Quarterly Shareholder Update

Q1 FY2014
(QUARTER ENDED 30 SEPTEMBER 2013)

Our successful track record is the result of the skill, dedication, vision and creativity of our outstanding people, who have been drawn from a global pool of talent. They ensure that we continue our mission to excel in every one of our chosen markets, products and business areas. Looking ahead, we are determined to maintain the clarity of our direction. We will continue to focus our creative energy on maximizing our ever-expanding potential and maintaining our cutting-edge competitive advantage. Nemir A. Kirdar, Executive Chairman & CEO

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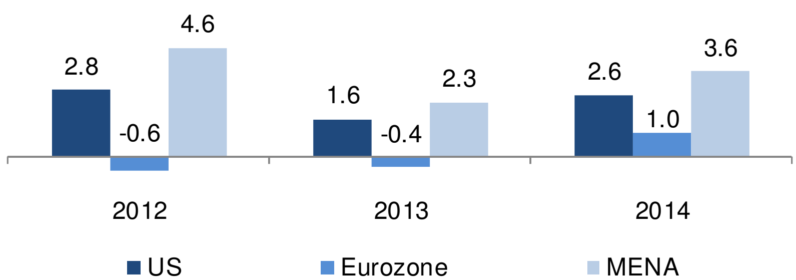
Macro Environment

In the latest IMF World Economic Report (October 2013) the IMF has revised its forecast for global economic growth, and it now expects global GDP growth of 2.9%, a reduction of 0.3% from July's estimate. In 2014 it expects global growth of 3.6%, down 0.2% from 3.8%.

GDP growth for US, Eurozone and MENA (%)



Source: IMF World Economic Outlook October 2013

Growth for 2013 and 2014 are projected

Despite improvements in the US and other developed economies, and specifically signs that the Eurozone has turned a corner, growth in emerging markets has slowed. These markets face a dual problem of declining growth (although growth is expected to continue) and the prospect of fiscal tightening. As a consequence, the IMF's growth expectations for many developing markets including Russia, China, India and Mexico, are lower than previously forecast.

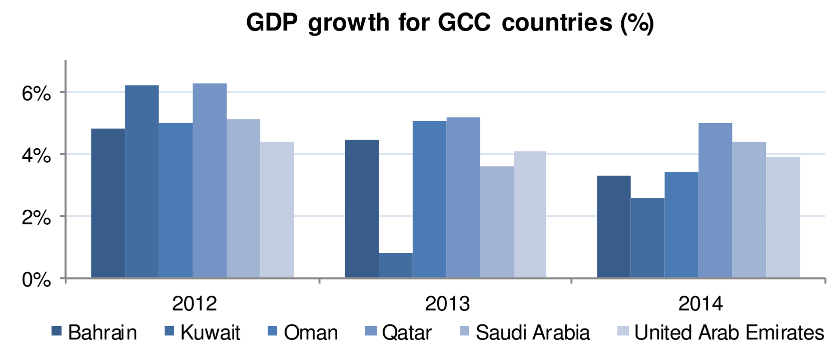
In 2011, the US credit rating was downgraded by S&P from AAA to AA+ when the US government nearly reached a government shutdown"

The US continues to play a significant role in sentiment and is a primary driver for global growth. Consumption in the US continues to strengthen, as does the real estate market, although excessive fiscal consolidation has dampened growth somewhat. The continuing political row about the debt ceiling has yet to go away, making headlines around the world when the Government of the world's biggest economy was forced to partially shut down for 16 days in October. This created uncertainty and even discussion about a US default on its debt payments. While most agree that a default is unlikely, the IMF noted that it, "could seriously damage the global economy".

IMF growth forecasts for the US were 1.6% for 2013, and 2.6% next year, down 0.1% and 0.2% from its July forecast.

Confidence is returning to Europe as investors see opportunities in the debt and equity markets and the uncertainty about the Eurozone's future has subsided significantly. The UK economy is showing encouraging signs and the Eurozone is finally emerging from a long recession. This recovery is evident in core economies such as Germany, and we are seeing a more stable situation in peripheral economies such as Italy and Spain. In October, Spain reported its first GDP increase in over two years.

