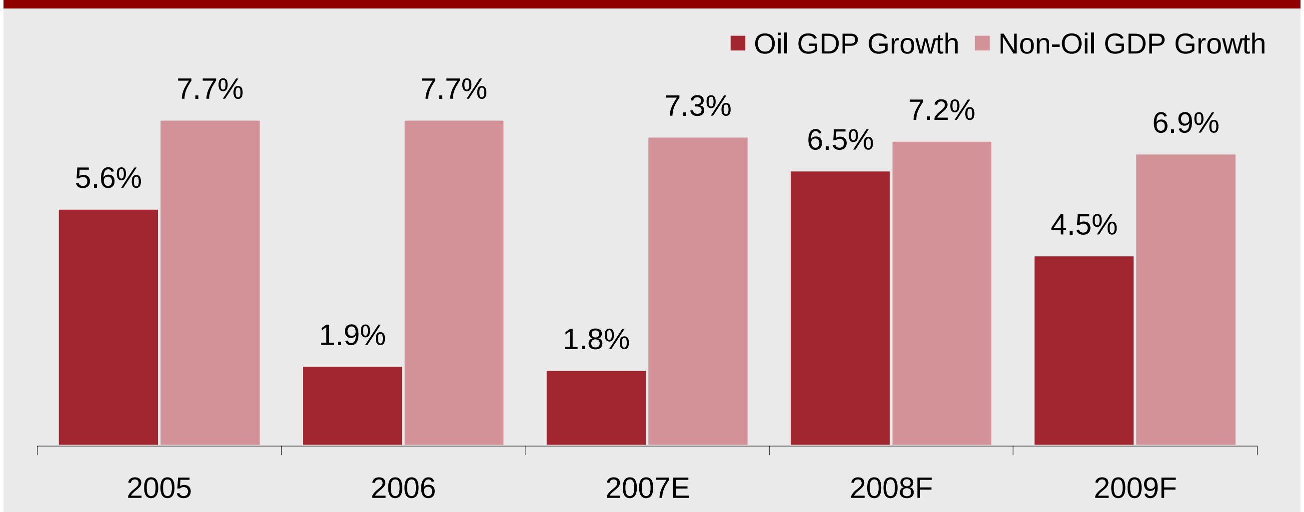
GDP Forecasts: Middle East Amongst Fastest Growing Economies Globally



Source: IMF Report WEO January 2009

While declining oil prices are having an impact on liquidity, that impact is somewhat limited as the economic growth in the Gulf region continues to be sustained by increased diversification into non-oil sectors and by surpluses generated by governments that have saved 70% of their surplus oil revenues over the past five years. Today, Sovereign Wealth Funds in the MENA region have over $1.5 trillion under management. This should support the key priorities of economic diversification and private sector development and help sustain the growth and funding of various regional projects.

GDP Forecasts: Oil vs. Non-Oil Sectors (GCC)



Source: GIH Research

The majority of equity markets in the MENA region are now trading at single digit P/E multiples, tempering the valuation expectations of business owners who were formerly unwilling sellers but now seek fresh capital. Valuations are expected to therefore stabilize or decline – albeit with a time lag - due to the stock market correction and liquidity needs. With lower stock market valuations, private equity investors can now buy assets at prices that are very likely to be attractive from a long term perspective. Local PE firms will be the most active investors as they have a strong understanding of the regional dynamics and the presence to withstand market upheavals. Competition within the market is also expected to stabilize or decline as fundraising activities slow.

Overall, deal flow momentum is expected to remain strong in the region and fundamentals remain favorable for private equity investments in both mature and growth type businesses.

Activities:

In October 2008, the Fund announced the acquisition of its first investment, a 36% minority stake in Redington Gulf for $98 million of capital. Dubai-based Redington Gulf, a subsidiary of Redington India, is the unrivalled IT distributor and supply chain solutions provider in the Middle East and Africa, distributing more than 24 brands of IT and telecom products for global vendors such as HP, Acer, Samsung, Western Digital, Nokia, Cisco and Avaya. The equity investment by the Fund, in the form of a capital increase, will be used to support Redington Gulf's growth – both organically and through add-on acquisitions.

Furthermore, the GGC team has signed a definitive agreement for the second investment for Gulf Opportunity Fund I which is the purchase of a controlling interest in a leading designer, manufacturer and distributor of luxury goods in the Middle East. This acquisition will bring total equity deployed by the Fund to approximately 20% of the Fund size.

The team currently has 40 deals actively under review with eight at an advanced stage of due diligence.

HEDGE FUNDS ('HF') ASSET CLASS

Business environment:

Following the bankruptcy of Lehman Brothers in September 2008, central bank and government policy did little to prevent a near systemic collapse of the global banking system, which resulted in a severe cycle of bank de-leveraging, continued reported losses and the collapse of properly functioning credit and trading markets. The collapse of Lehman affected the hedge fund industry in a number of ways. A large number of funds had direct exposure to Lehman, who acted as their prime broker. The demise of Lehman also triggered a massive sale of collateral and the need to replace trades in an illiquid and volatile market, which magnified the negative impact on other hedge funds that had no direct relationship. Regulators also implemented bans on short selling that were extremely disruptive while failing to have any significant impact in controlling the declines in equity markets or financial shares. Broker-dealers increased margin requirements, leading to a further round of forced de-leveraging.

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

The resultant environment led many investors to redeem invested capital and reduce leverage. This in turn led to further downward pressure on hedge fund returns as managers were forced to liquidate positions in the last quarter of 2008 in order to generate cash to meet client redemptions. Investcorp's Hedge Funds investment team adequately planned for significant client redemption cash flows. Unlike a growing number of hedge funds, Investcorp has not put up any liquidity gates (which enable managers to distribute capital over a period of time instead of at the contractual redemption date), and has met all client redemption requests.

Portfolio activities:

Performance for the six months ended December 2008 has been the poorest on record for the hedge funds asset class, with the HFR Diversified Fund-of-Fund index falling 18.3% for the half-year period. The H1 FY09 return on Investcorp's proprietary balance sheet hedge fund co-investments was -21%.

Although hedge funds struggled to fully protect capital in the last quarter of 2008's financial system meltdown, they still did significantly better than most other asset classes, such as equities, which were down at least 30% in major markets around the world.

