

Message to Shareholders

The Board of Directors of Investcorp is pleased to submit the consolidated audited financial statements for Investcorp's fiscal year ended June 30, 2014

Investcorp is pleased to report net income of \$131.2 million, reflecting significant growth of 25% over the prior year (FY13:\$104.9 million), with a return on equity (ROE) of 16%, and a very significant 84% growth in fully diluted earnings per share. High levels of acquisition, realization and placement activity during the fiscal year are a key driver of this strong performance, reflecting stable and growing appetite from the Firm's investors for attractive alternative investments around the world.

This fiscal year marks five consecutive years of profitability for Investcorp following the global financial crisis of FY09. Over the last five years, despite turbulent markets, Investcorp has continued to invest in its business, its investor franchise and its product capabilities, adding people and expanding its office network to put in place a robust platform to support its recovery and growth trajectory. This has been further supplemented by prudent financial management, with significant de-risking and strengthening of the Firm's balance sheet. Relative to the beginning of FY09, balance sheet leverage has come down by more than 50 per cent to 1.2x and capital adequacy has gone up by more than 60 per cent to 30.4%.

Since the end of FY09, Investcorp has seen its book value per ordinary share grow by 64%, while delivering aggregate earnings of \$401 per ordinary share and an average return on equity of 11.4% per annum. Total realization proceeds over the five year period exceeded \$5.7 billion, with total fundraising of over \$7 billion. Total capital deployed over this period reached \$3 billion and deal-by-deal placements totalled over \$2.5 billion. Through the financial crisis and beyond Investcorp has built a strong, sustainable platform that we believe has positioned it optimally to deliver continued strong performance for all stakeholders.

The Firm's performance in FY14 is a continuation of this five year trajectory, and reflects a successful business model which forms a bridge for its clients into attractive corporate, real estate and hedge fund investment opportunities in the US, Europe and the Gulf.

Total fee income in FY14 grew to \$343.9 million, up 4% over the prior year. Investcorp raised more than \$1.9 billion in new funds from clients during the year, 21% higher than last year and marking a continued increase in fund raising since FY08. Gulf fundraising for the period was \$971 million representing a 29% increase over FY13 (\$751 million).

Asset-based income of \$47.6 million represented a 48% increase over the prior year, driven by successful realizations and solid growth in the value of the corporate investment portfolio. Asset based income was also buoyed by hedge fund returns, which generated \$28.2 million and continued to benefit from a more positive macroeconomic environment compared to FY13.

Overall, gross operating income for FY14 was up 8% to \$391.5 million. Operating expenses for the period increased by a modest 6% to \$198.4 million despite a significant increase in overall profitability, demonstrating a prudent and thoughtful approach towards managing overall costs and the benefit of increased scale.

Activity across each segment of Investcorp's business was strong. Corporate Investment placement activity totalled \$571

million, a 16% increase over FY13; real estate placement was \$285 million, representing a 42% increase over FY13; and new hedge fund subscriptions primarily from institutional investors were approximately \$1 billion with total hedge fund assets under management reaching the key milestone of \$5 billion.

Taking into consideration evolving challenges in pockets of the global economy, Investcorp continued to identify select acquisitions, which it believes can deliver superior risk-adjusted returns to clients. In FY14, Investcorp invested a total of \$678 million in corporate investments, of which \$609 million was deployed in five new deals that included Tyrrells English Crisps, a premium manufacturer of crisps; Paper Source, a multi-channel retailer offering a selection of uniquely designed and curated gifts and stationery; Namet, the leading Turkish producer of fresh cut and packaged processed red meat products; Totes>>Istoner Corporation, a leading global designer, marketer and distributor of functional accessories and SPG Prints, a Dutch-based global manufacturer of consumables for printed textiles, labels and other industries.

Investments in two Saudi Arabia-based companies, Theeb Rent a Car, one of Saudi Arabia's leading car rental companies, and Leejam Sports Company JSC, one of the leading health and fitness club management companies in the country (operates under the Fitness Time brand name), were closed in FY13 and announced this fiscal year.