Nonetheless, the recovery remains fragile with unemployment in countries such as Spain and Greece remaining high. The IMF has predicted GDP growth in the Euro zone will fall 0.4% this year, an improvement of 0.1% on its July prediction, and grow 1% next year.

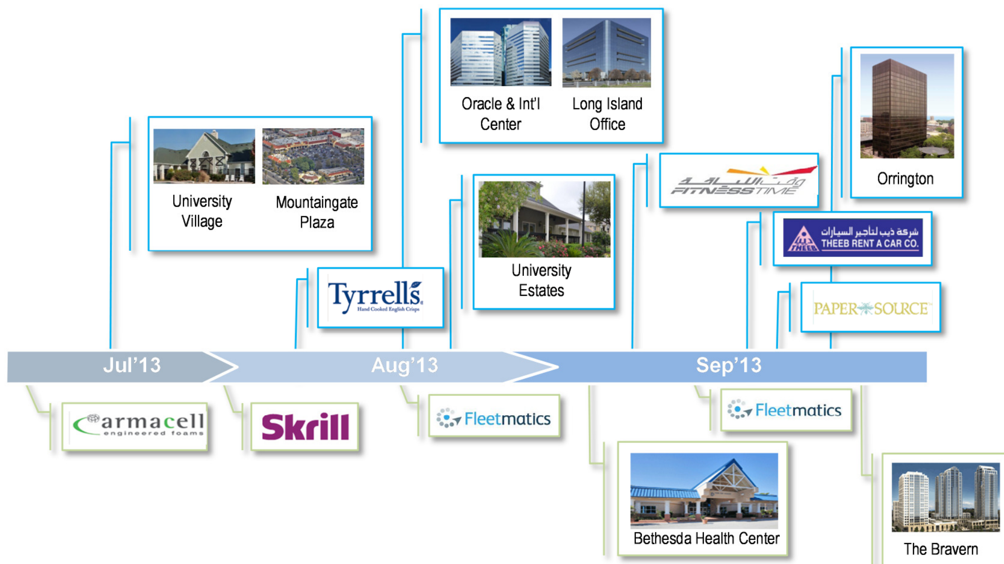


Source: IMF World Economic Outlook October 2013

Growth for 2013 and 2014 are projected

The GCC region remains resilient against the broader macro-economic backdrop, and largely unaffected by the Eurozone crisis. However, whilst Gulf economies are well insulated from external shocks, growth in the region has slowed over the past year as oil production decreased. The IMF predicts growth will pick up in 2014 with improved global conditions and a recovery in oil production.

Investment and Realization Activities



Corporate Investments

The corporate investment team acquired two new companies in the quarter, deploying $266 million of equity. Total realization proceeds and other distributions to Investcorp and its clients were over $600 million.

We closed the sale of Armacell to Charterhouse for over €500 million. Since 2007, Armacell increased sales by 30% to ~€430 million.

"In 2012 Skrill generated >€200 million in revenues and €50 million in EBITDA"

We agreed to sell **Skrill Group** to funds advised by CVC Capital Partners for a total value of €600 million. Skrill was founded in 2001 and is one of Europe's largest online payment systems and among the world's largest independent digital wallet providers with over 36 million account holders. We initially invested €25 million for a controlling stake in Skrill in 2007 when it was generating revenues of €7.8 million and EBITDA of €3.7 million. Today, Skrill employs approximately 700 people. We will continue to retain a substantial minority position in Skrill as well as holding a seat on the Skrill board.

"Tyrrells's international footprint accounts for ~20% of its turnover"

We acquired **Tyrrells English Crisps**, the manufacturer of premium crisps and snacks from Langholm Capital for £100 million. Founded at Tyrrells Court Farm, Herefordshire, in 2002, Tyrrells is recognized for its tasty hand cooked potato and vegetable crisps as well as exciting range of premium snacks, including popcorn and savory nibbles. Available across an array of UK distribution channels, Tyrrells has also expanded internationally, with markets such as Germany, France, the Netherlands and North America. The company employs 270 people and generates in excess of £100 million in retail sales.