	H1 FY09	Last 3 Years	Since Inception
Investcorp Co-investment			
LIBOR Spread	-22.8%	-4.0%	4.1%
Volatility	n.m.	8.8%	5.6%
Sharpe	n.m.	(0.36)	0.80
S&P 500			
LIBOR Spread	-31.2%	-12.8%	-0.1%
Volatility	n.m.	15.3%	16.0%
Sharpe	n.m.	(0.78)	0.02
Citigroup WGBI			
LIBOR Spread	6.3%	1.6%	2.5%
Volatility	n.m.	3.3%	2.9%
Sharpe	n.m.	0.72	0.99

Investcorp's proprietary AUM includes investments in its Fund of Funds ('FoF') products as well as its Single Manager Program. 55% ($569 million) of the Firm's proprietary capital is invested in its Fund of Funds. Details of the strategy allocations for these funds of hedge funds are included in the appendices.

During H1 FY09, Investcorp redeemed, net of new investments, approximately $700 million of its proprietary HF balance sheet co-investments. This reduction in proprietary HF exposure has supported Investcorp's balance sheet de-leveraging plans and has funded the repayment of debt. It reflects a conscious decision by Investcorp to forego potentially attractive returns in the future in lieu of a more conservatively positioned balance sheet.

The largest driver of HF AUM decline has been redemptions from private clients who had a significant element of leverage in their investment. On the other hand, institutional investors in the platform have been quite stable and remain committed to the asset class. Despite the market crisis and negative returns, Investcorp has received substantial new mandates, approaching $750 million, from large US based institutions, which have commenced funding in H2 FY09.

Investcorp's Hedge Fund business model:

The HF team believes that the most significant long-term impact of the 2008 liquidity and credit crisis will be an acceleration of the trend toward institutionalization where investors are expected to focus on:

Transparency: 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)

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 are managed as custom accounts for some of the world's largest institutional investors)

Co-investment: Investors will require meaningful alignment of interest with the manager (Investcorp continues to be the largest investor in its Hedge Fund Program)

Institutional funding arrangements: Investors will require committed long-term funding arrangements (Investcorp's own institutional sponsorship will be a critical advantage going forward in negotiating funding terms)

In meetings with institutional investors, Investcorp has found that many are considering allocating additional capital to hedge fund programs that provide operational oversight and transparency. Investcorp's Hedge Fund business was built on these principles, and Investcorp believes that its business model reflects how the industry is likely to evolve over the medium term.

Outlook:

With reduced systemic risk and improved market liquidity, Investcorp expects that the environment should improve over the next few quarters. In the short-term, the number of managers in the industry will probably shrink, which should result in fewer, stronger managers who will be well situated to take advantage of new opportunities and deliver strong returns. There are attractive opportunities in several hedge fund strategies that should result in strong returns in the near-term. Some managers will shut down but new entrants will enter the industry to take advantage of exceptional opportunities that arise. The HF industry has responded this way after previous crises and, despite the shocks to the industry in 2008, the outcome this time is expected to be the same.

Investcorp's Hedge Fund investment team has made top-down strategy allocations to ensure that the portfolio is balanced and well-positioned. Exposure to equities and portfolio leverage has been reduced. Portfolio insurance and exposure to multi-strategy market neutral managers has been increased. Investments have been withdrawn from low conviction managers, and the total number of portfolio managers has been reduced by approximately one-third. The business has positioned its investment platform for H2 FY09 to benefit from three key themes: Alpha strategies around distressed/credit strategies; liquidity driven dislocations on convertible arbitrage, equity market neutral and fixed income/relative value; and defensive positioning strategies in long/short equity and event driven strategies.

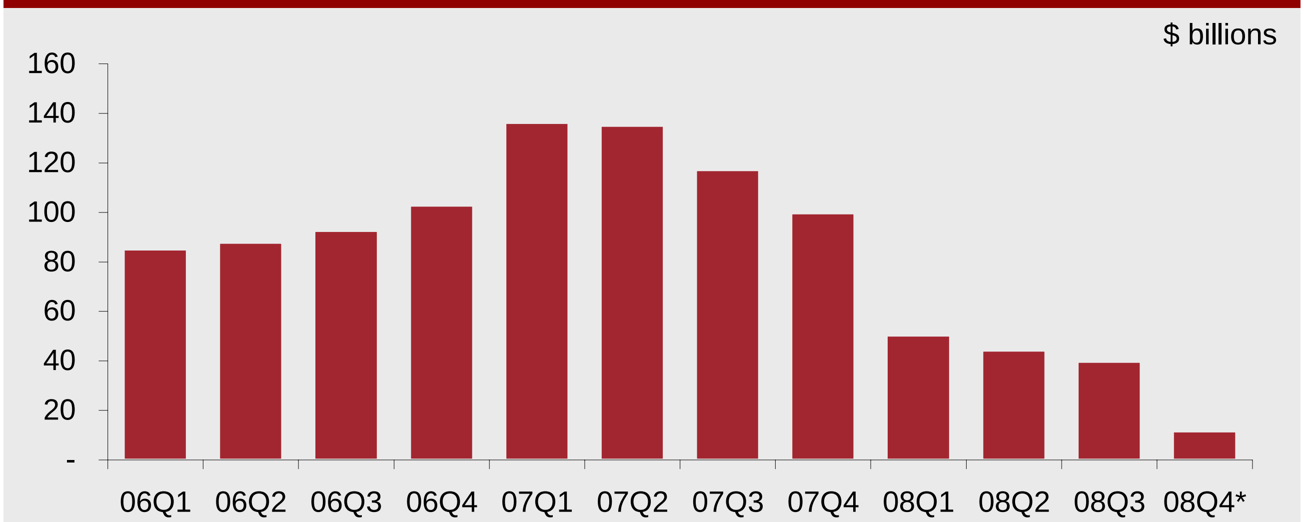
As the investment environment stabilizes and as some of these opportunities manifest themselves, Investcorp expects that its HF platform should be well-positioned to benefit in this new environment.

REAL ESTATE ('RE') ASSET CLASS

Business environment:

Transaction volumes and financing leverage in the US commercial real estate sector remained very low in H1 FY09. Transaction volumes have dropped dramatically and are down by 70-80% compared to a year ago. The fall off in transaction volumes continued to reflect the dislocation in the global credit markets which has significantly reduced the availability of real estate mortgage debt. Balance sheet lenders including banks, life insurance companies, and others have dramatically curtailed lending activity to limit their overall real estate exposure; a number have simply stopped lending for the time being. Available debt is more expensive and subject to lower loan to value ratios and more stringent underwriting standards.