Investcorp continues to focus on the acquisition of core and core-plus real estate situated in the 30 largest and most diversified markets in the US. During the fiscal year, the Firm invested \$312 million in real estate properties; of which \$285 million was deployed in new investments across six portfolios. In keeping with the Firm's real estate strategy, the investments were primarily in commercial, office and residential properties in key U.S. growth markets, including California, Florida, Illinois, Minnesota, Nevada, and Texas.

Within the hedge fund business, Investcorp entered a strategic relationship with London-based Eyck Capital Management LLC to provide it with acceleration capital while offering Investcorp and its investors access to a specialized event-driven and distressed credit strategy spanning Europe. Following the success of Investcorp's Special Opportunities Portfolio II or "SOP II", Investcorp launched the Special Opportunities Portfolio III ("SOP III") in September 2013 to meet additional client demand. The key theme and objectives for both SOP II and SOP III, are to capitalize on continued improvement in the US commercial mortgage-backed securities market. Investcorp has also launched the Special Opportunities Portfolio IV ("SOP IV") with the objective of providing investors access to the US residential non-performing loans market. Investcorp has partnered with a specialist firm which it believes can purchase these assets at an attractive price and has the operational and restructuring expertise to extract surplus value.

For FY14, Investcorp returned approximately \$1.3 billion in proceeds from realizations and distributions. Eight corporate investment realizations took place in FY14, including Armacell, which saw sales increase by 30% through Investcorp's work with the management team to grow the business organically and expand into new geographic markets; the partial realization of Skrill Group (formerly Moneybookers) which has grown EBITDA from €3.7 million to €50 million during Investcorp's ownership; and the final sale of Fleetmatics, which Investcorp had listed on the NYSE in late 2012.

In the Firm's real estate division, successful realizations included

a medical office building in the Bethesda Health Centre in Florida; the remaining interest in The Bravern in Washington State, which is comprised of two 29-story residential condominium towers; Ashford, a garden and townhouse style apartment complex in Georgia; and State Farm Drive, a large office property in North Carolina.

Investcorp's balance sheet profile continues to be robust with accessible liquidity of approximately \$700 million, fully covering all medium and long term debt maturing over the next four years. Total assets as of June 30, 2014 were \$2.3 billion. The Firm's capital adequacy ratio stands at 30.4%, well in excess of the Central Bank of Bahrain's minimum requirement of 12%. Investcorp's pro-forma Basel III capital adequacy was 29.8%.

During the fiscal year, Investcorp successfully issued a 125 million Swiss Franc (\$140 million) bond, which was the first Swiss franc bond issued by a Bahrain-based company. The bond issue was an important strategic step for Investcorp as it opens up another channel for funding in the international capital markets after the Firm's dollar debut two years ago. Investcorp also signed a \$400 million Revolving Credit Facility with a syndicate of 14 relationship banks, that attracted more than \$650 million in commitments. The new facility replaced Investcorp's existing 3-year multi-currency bank facility that was maturing in September 2015 and extended the tenor to over four years.

The Board of Directors has proposed a dividend of \$15.00 per ordinary share, along with the full dividend of 12% on the preference shares.

During this fiscal year, Investcorp has continued to invest in its people and infrastructure – with several new strategic hires, including Lionel Erdely as Head of Hedge Funds and Gary Appel as Vice Chairman, Corporate Investment North America. The year also saw Investcorp further enhance its Gulf presence with a new office in Abu Dhabi, in addition to its existing offices in Riyadh and Bahrain. Investcorp also organised several successful investor-focused events and conferences in Bahrain, Abu Dhabi and Berlin.

Strong on-going support from Investcorp's clients, shareholders and strategic partners continue to play a crucial role in the Firm's success. Investcorp prides itself on the high quality of its talented employees around the world who contribute in the success of the Firm today and will continue to do so in the future.

The Investcorp Board would like to thank the entire Investcorp family for their loyal and continued patronage over the last 31 years and in particular a special thank you to the Central Bank of Bahrain for its unwavering support, which, as always, is greatly appreciated.