"Leejam operates in over 62 locations (with 22 branches under construction) and has more than 1,400 employees"

Alongside our Gulf Opportunity Fund, we acquired a 25% stake in **Leejam Sports Company JSC**, Saudi Arabia's leading health and fitness club management company. At present, Leejam manages the brand "**Fitness Time**". Leejam was established in 2007 by CEO and founder Abdulmohsen Al Haqbani. Fitness Time is currently the largest network of Sports and Fitness clubs in Saudi Arabia. The Fund will be represented on Leejam's Board and will play an active role in its strategic choices and growth opportunities.

"The sector in which Theeb operates has witnessed double digit growth over the last five years"

Our Gulf Opportunity Fund acquired a 30% stake in **Theeb Rent a Car Co.**, the second largest car rental company in Saudi Arabia operating in various locations across the Kingdom including at all major airports. Theeb currently employs 900 people and operates a fleet in excess of 10,000 cars. This is the Fund's 10th investment within the region and its fourth in Saudi Arabia. Theeb was established in 1991 by Homod Al Theeb and Mohammed Al Theeb. Over the last three years, Theeb has delivered more than 17% growth in both revenues and net income. Theeb's growth prospects secure it a leading position in a sector estimated at circa $1 billion.

"Fleetmatics was one of the best performing IPO's on the NYSE in 2012"

Fleetmatics, a leading global provider of fleet management solutions for commercial fleet vehicles, began trading on the New York Stock Exchange on 5 October 2012 under the symbol "FLTX" and in February 2013 we sold a proportion of our investment in a secondary offering. We sold additional shares in August 2013 and then sold additional shares in September 2013.

"Paper Source operates in 73 stores across 23 states"

We acquired **Paper Source, Inc.**, from Brentwood Associates. Paper Source Inc., headquartered in Chicago, is the premier multi-channel retailer catering to customers seeking innovation and original designs, Paper Source sells a unique selection of fine and artisanal papers, invitations and announcements, personalized and distinctive gifts, gift wrap, greeting cards, custom stamps, and a custom collection of envelope and cards through its company-owned retail stores.

Real Estate

The real estate team closed the purchase of two properties signed in FY13 and acquired four new properties, deploying $100 million of equity. The six properties will be included in two new real estate portfolios for placement.

2013 US Commercial Portfolio includes:

- **Mountaingate Plaza**, a 246,326 square foot medical office located in Simi Valley, California
- **Orrington,** a 338,000 square foot office complex located in Evanston, Illinois

- **Oracle & International Center,** a 622,000 square foot office complex located in Minneapolis, Minnesota
- **Long Island Office Portfolio**, a 374,000 square foot office complex located in Long Island, New York

2013 Residential Portfolio includes:

- **University Village Austin**, a 1,152 bed student housing property located in Austin, Texas
- **University Estates Austin**, a 1,548 bed student housing property located in Austin, Texas

We sold **Bethesda Health Centre**, a 133,473 square foot single story medical office building located in Boynton Beach, Florida. Bethesda Health Centre was part of the three equity investments in US Diversified Properties X Portfolio. We also sold our remaining interest in **The Bravern**, two 29-story residential condominium towers containing 560,203 square feet in 456 units.

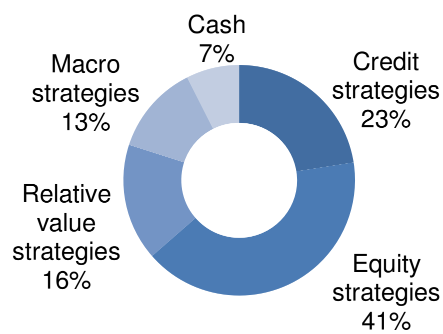
Total realization proceeds and other distributions to Investcorp and its clients in the quarter were $58 million.