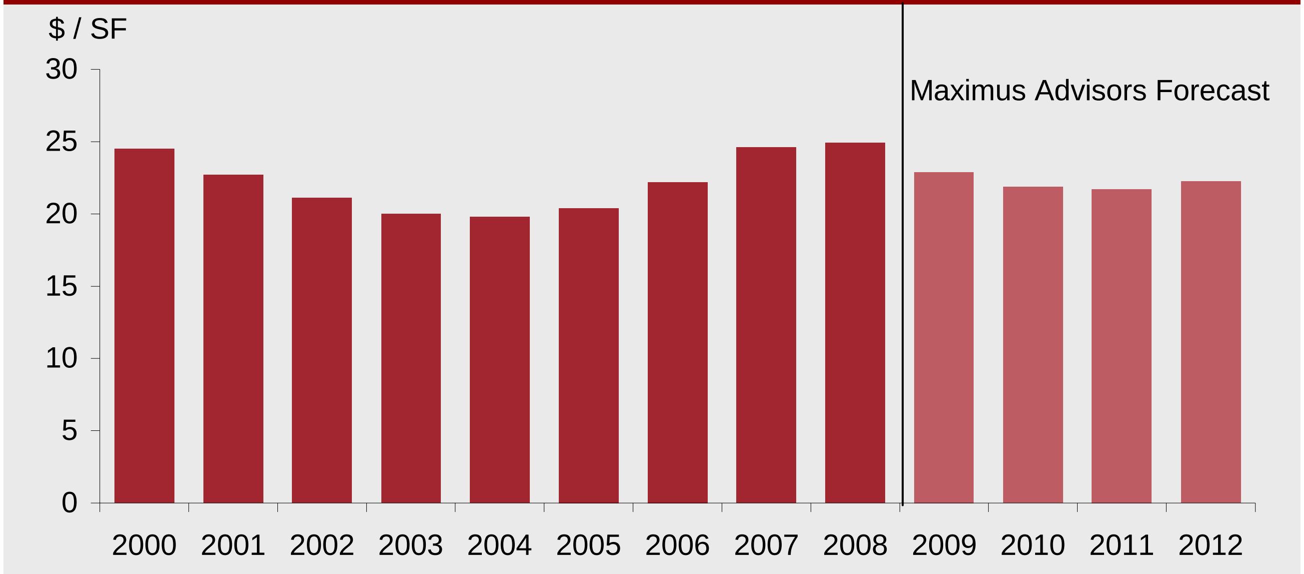
Real Estate Transaction Volume



Notes: Q408 through Oct 2008 only. Based on independent reports of properties and portfolios $5 million and greater.
Source: Real Capital Analytics

Despite the current turbulence in capital markets, US commercial real estate operating fundamentals are generally stable with some downward pressure. In certain specific markets, operating fundamentals are eroding. In the medium term, however, the outlook is more positive and is driven by a number of factors. Due to high construction costs, new construction is limited today and projected levels of new supply are believed to be extremely manageable. In contrast to the industry's last cyclical downturn in the late-1980s / early 1990s, current occupancy rates are high by historical standards. As a result, rents are expected to slowly increase coming out of the downturn thus improving investment returns.

Office Rents



Source: Maximus Advisors

Although certain assets are now over-leveraged at today's reduced valuations, most properties are currently well-leased and should generate cash flow to properly support new financing and capital investment.

Acquisition and realization activity:

In H1 FY09, markets remained dysfunctional and illiquid and the RE team did not deploy any equity into new acquisitions.

The business continued to leverage its relationships in the real estate capital markets and made four new debt investments totaling $45.7 million in equity, including transactions that were originated by Mezzanine Fund I and transactions that were acquired by Investcorp for the Real Estate Credit Fund. Debt buying opportunities therefore exist but considerable losses will need to be recognized by sellers before volume increases significantly.

The Mezzanine Fund I has now been fully invested with $93 million invested and $15 million held in reserves.

Real Estate Investments H1 FY09 ($m)		
Deal-by-Deal	Best Western	12.9
	Weststate	1.8
Add-Ons To Existing Equity Investments		14.7
Mezzanine Fund I	GSC Loan Portfolio	7.8
Mezzanine Fund I Total Investment		7.8
RE Credit	GSC Loan Portfolio	8.2
	Veritas Self-Storage Portfolio	15.0
RE Credit Total Investment		23.2
Total Investments		**45.7**

The RE team sold Southgate Office Plaza and liquidated the Old Fund Portfolio in H1 FY09. The team is selectively testing the sales market for several portfolio assets but the anticipated probability of a sale is low.

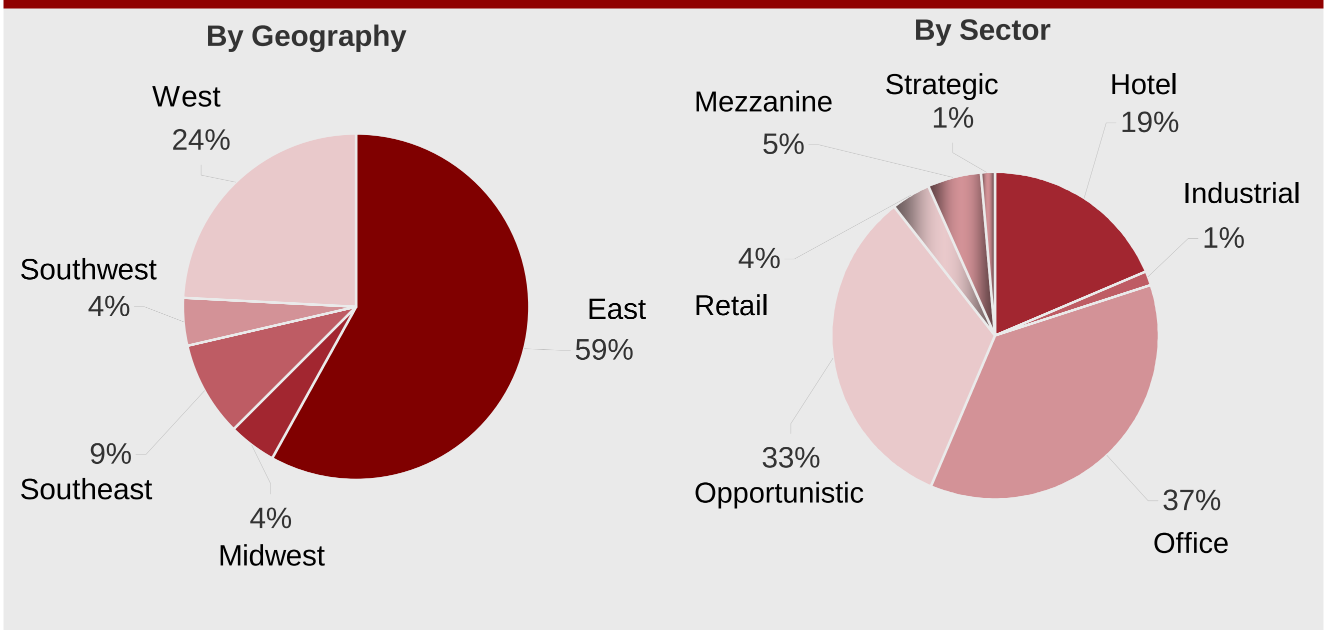
The focus is therefore on operations and maximizing cash flow until capital markets recover. Since Investcorp does not have defined holding periods for its portfolio investments, RE has the flexibility to hold properties for longer term value and continue to benefit from strong operating cash flow distributions.