Signed on behalf of the Board of Directors

Abdul-Rahman Salim Al-Ateeqi
Chairman of the Board

Nemir A. Kirdar
Executive Chairman & CEO

August 3, 2014

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED JUNE 30, 2014		
\$000s	2014	2013
FEE INCOME		
AUM fees	77,658	88,795
Deal fees	266,228	240,738
<i>Fee income (a)</i>	343,886	329,533
ASSET BASED INCOME		
Hedge funds	28,197	25,307
Corporate investment	23,760	256
Real estate investment	(7,813)	125
Treasury and other asset based income	3,434	6,556
<i>Asset based income (b)</i>	47,578	32,244
Gross operating income (a) + (b)	391,464	361,777
Provisions for impairment	(1,371)	(5,424)
Interest expense	(60,555)	(63,475)
Operating expenses	(198,367)	(187,998)
NET INCOME	131,171	104,880
Basic earnings per ordinary share (\$)	132	72
Fully diluted earnings per ordinary share (\$)	129	70

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2014		
\$000s	2014	2013
NET INCOME	131,171	104,880
Other comprehensive income that could be recycled to statement of income		
Fair value movements - available for sale investments	(1,181)	(61)
Fair value movements - cash flow hedges	1,931	(12,536)
Other comprehensive income (loss)	750	(12,597)
TOTAL COMPREHENSIVE INCOME	131,921	92,283

CONTACT DETAILS

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INVESTCORP

FINANCIAL RESULTS FOR YEAR ENDED JUNE 30, 2014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2014

	Preference share capital	Ordinary share capital	Reserves			Treasury shares	Retained earnings	Proposed appropriations	Unrealized fair value changes and revaluation reserve recognized directly in equity				Total equity
			Share premium	Statutory reserve	Total				Available for sale investments	Cash flow hedges	Revaluation reserve on premises and equipment	Total	
\$000s													
Balance at July 1, 2012	511,465	200,000	133,046	100,000	233,046	(163,575)	183,538	66,096	2,727	4,622	5,824	13,173	1,043,743
Total comprehensive income / (loss)	-	-	-	-	-	-	104,880	-	(61)	(12,536)	-	(12,597)	92,283
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	230	-	-	-	(230)	(230)	-
Treasury shares (purchased) / vested during the year - net	-	-	-	-	-	(3,601)	-	-	-	-	-	-	(3,601)
Loss on sale of treasury shares	-	-	(3,625)	-	(3,625)	3,625	-	-	-	-	-	-	-
Approved appropriations for fiscal 2012 paid:													
Preference share dividend	-	-	-	-	-	-	-	(61,376)	-	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	(4,720)	-	-	-	-	(4,720)
Proposed charitable contributions by shareholders	-	-	-	-	-	-	(4,500)	4,500	-	-	-	-	-
Proposed preference share dividend	-	-	-	-	-	-	(61,376)	61,376	-	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	(9,304)	9,304	-	-	-	-	-
Balance at June 30, 2013	511,465	200,000	129,421	100,000	229,421	(163,551)	213,468	75,180	2,666	(7,914)	5,594	346	1,066,329
Total comprehensive income / (loss)	-	-	-	-	-	-	131,171	-	(1,181)	1,931	-	750	131,921
Preference shares purchased during the year	(120,243)	-	(6,000)	-	(6,000)	-	-	-	-	-	-	-	(126,243)
Depreciation on revaluation reserve transferred to retained earnings	-	-	-	-	-	-	230	-	-	-	(230)	(230)	-
Treasury shares (purchased) / vested during the year - net	-	-	-	-	-	(2,175)	-	-	-	-	-	-	(2,175)
Loss on sale of treasury shares	-	-	(7,514)	-	(7,514)	7,514	-	-	-	-	-	-	-
Approved appropriations for fiscal 2013 paid:													
Preference share dividend	-	-	-	-	-	-	-	(61,376)	-	-	-	-	(61,376)
Ordinary share dividend	-	-	-	-	-	-	-	(9,304)	-	-	-	-	(9,304)
Charitable contribution paid	-	-	-	-	-	-	-	(4,500)	-	-	-	-	(4,500)
Proposed charitable contributions by shareholders	-	-	-	-	-	-	(4,500)	4,500	-	-	-	-	-
Proposed preference share dividend	-	-	-	-	-	-	(49,376)	49,376	-	-	-	-	-
Proposed ordinary share dividend	-	-	-	-	-	-	(9,413)	9,413	-	-	-	-	-
Balance at June 30, 2014	391,222	200,000	115,907	100,000	215,907	(158,212)	281,580	63,289	1,485	(5,983)	5,364	866	994,652