Hedge Funds

Our hedge funds co-investment portfolio delivered unlevered returns of 2.8% in Q1 FY14. During the same period, the industry benchmark, HFRI Fund of Funds Composite Index returned 1.6%.

Our Hedge Funds Portfolio is now positioned with a positive tilt towards equity oriented strategies (event driven and hedged equities).

Investcorp Hedge Funds Co-Investment Allocations



- We are positive on event driven equities due to the pick-up in corporate activity aided by strong balance sheets, record levels of cash, and the low interest rate environment.

- We are positive on hedge equity strategies with abatement of tail risks and reduction in share correlations that improves the opportunity set for managers in the strategy.
- We are also positive on structured credit, with the opportunity set anticipated to remain robust in the near term.
- We are modestly positive on macro strategies, and we anticipate that certain asset classes such as FX are likely to sustain trends.
- We are neutral on relative value strategies whereas we are negative on the distressed strategy.

Following the successful launch of Special Opportunities Portfolios SOP I and SOP II over the past two years, we launched SOP III in partnership with our seeded manager, Prosiris Capital Management LLC, focused on first mortgages on commercial US properties. A fourth Special Opportunities Portfolio is currently planned for Q2 FY14.

We made a further distribution on SOP I following the two distributions made in March and June 2013. SOP I was a portfolio of select investments in distressed credit and corporate restructurings in the US and Europe.

Q1 FY14 Client Activities

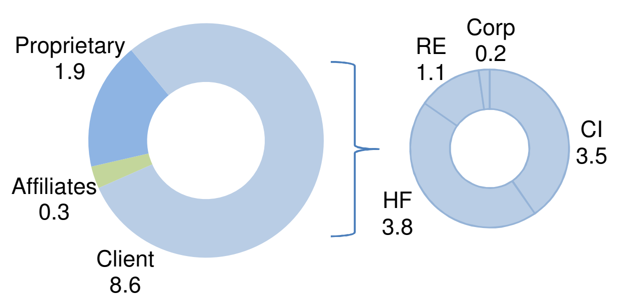
The first quarter has been relatively quiet for our placement team due to a combination of the holy month of Ramadan and the summer break. Client activity commenced in the second half of September and the high level of new acquisitions in real estate and corporate investments during the quarter will support a full program of placement for the second quarter of FY14.

Investment Placement Activity

We initiated the placement of Tyrrells and SOP III during the quarter and both were fully placed by mid-October, with Tyrrells being significantly oversubscribed. During the quarter, new hedge fund subscriptions of $472 million were received from international investors, primarily for our single managers. New hedge fund capital net of redemptions totaled $328 million.

The placement of new corporate investments in Fitness Time and Paper Source and the placement of 2013 US Commercial real estate portfolio has commenced in Q2.

Total AUM: $10.8 billion **Client AUM: $8.6 billion**



As of 30 September 2013, our total assets under management[1], including our proprietary co-investments, increased to $10.8 billion from $10.5 billion (as of 30 June 2013). Our client assets under management remained unchanged at $8.6 billion and proprietary co-investment levels temporarily increased from $1.6 billion to $1.9 billion, reflecting the underwriting of new corporate investments and real estate.

[1] Assets under management includes approximately $950 million of single manager funds managed by third party managers in respect of which fees are paid to Investcorp that are calculated on the basis of the assets under management managed by such third party managers.