Portfolio activities:

Investcorp continues to be primarily focused on income producing commercial real estate assets with no meaningful exposure to sub-prime or residential assets. Occupancy levels within the portfolio remain relatively high and rents are generally stable, although concessions are increasing. In certain markets, rents are declining. Assets generally remain well positioned within their respective marketplaces. However several smaller opportunistic condominium investments are lagging due to slowdowns in local markets. Portfolio cash yields remain generally stable although an increasing cap rate environment is putting downward pressure on asset valuations.

At December 2008, Investcorp's own RE balance sheet co-investment portfolio totaled $339 million (FY08: $337 million). This includes underwriting of $50 million warehoused for placement with clients in H2 FY09.

Investcorp's Real Estate Co-investments at Dec 31, 2008



Investcorp currently maintains 21 active investment portfolios of which 12 are on or ahead of investment plan while nine are behind plan as at December 2008.

The asset management team continues to focus on maximizing the value of its portfolio investments, in particular those that are lagging behind original expectations and hence face a challenging outlook. The most challenging portfolios presently are Opportunity II and III which have required $11.3 million of add-on capital due to cost increases and the market downturn in residential real estate.

The table below shows a classification of the current state of the 21 portfolios.

Outlook

Good / Steady		Challenging	
Investcorp Real Estate Credit Fund	Empire Mountain	Commercial V	Opportunity III
Bravern	Highgrove	Diversified II	Retail III
Commercial IV	Mezzanine Investments	Diversified V	Nassau Lakes
Diversified VI	Retail IV	Opportunity I	280 Park
Diversified VII	US Hotel	Opportunity II	
Diversified VIII	W South Beach		

In view the contraction in deal flow for the foreseeable future, the RE business closed its Los Angeles office in December.

Outlook:

Rising capitalization rates and longer holding periods will challenge initial return assumptions for deals bought in FY06 and FY07. Present capital markets conditions are likely to preclude meaningful sales activity in the near to medium-term. The team will however continue to look to sell properties where there is a downside skew on expected returns and will also focus on closing out portfolios that have been partially liquidated.

PORTFOLIO REVIEW

PRIVATE EQUITY US & EUROPEAN BUYOUT PORTFOLIO

Vintage 2005 investments

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

N&W

N&W is the market leader and only pan-European manufacturer of vending machines, offering a full suite of products in a market otherwise composed of smaller, regional players. N&W is over four times the size of its nearest competitor. The company manufactures (i) Hot & Cold vending machines that automatically prepare coffee, hot chocolate, tea and other drinks; (ii) Snack & Food vending machines; (iii) Can & Bottle vending machines; as well as (iv) fully-automatic coffee machines for hotels, restaurants and cafeterias; and (v) coffee machines for use in offices. N&W operates four state-of-the-art production facilities located in Italy, Denmark and China. Investcorp believes that the acquisition of N&W represents an attractive investment opportunity given: (i) its uncontested leadership and sustainable competitive advantage in the European vending machine market; (ii) its attractive growth potential thanks to favorable industry trends, and its privileged position 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 outstanding management team with consistent track record of budget out-performance and successful integration of acquisitions; and (v) various sources of further upside potential, including geographical expansion, cost efficiencies and add-on acquisitions.

The acquisition was closed in November 2008

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CEME is a global market leader in the manufacture of electrical and mechanical components for fluid control. CEME is the global number one 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 from steam generators continuing to gain share from traditional irons, as well as an increased penetration of condensing boilers in the 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 and vending machine markets; (iii) 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 Nespresso and Coca-Cola; continued screening of acquisition targets; developing/formalizing CEME's Industrial strategy and the build up of the finance function.

The acquisition was 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 the information in its extensive database and 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. While the business has performed well in 2008, it is too early to predict the full impact of the slowdown in the Finnish economy. Specific measures are being built into

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our Alignment Phase Program to counter the potential negative effects and drive future growth.

The acquisition was 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. In addition, through its Equipment Data Associates business ('EDA'), the company 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 rare 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 servicing its customers 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. The overall depressed economic environment has adversely impacted Randall-Reilly's performance, although Randall-Reilly has generally increased its market share in this difficult environment. In a challenging market environment, the company is focused on cost reduction and potential accretive and strategic acquisition opportunities.

The acquisition was closed in February 2008.

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Berlin Packaging is a leading supplier of rigid packaging in the United States. Through 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 of the packaging needs of many of its customers. The investment thesis underpinning the acquisition was based on: (i) expansion opportunities within existing markets; (ii) geographic expansion opportunities into new markets resulting from leveraging Berlin’s business model to enter new markets with minimal capital investment; (iii) enhancement potential 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, and tools have been developed and implemented to enhance sales management and performance. The company has also been actively pursuing potential acquisitions of smaller packaging businesses. Despite realizing attractive performance in 2008, general weakness in economic demand and softness is being experienced across Berlin’s end markets and the company is currently evaluating and implementing measures to enhance profitability, eliminate unnecessary expenses while continuing to realize attractive organic growth and market share gains.

The acquisition was 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. Through its pre-eminent market position, 160-year history, brand value and product range, Icopal has become a renowned reference point for architects and building owners across Europe when designing and specifying waterproofing solutions. The company’s products are primarily used for non-residential construction applications across Europe, with an increasing focus on the high growth markets of

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Central and Eastern 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 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. Due 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 taking remedial actions in parallel, including streamlining the company's manufacturing setup.

The acquisition was closed in July 2007.

MOODY INTERNATIONAL

Moody International is a leading global provider of technical inspection, technical staffing and technical training services to the oil and gas sectors, 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) includes on-site vendor inspection, construction inspection, expediting, fabrication inspection and maintenance inspection services to many of the world's leading oil and gas companies. 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

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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, driven by continued investment growth in the energy industry and increased globalization of the activities of the sector and suppliers to it, which helped Moody to deliver another year of record performance in 2008. Despite an anticipated decline in demand in 2009, as investment levels are curtailed moderately in response to recent declines in commodity prices and reduced availability of credit, the company anticipates a continuation of the oil and gas investment cycle over the medium term, as the longer-term issues of supply and production replenishment require continued high levels of investment to satisfy global demand for energy. The company continues to actively review further acquisition opportunities to complement Moody's organic growth profile.