CONSOLIDATED BALANCE SHEET

June 30, 2014

\$000s	June 30, 2014	June 30, 2013
ASSETS		
Cash and short-term funds	101,262	101,906
Placements with financial institutions and other liquid assets	125,944	453,105
Positive fair value of derivatives	66,570	62,811
Receivables and prepayments	206,309	283,004
Advances	128,832	146,975
Underwritten investments	112,372	33,000
<u>Co-investments</u>		
Hedge funds	476,418	315,762
Corporate investment	910,807	873,609
Real estate investment	130,017	156,505
Total co-investments	1,517,242	1,345,876
Premises, equipment and other assets	45,591	50,652
TOTAL ASSETS	2,304,122	2,477,329
LIABILITIES AND EQUITY		
LIABILITIES		
Term and institutional borrowings	135,683	128,326
Clients investment accounts	95,831	189,818
Payables and accrued expenses	170,499	148,286
Negative fair value of derivatives	25,157	43,003
Medium-term debt	474,165	482,489
Long-term debt	408,135	419,078
TOTAL LIABILITIES	1,309,470	1,411,000
EQUITY		
Preference share capital	391,222	511,465
Ordinary shares at par value	200,000	200,000
Reserves	215,907	229,421
Treasury shares	(158,212)	(163,551)
Retained earnings	281,580	213,468
<i>Ordinary shareholders' equity excluding proposed appropriations and unrealized fair value changes and revaluation reserve recognized directly in equity</i>	539,275	479,338
Proposed appropriations	63,289	75,180
Unrealized fair value changes and revaluation reserve recognized directly in equity	866	346
TOTAL EQUITY	994,652	1,066,329
TOTAL LIABILITIES AND EQUITY	2,304,122	2,477,329

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

\$000s	2014	2013
OPERATING ACTIVITIES		
Net income	131,171	104,880
Adjustments for non-cash items in net income		
Depreciation	7,271	7,100
Provisions for impairment	1,371	5,424
Amortization of transaction costs of borrowings	7,225	7,891
Employee share awards expense	9,300	5,826
Net income adjusted for non-cash items	156,338	131,121
Changes in:		
Operating capital		
Placements with financial institutions and other liquid assets (non-cash equivalent)	46,880	(43,880)
Receivables and prepayments	76,623	(2,093)
Advances	16,844	39,880
Underwritten investments	(79,372)	112,164
Client investment accounts	(93,987)	95,684
Payables and accrued expenses	22,213	(66,146)
Co-investments		
Hedge funds - net of secured financing	(107,063)	54,512
Corporate investment	(38,379)	202,956
Real estate investment	26,488	(2,045)
Fair value of derivatives	58	(115,877)
Other assets	150	(249)
NET CASH FROM OPERATING ACTIVITIES	26,793	406,027
FINANCING ACTIVITIES		
Term and institutional borrowings	7,357	(102,137)
Medium-term debt issued (net of transaction costs)	178,146	480,079
Medium-term debt repaid	(251,713)	(524,703)
Long-term debt repaid	(26,250)	(20,000)
Treasury shares purchased - net	(11,475)	(9,427)
Preference shares purchased	(126,243)	-
Dividends paid	(70,680)	(66,096)
Charitable contributions paid	(4,500)	-
NET CASH USED IN FINANCING ACTIVITIES	(305,358)	(242,284)
INVESTING ACTIVITY		
Investment in premises and equipment	(2,360)	(3,431)
NET CASH USED IN INVESTING ACTIVITY	(2,360)	(3,431)
Net (decrease) increase in cash and cash equivalents	(280,925)	160,312
Cash and cash equivalents at beginning of the year	508,131	347,819
Cash and cash equivalents at end of the year	227,206	508,131
Cash and cash equivalents comprise:		
Cash and short-term funds	28,230	48,181
Cash in transit	73,032	53,725
Placements with financial institutions and other liquid assets	125,944	406,225
	227,206	508,131
* In addition to the above, the Group has undrawn and available balance of \$464.89 million (June 30, 2013: \$246.42 million) from its revolving medium term facilities.		
Additional cash flow information		
Interest paid	(61,860)	(55,782)
Interest received	9,681	18,177