Annual Shareholder Conference

We hosted our annual investor and shareholders conference in Bahrain at the Ritz Carlton Hotel on the 24th September. Investcorp's senior management provided updates on each business line's FY13 performance and FY14 outlook. We also invited guest speakers from our portfolio companies to provide a brief introduction and update on their business. The guest speakers were:

- Reza Ali (Founder and CIO, ***Prosiris Capital Management***)
- Jesus Fernandez (Head of Ceramic Colours Division - ***Esmalglass-Itaca***)
- David Miliner (CEO - ***Tyrrells English Crisps***)
- Andrew Berlin (Chairman, CEO – ***Berlin Packaging***)
- Woody McGee (Former CEO, Member of Board of Directors – ***Fleetpride***)
- Nick Riesenkampff (Executive Director – ***Skrill***)
- Jim Travers (CEO – ***Fleetmatics****)*
- Selim Chidiac (CEO – ***L'azurde***)
- Naif Al Theeb (Assistant CEO – ***Theeb Rent A Car Co.***)
- Naji Skaf (CEO – ***Gulf Cryo***)

Ordinary General Meeting

The 13th Ordinary General Meeting was held in our Bahrain office on 1st October.

Balance Sheet Management

Repurchase of preference shares

During the quarter, we made a formal offer to holders of our preference shares to buy back up to 100,000 of the preference shares (representing 19.4% of issued shares) at a price of 106.0% or $1,060 per share. In early October, we completed the purchase for an aggregate purchase price of $106 million. The effect of the purchase is shown below as a pro-forma adjustment to the September 2013 balance sheet ratios.

Key metrics

	Jun'13	Sep'13	Sep'13 pro-forma[2]
Total debt ($b)[3]	1.2	1.5	1.5
Leverage ratio[4]	1.2x	1.1x	1.2x
Total liquidity ($b)[5]	1.1	1.0	0.9
Co-investments[6]/(total equity + long term capital[7])	0.9x	0.9x	1.0x
Capital adequacy ratio (Basel II)	33.8%	31.7%	26.3%
Capital adequacy ratio (Basel III pro-forma)	31.4%	29.1%	24.6%
Total liquidity/(MT + LT debt maturing <5yr)	1.9x	1.8x	1.6x

Total debt increased from June to September mostly due to transitory balances held by clients related to recent realizations. Leverage calculated in accordance with loan covenants declined slightly to 1.1x at the end of the quarter from 1.2x as of 30 June 2013.

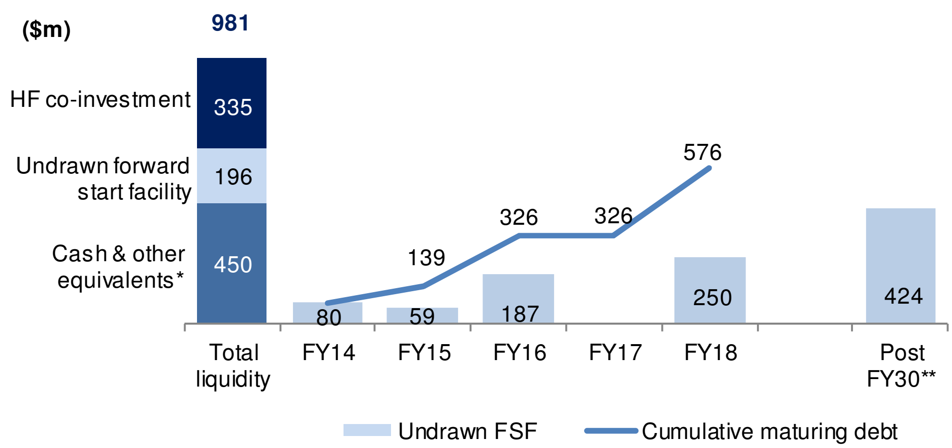
Our target for co-investments to total long term capital is 1.0x and pro-forma for the purchase of preference shares, this ratio has been maintained. We also continue to hold comfortable levels of total liquidity. Total liquidity was $1.0 billion as at 30 September 2013 consisting of cash (46%), undrawn committed revolvers (20%) and hedge fund co-

[2] Pro-forma for the $106 million purchase of preference shares
[3] Client deposit and term debt
[4] Calculated in accordance with bank loan covenants
[5] Cash, placement with financial institutions, undrawn revolvers and HF co-investments
[6] Excludes underwriting
[7] JPY 37 billion debt maturing in 2030 and $50 million debt maturing in 2032

investments (34%) and $0.9 billion on a pro forma basis after giving effect to the purchase of preference shares.