The acquisition was closed in February 2007.

armacell
engineered foams

Armacell is a major supplier of engineered foams and expanded rubber products used in automotive, industrial, sports, leisure and recreation, packaging, construction and a wide range of custom applications. Based in Germany, with a network of 20 manufacturing facilities in 13 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 (in markets such as Asia, Central and Eastern Europe) from technical foams (profitability enhancements and attractive growth niches) and from potential add-on acquisitions. Since acquisition, Armacell has, in conjunction with a leading strategy consulting firm, launched numerous initiatives to extract the full potential of the company's core Technical Foams business. In addition, Armacell has established a dedicated business unit to drive penetration in Industrial, Marine as well as Petrochemical applications. To better serve the strong demand stemming from the Gulf region and neighboring countries, Armacell entered into a joint venture agreement with Zamil Industrial

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Investment Company in April 2008. Armacell holds 51% of the shares in the joint venture and production has started in Dammam (Saudi Arabia) in early 2009. Finally, the sales ramp-up of Armacell's innovative PET product, a core foam primarily used in wind turbine blades, is progressing promisingly. Armacell faces strong general headwinds in North America and the outlook in Western Europe is increasingly uncertain, with a more positive perspective in Emerging Markets (ranging from Brazil to China). Nonetheless, Armacell expects to continue to foster long term growth prospects in its business, with management having commenced numerous top line growth initiatives which have benefited from strategic input from Bain & Company.

The acquisition was closed in January 2007.

TimePartner

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 to capture the growth potential contemplated under the investment thesis. In November 2007, the company hired a new Chief Executive Officer with over 20 years of service industry experience. The company has also recently hired a new Chief Financial Officer and previously hired senior executives in Marketing, Controlling and Technology functions. An important element of TimePartner's growth plan involves strategic and 'tuck-in' acquisitions. To this end, TimePartner closed the acquisitions of IBB, a company specializing in the engineering sector; EMK Group, a regional provider of temporary staffing with a focus on southwest Germany; and Wilhelm Nord, a regional provider of temporary staffing in North Germany with foundry expertise. The company's financial performance in 2007 and 2008 was behind expectations due to loss of business as a result of owner succession and integration issues. Mitigating actions launched by management include a new regional sales organization, reinforcement of the company's management team and focus on cost control and pricing. Going forward, growth is expected to be driven by strategic initiatives launched by the company to drive implementation of best practices across the sales, finance and information technology functions, to drive key account strategy along with cross-selling initiatives and to push new customer acquisition. In March 2008, the owners of TimePartner, including Investcorp, provided additional equity capital of a total of €7 million in order to provide TimePartner with sufficient headroom to deliver on its organic growth plans and to pursue further add-on acquisitions. Due to the deterioration in the German economic environment,

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particularly in the second half of 2008, management is focusing on productivity of external personnel and reduction of internal cost. However, the company's trading performance in recent months was clearly affected by customers reducing their exposure to temporary staffing as they become affected by the current economic downturn. Therefore, the measures taken by management need to be seen against the backdrop of a very challenging short to medium-term outlook for the German economy in general and subsequently the staffing industry in particular.

The acquisition was closed in July 2006.

FleetPride
Heavy Duty Experts

FleetPride is the largest independent distributor of aftermarket heavy duty truck and trailer parts in the United States. Since acquisition, the company has launched several key strategic initiatives to enhance sales force and operational capabilities and to position the company 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 addition, market conditions have presented opportunities to make strategic acquisitions at attractive multiples. In 2008 FleetPride closed seven acquisitions representing $48 million in aggregate annual sales. One of FleetPride's most significant acquisitions was Keller Truck Parts, a leading heavy duty truck parts distributor in the Mid-Atlantic, which will give FleetPride presence in a region of the US that it has targeted for geographic expansion. In addition to Keller, the company has closed on acquisitions in Wyoming, Oklahoma, Oregon, New Mexico, New York and New Jersey. Going forward, 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. Through the additions of a new Chief Financial Officer and Vice President of Human Resources, the company continues to strengthen its organizational structure to be better positioned to drive its strategic plan. Overall demand in the industry continues to be impacted by a downturn in the trucking sector that started in late 2006 and continued through 2008. However, all available industry data

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indicates that FleetPride continues to perform better than the overall market and realize market share gains.

The acquisition was closed in June 2006.

Orexad (formerly 'Orefi') was formed from the merger of Orefi and AD Industrie to create the largest distributor of industrial supplies in France. In November 2007, Orexad acquired Anjac, the third largest distributor of industrial supplies in France. Orexad now has over 247 distribution outlets, including 67 distribution outlets 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 continues to pursue strategic as well as 'tuck-in' acquisitions with the intention of expanding its base across Europe and is currently evaluating further acquisition opportunities (in particular outside France) to take advantage of possibly 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 being the trend in industrial production. While the business performed well in 2008, the general economic slowdown started to impact demand for the company's products in the last quarter. Expecting a continued slowdown in 2009, management is in the process of implementing cost savings initiatives and commercial action plans to face the downturn.

The acquisition was closed in June 2006.

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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. Management, in conjunction with Investcorp, are currently implementing a number of initiatives aimed at transforming the company's business model from a wholesaler into a proactive multi-specialist distributor and accelerating the company's profitability improvement going forward. AD has suffered in the last six months of Fiscal 2008 from increasingly challenging conditions in the auto and truck spare parts markets, which have caused a severe decline in its revenues, EBITDA, cash flows and liquidity. The company has consequently breached its financial covenants in September 2008 and is currently in discussions with its Lenders regarding a full balance sheet restructuring.

The acquisition was 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 and Mitchell International (a

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leading provider of information, workflow and performance management solutions to the insurance claims and automotive repair industries) announced the signing of a definitive agreement under which they will combine in a 'merger of equals' transaction valued at $1.4 billion. The combined company is expected to bring the following benefits: (i) an expanded communication network to deliver greater connectivity between insurers, repair facilities and other industry service providers and suppliers; (ii) expanded research and development resources and a greater ability to enhance current products and services, deliver new technology-based claims solutions, and provide faster time-to-market product delivery; (iii) an expanded sales and service organization, providing broader and better customer service; (iv) a larger and more comprehensive data warehouse that will improve the company's ability to deliver industry insights through benchmarking, data analytics, and predictive modelling; and (v) a broad and widely used portfolio of claims and collision repair solutions from one provider. The transaction is subject to completion of regulatory (anti-trust) proceedings, satisfaction of customary closing conditions, and completion of financing.

The acquisition was closed in February 2006.