The monetization profile of our $363 million hedge fund co-investments at 30 September 2013 was 57.9% in 3 months.

Liquidity



* Net of $343 million deployed in Q1 FY14 for underwriting
**JPY 37 billion debt maturing in 2030 and $50 million maturing in 2032

Credit rating

Rating agency	Rating grade	Date
FitchRatings	BB / Stable outlook	Rating and outlook affirmed Oct'13
Moody's	Ba2 / Negative outlook	Rating and outlook confirmed May'13

Fitch has affirmed our current rating of BB with stable outlook. Fitch made the following comments:

- Successful refinancing of 2013 debt maturities and new debt issuance last year, both of which have lengthened Investcorp's funding profile
- Enhanced fee income stream, improved leverage and continued reduction in more volatile hedge fund co-investments
- Sufficient capital cushion to cover the purchase of $100 million of preferred stock at a slight premium

- Stable Outlook reflects Fitch's view that Investcorp's liquidity, leverage and funding profile have stabilized and could improve over the medium term, absent a material market stress

Other News

Senior management appointments

Gary Apel, a veteran with over 28 years in the private equity industry has joined us as Vice Chairman of Corporate Investment - North America operating out of our New York office. Mr. Appel initially joined Investcorp as an Advisory Director and member of the Investment Committee in April 2013. Mr. Appel had been a Vice Chairman with Castle Harlan, Inc. and Glencoe Capital, LLC; served as a Senior Managing Director with Bear Stearns in the late 1990's; and also worked as a Managing Director for nearly two decades with Donaldson, Lufkin & Jenrette, Inc. - where he was also a founding partner of DLJ Merchant Banking. He currently serves on the boards of Fishnet Security, Inc. and Polyconcept Investments B.V. He also serves as an Executive in Residence of the Columbia University Graduate School of Business and as a member of the Advisory Board of its Private Equity Program.

Lionel Erdely, will join the firm from Lyxor Asset Management, a subsidiary of Societe Generale Group with approximately $100 billion of assets under management, where he has served as chief investment officer since 2004 and CEO of Lyxor Inc since 2009. During his 11-year tenure at Lyxor he was instrumental in expanding the firm's alternative investment business globally and growing its roster of large US-based institutional investors. Erdely served as chairman of the firm's Investment Committee for alternative investments as well as a member of the Management and the Executive Committee.

In his new role with Investcorp, Erdely will be responsible for overseeing the hedge fund group's strategic direction and investment decisions, as well as managing all day-to-day operations. In addition he will be a member of the firm’s management committee.

Our portfolio companies

L’azurde, one of our CI MENA portfolio investments, has launched a campaign to acknowledge and celebrate pioneering Arab and Saudi women. The campaign was launched with the celebration of Raha Moharrak, the first Saudi woman to climb Mount Everest. L’azurde has created a special souvenir in her honor which will be showcased throughout all of its showrooms across Saudi Arabia.

One of our Hedge Fund single managers, **Prosiris Capital Management LLC**, has surpassed $1 billion in assets under management. Investcorp provided seed capital to this manager on 1 July 2011, and since then our investment has experienced an annualized return of approximately 22% with no negative months. We continue to remain a strategic investor with Prosiris.

Corporate Investment Europe wins prestigious award

At the prestigious 2013 Investor Allstar ceremony, our European Corporate Investment team received the award for “**Growth/Buyout Fund of The Year**”. The award is rewarded to buyout and development capital firms that make investments in high growth companies and reviewed by an independent panel of industry peers. This is our second award in the same category in five years. We were also shortlisted for the “**Exit of the Year**” award for Fleetmatics.

Visit by The China Securities Association

Our New York-based hedge funds team met with 30 delegates from The China Securities Association in September, who were visiting the US to enhance their understanding of alternative investments and derivatives markets. The delegation was comprised of senior members of various financial and security institutions in China.

Corporate Contact Information

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