Polyconcept

Based in the Netherlands, ***Polyconcept*** is the world's largest supplier of promotional products following the combination 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 of Bullet Line (August 2006) which, in conjunction with GPG, created the largest US supplier of non-wearable promotional products, and Journal Books (July 2007), a leading US promotional products supplier specialized in calendars. Management continues to consider several potential add-on acquisitions to expand its product offering and customer reach. The company has also launched a number of key strategic initiatives, including the introduction of product decoration services in Europe. The latter part of 2008 has seen a pronounced market slowdown, particularly in the US. As a result, management is adjusting its cost base and improving its sales and marketing effort to offset the sales decline. To this end, management continues to focus on sales and marketing actions, including cross-referencing of products and best practice sharing and benchmarking between the various entities, and improving client base analysis and

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customer segmentation. These initiatives are expected to allow the company to continue gaining market share to limit the impact of the slowdown and generating consistent sales and profitability.

The acquisition was 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 recently closing on the acquisition of Am-Pac Tire Distributors (one of ATD's largest competitors) for $75 million, which is expected to generate pro forma EBITDA of $24 million. American Tire remains focused on medium-term strategic objectives to drive revenue and profitability. American Tire believes the strong growth in HP/UHP tires will continue and believes that the company is well positioned to continue to benefit from the new demand. American Tire keeps growing in excess of market both organically, leveraging scale and superior distribution capabilities to take market share, and through acquisitions. The company continues to build a pipeline of attractive acquisitions that are in-market or in new geographies and maintains adequate liquidity and resources to seize opportunities as they arise. The biggest issue facing ATD is the effect of the overall economy on replacement tire demand as consumers may be forced to defer purchases in the short-term. RMA data through November 2008 indicated that industry demand was down 7-8% in 2008. However, despite the softness in the industry, ATD still managed to grow EBITDA over 12% in 2008. Additionally, ATD should be in the ideal position to benefit from pent-up demand once the industry inevitably bounces back.

The acquisition was closed in March 2005

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Vintage 2001 investments

ASSOCIATED MATERIALS INCORPORATED

Associated Materials is a leading manufacturer and distributor of exterior residential building products based in the US. Industry analysts believe that the evolving slowdown in the housing market represents an ongoing adjustment toward more sustainable levels of housing production, following the record surge in the prior few years that was fueled by extraordinary demand for single-family homes and condominium units by investors. In this context, 2009 is likely to be another challenging year for the building products market and the company as there is still a significant overhang of supply that will continue to impact new construction activity. Although the company has been able to partially offset the impact of the market slow-down with cost saving and operational initiatives, top-line growth and medium-term investment value creation will continue to represent a significant challenge in 2009.

The acquisition was closed in December 2004.

SourceMedia

SourceMedia, headquartered in the US, provides market information, including news, analysis and insight to the financial services and related industries, such as accounting and technology, 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. SourceMedia is currently facing a cyclical downturn in its key financial services vertical markets, most notably the mortgage sector, with attendant challenges for the top and bottom lines. Growth in the core markets has become increasingly challenging, and the accelerating decline of print advertising has raised the level of urgency of transitioning the business and growing non-print revenues at a higher rate. 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 and positioning the company for when markets improve. Accuity is a leading provider of subscription-

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based data solutions that enable financial institutions, corporations and other organizations to facilitate accurate and efficient payment transactions and to manage their risk by ensuring that they and their clients are in regulatory compliance. 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 including the recent acquisition of CB NET Services Limited, a London based international payment efficiency company, which will strengthen its European presence.

The acquisition was closed in November 2004.

ESI EnviroSolutions, Inc.

EnviroSolutions is a provider of solid waste management solutions based in the USA. With the completion of the build-out of its two municipal solid waste ('MSW') landfills, Big Run and Copper Ridge, the company continues to make progress in building an integrated solid waste management business. The company also purchased DART, a permitted but undeveloped MSW landfill transfer and transload site which further solidifies the company's position to bid on waste volumes in the Northeast area and strengthens its ability to rail transload waste to its landfills. Going forward, management is focused on securing additional waste volumes for the company's landfills, either through acquisition or disposal agreements with third parties. In May 2008, ESI completed a recapitalization, in which the Investcorp Group provided additional preferred equity capital of $30 million, to help fund two near-term, value-enhancing growth capital requirements for the business: (i) a deferred purchase obligation tied to the approved expansion of the Big Run Landfill and (ii) the build out of the DART transfer station in Northern New Jersey. The overall industry remains relatively stable driven by continued price increases instituted by the majors despite the cyclical downturn that is affecting volumes. ESI has been impacted 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. The current focus of the ESI management team is on short-term action to grow volumes, implement strategic price increases and control costs to help mitigate the slowing economy.

The acquisition was closed in December 2003.

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PLAYPOWER

PlayPower is a leading global manufacturer of commercial playground systems and outdoor recreational equipment. The company is headquartered in the US., however, approximately 50% of revenue is derived from markets outside the US, most notably Europe. The US market for playground equipment exhibited negative trends in the second half of 2008 due to challenging economic conditions. In Europe, PlayPower's commercial playground businesses achieved growth in both the first and second half of 2008. The key issue facing the company is the impact of challenging economic conditions in both the US and Europe on the company's business. The company is pursuing a number of key initiatives to lower its cost structure given the current market environment. 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 was closed in December 2002.

aero

Aero Products International, based in the US, is a leading designer and marketer of high-end air-filled beds, pools and other leisure products that utilize Aero's patented pump and valve technology. Under new management, Aero has developed a business plan focused on new product innovation, domestic and international sales growth through expanded market focus, a revamped marketing initiative and improved purchase and overhead management. The slowing US economy with increasing financial pressures on consumers is expected to negatively impact demand for Aero's products in 2009. Somewhat offsetting this, however, is Aero's recent placement into Wal-Mart which should positively affect the company's performance in 2009. Overall, Aero faces a challenging set of circumstances in the near-term and has undertaken significant

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cost reduction and cost containment efforts while still investing as necessary to position it for long term growth and market penetration.

The acquisition was closed in December 2002.

Vintage 1997 investments

TelePacific, based in the US., continues to maintain an attractive growth trajectory both in terms of scale of operations and growth of existing business against the background of good long-term growth prospects for the competitive local exchange carrier ('CLEC') industry. TelePacific continues to realize year-on-year improvement evidenced by the company's revenue growth, customer additions and low customer churn, all among the best in the CLEC industry. TelePacific's acquisitions, Arrival Communications, Pac-West and MPower, are on the whole proving to be significantly revenue and margin accretive, resulting in an overall positive outlook for the company. Industry dynamics from both a regulatory and competitive standpoint continue to remain stable. Similar to TelePacific, nearly all companies in the sector operating on the west coast have experienced moderate increases in customer churn due to the current downturn in the financial and real estate sector, as there is a relatively high concentration of mortgage and real estate businesses in California. However, the company continues to leverage its value proposition in the marketplace to drive new customer additions and market share gains. Improving customer churn through superior customer care initiatives also continues to be a major priority. Lastly, TelePacific will be extremely focused on cost containment initiatives in 2009 and is evaluating measures to reduce its discretionary spending.

The acquisition was closed in April 2000.

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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 using virtualization technology.

The acquisition was 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. Over the past few months, both the UK Biologics plant and the US Oligos plant have been inspected by the FDA and successfully passed the inspections. This key achievement is expected to improve the rate of capture of business and ultimately enhance profitability. On the back of this key milestone for the business, management is currently exploring a sale process.

The acquisition was closed in June 1999.

Each Vintage covers a period of four calendar years starting with that year e.g., Vintage 2001 covers deals acquired between calendar years 2001 and 2004, both inclusive. This is done for illustration to conform to industry practice for PE funds that typically get invested over 4 years

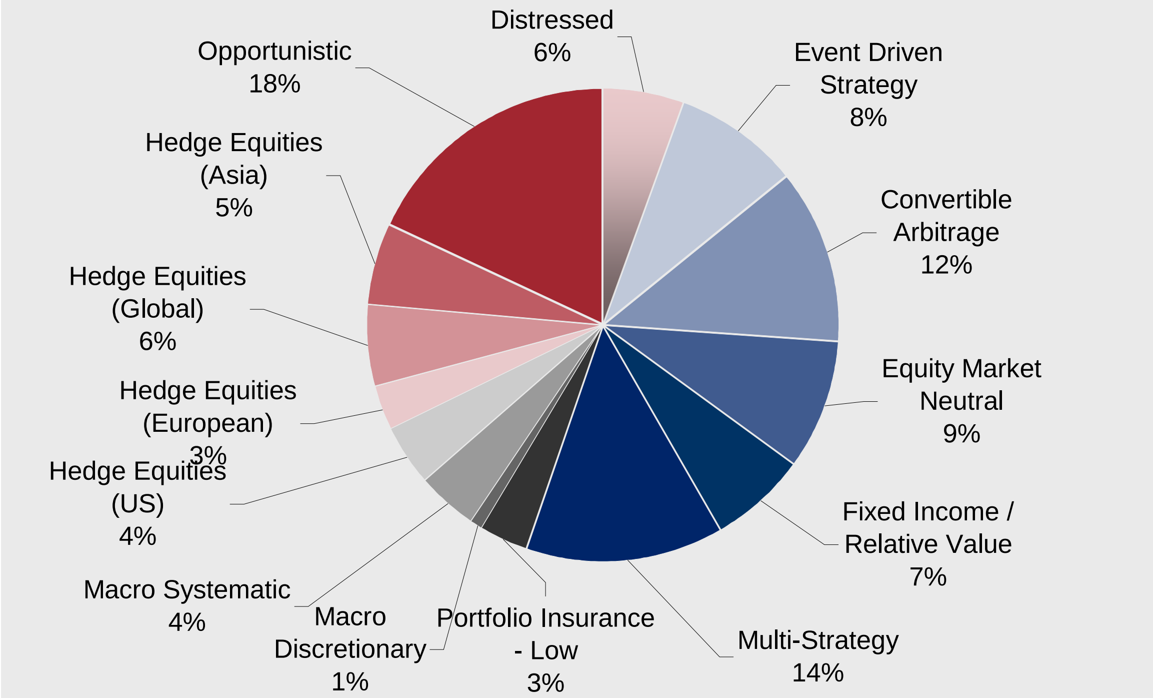
PRIVATE EQUITY – TECHNOLOGY SMALL-CAP PORTFOLIO

Investment	Investment Theme	Location	Stage	Fund Investment ($ m)	Investcorp's Exposure ($ m)
Fund I (Size: $230 m)				**51.2**	**5.1**
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)				**176.2**	**19.0**
Antares	Communications Infrastructure Products	US	Late	27.0	
Dialogic		US	Late	30.0	
Kentrox		US	Mid	20.7	
Magnum	Digital Content Enablement	US	Late	21.4	
Moneybookers		Europe	Late	16.4	
Zeta Interactive		US	Late	27.0	
Kgb (InfoNXX)	Enterprise Software and Technology Outsourcing	US	Late	15.0	
InnerWireless (PanGo)	Mobile Data Technologies and Applications	US	Early	7.3	
Ubicom		US	Mid	11.4	
Fund III (Size: $500 m)				**103.0**	**15.0**
Utimaco* / Sophos	Enterprise Software and Technology Outsourcing	Europe	Late	21.0	
TDX		Europe	Late	42.0	
FleetMatics	Mobile Data Technologies and Applications	US	Late	40.0	
Total Unrealized Portfolio				**330.4**	**39.1**

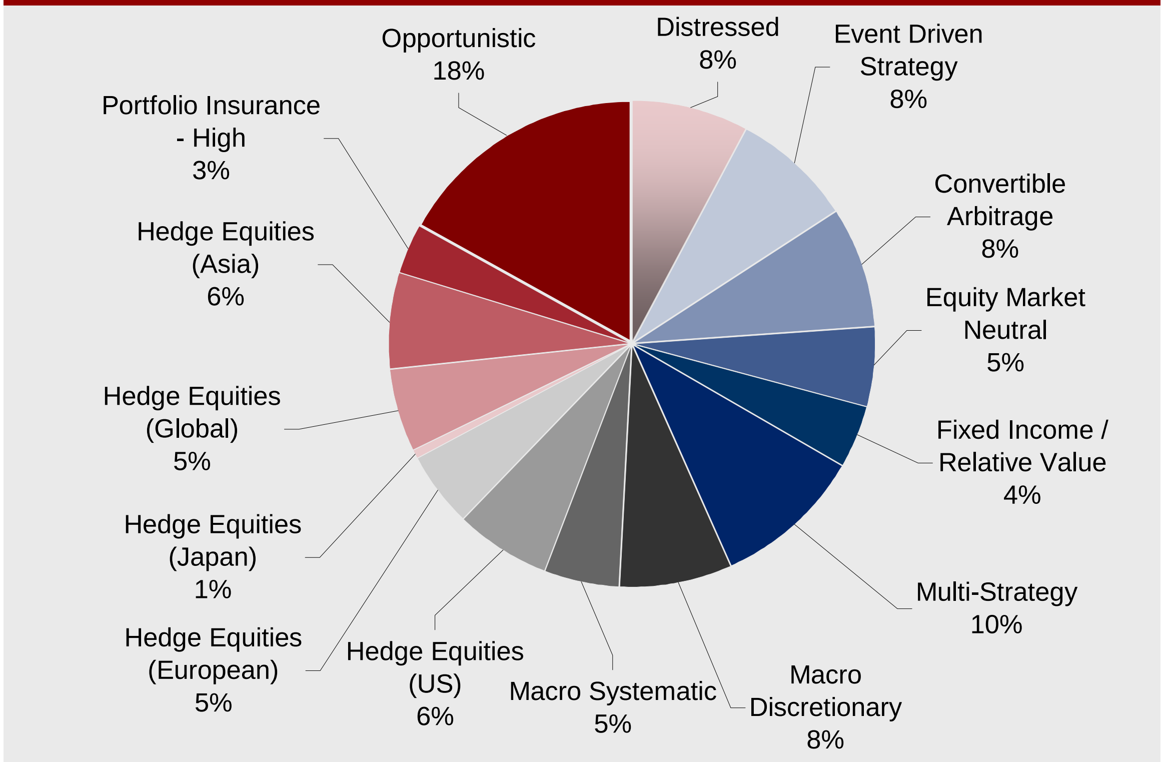
* Publicly listed investments

HEDGE FUNDS STRATEGY ALLOCATIONS

DSF: Dec 31, 2008



IBF: Dec 31, 2008



HEDGE FUNDS ASSETS UNDER MANAGEMENT

$ millions	H1 FY09	FY08
Clients		
Diversified FoF	889	1,438
Theme FoF	197	412
Structured Products	237	1,418
Customized Accounts	572	639
Single Manager Platform	1,163	1,641
Total Client AUM	**3,059**	**5,549**
Proprietary Co-investments		
Fund of Funds (FoF)	569	1,536
Single Manager Platform	459	529
Total Proprietary Co-investments	**1,028**	**2,065**
Affiliates	**26**	**305**
Grand Total	**4,113**	**7,920**

HEDGE FUNDS SINGLE MANAGER PROGRAM – PORTFOLIO INVESTMENTS

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

REAL ESTATE PORTFOLIO

Real estate vintage years coincide with July to June cycle of each fiscal year.

Investcorp Co-Investment by Year, $m	Transaction Size	Properties Original / Current	Sector (of remaining properties)	Geographic Location (of remaining properties)*	Carrying Value, as of 31 Dec, 2008
Diversified II	99	7 / 3	Office & Industrial	W	0.9
Vintage FY 03	**99**				**0.9**
Empire Mountain Village	142	1 / 1	Opportunistic	W	0.1
Vintage FY 04	**142**				**0.1**
Commercial IV	392	12 / 8	Office	E	1.1
Diversified V	145	5 / 1	Office	E	0.5
West South Beach	345	1 / 1	Opportunistic	SE	3.2
Opportunity I	92	3 / 2	Opportunistic	E / SE	5.4
Nassau Lakes	25	1 / 1	Opportunistic	SE	2.5
Vintage FY 05	**998**				**12.8**
Commercial V	256	3 / 3	Office & Retail	E / SE	24.3
Retail III	239	8 / 8	Retail	MW	1.7
Retail IV	407	29 / 23	Retail	SW	2.0
Opportunity II	97	3 / 3	Opportunistic	W / SE	16.2
Opportunity III	284	3 / 3	Opportunistic	E / SE	22.2
Vintage FY 06	**1,283**				**66.3**
Diversified VI	279	2 / 2	Retail & Hotel	SE / SW / MW	3.6
Diversified VII	209	4 / 4	Industrial / Office / Hotel	E / MW	11.6
Hotel**	450	9 / 9	Hotel	E / SE / SW / MW	8.2
Bravern	893	1 / 1	Opportunistic	W	22.5
Vintage FY 07	**1,831**				**46.0**
280 Park Avenue	1,459	1 / 1	Office	E	78.6
Diversified VIII	258	5 / 5	Office / Hotel	W / SW / MW / SE	33.6
Highgrove	148	1 / 1	Opportunistic	E	4.9
Weststate	388	1 / 1	Opportunistic	W	34.8
Best Western	176	1 / 1	Hotel	E	37.7
Vintage FY 08	**2,428**				**189.6**
Mezzanine Investments	1,108	n.a.			18.2
Strategic Investments	n.a.	n.a.			4.8
Others	**1,108**	**n.a.**			**22.9**
Total * **	**7,889**	**82**			**338.6**

* W=West, E=East, SW =Southwest, SE=Southeast, MW=Midwest
** Includes Norfolk Marriott Waterside acquisition from FY08
*** Includes $50 million worth of properties underwritten for placement

Important Disclosures

The information set forth herein relating to Investcorp's funds should not be construed as an investment recommendation nor does it constitute an offer to sell or the solicitation of any offer to buy interests in any fund.

To our knowledge, there is no standard methodology for the calculation of internal rates of return for private equity type investments. The use of any other methodology than the one used by Investcorp may result in a different, and possibly lower, internal rate of return. Net client returns for Private Equity, Real Estate and Technology Small-Cap investments mentioned in this document are for both realized investments and unrealized investments at fair value as of the indicated investment end date.

Hedge fund investments are speculative in nature and involve a high degree of risk. There can be no assurance that a hedge fund's investment objectives will be achieved and investment results may vary substantially over time. Investments in hedge funds are not intended to be a complete investment program for any investor. There is no secondary market for an investor's interest in hedge funds, and none is expected to develop. Hedge funds are generally not registered under the US Investment Company Act of 1940 and, accordingly, are not extensively regulated. Opportunities for redemption and transferability of interests are restricted, so investors may not have access to capital when it is needed. Leverage may be employed in hedge funds, which can make investment performance volatile. Valuation of the securities in hedge funds may involve uncertainties and the exercise of judgment and could adversely affect the value of any investment in hedge funds. An investor should not make an investment in hedge funds unless the investor is prepared to lose all or a substantial portion of its investment. The fees and expenses charged in connection with this investment may be higher than the fees and expenses of other investment alternatives and may offset profits. Funds that are recently formed have limited operating histories upon which investors can rely. For a comprehensive list of risk factors, an investor must review the risk factors as specified in the related confidential information memorandum for a specific fund, which will be made available upon request.

The information appearing in this document is accurate only as of the date indicated on this document. Investcorp's business, financial condition, results of operations and prospects may change subsequent to the date of this document. References to past performance contained in this document are not necessarily indicative of future results.

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In all cases where historical performance is presented, please note that past performance is not a reliable indicator of future results.

As a regulated bank in Bahrain, Investcorp Bank B.S.C. cannot disclose any of its clients' names.

Contact us

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Please visit the investor relations section of our website http://www.investcorp.com for the most recent investor relations information, including recent annual and mid-year reports, presentations, press releases and financial news. If you would prefer to receive future shareholder communications electronically, including the annual and other reports and notices, please let us know via the above email address.