INVESTCORP

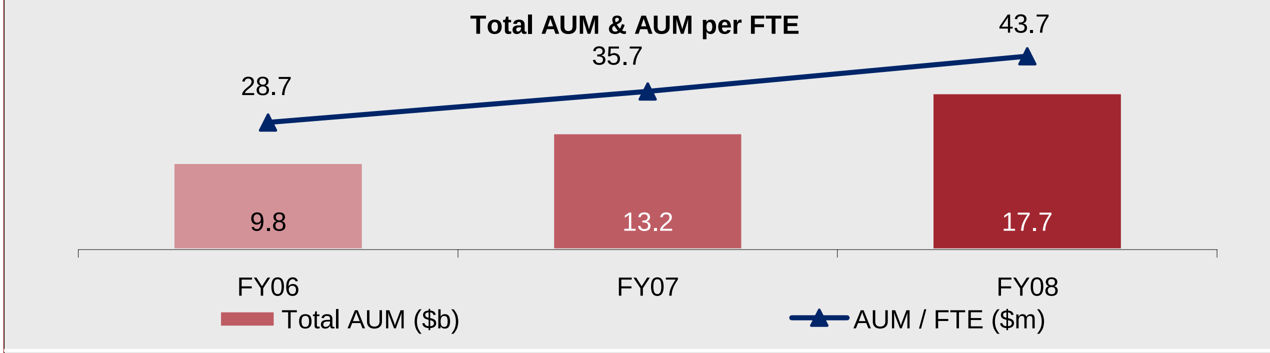
June 2008

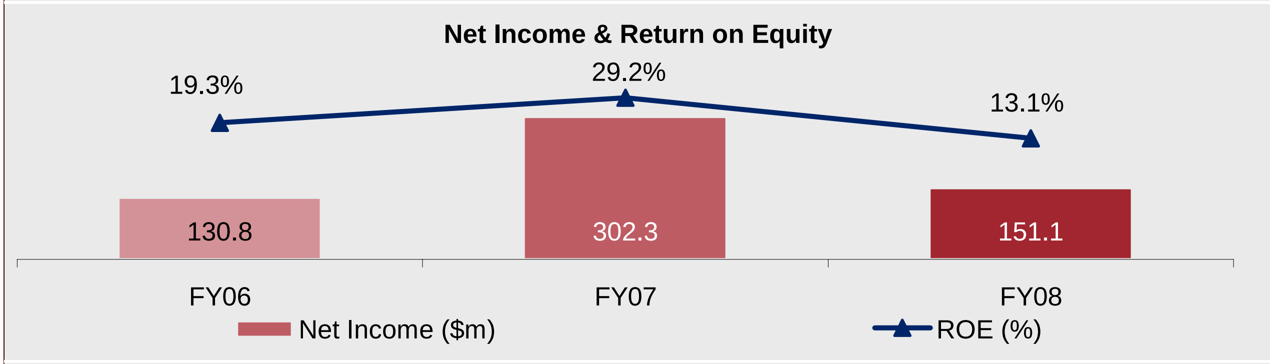
Management Discussion and Analysis

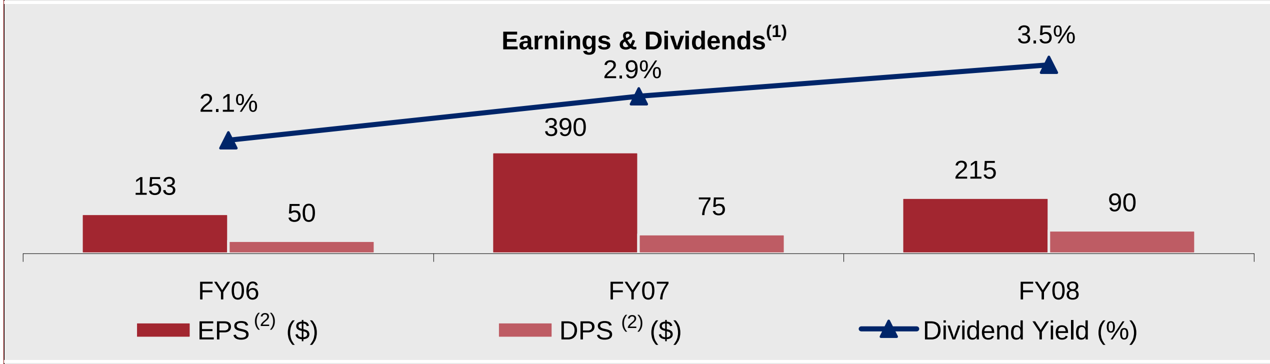
Key Performance Indicators and Executive Summary

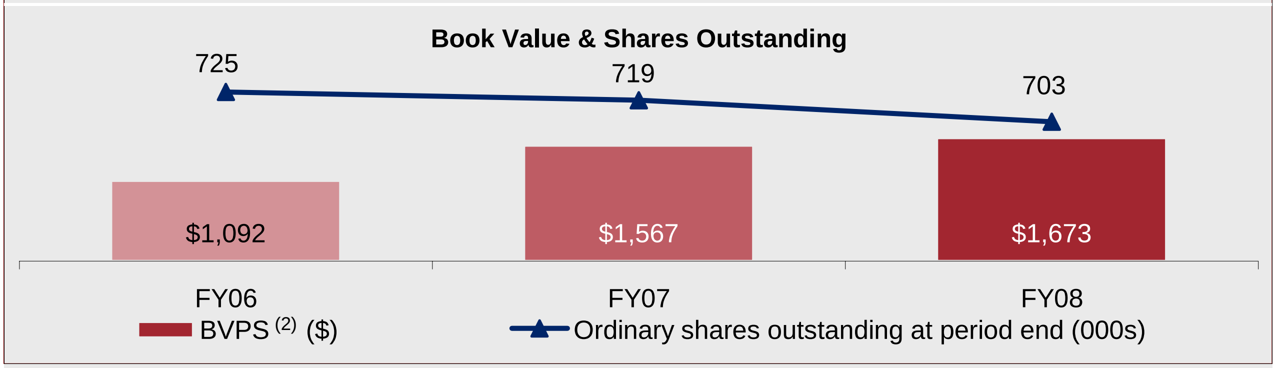
KEY PERFORMANCE INDICATORS

OVERALL







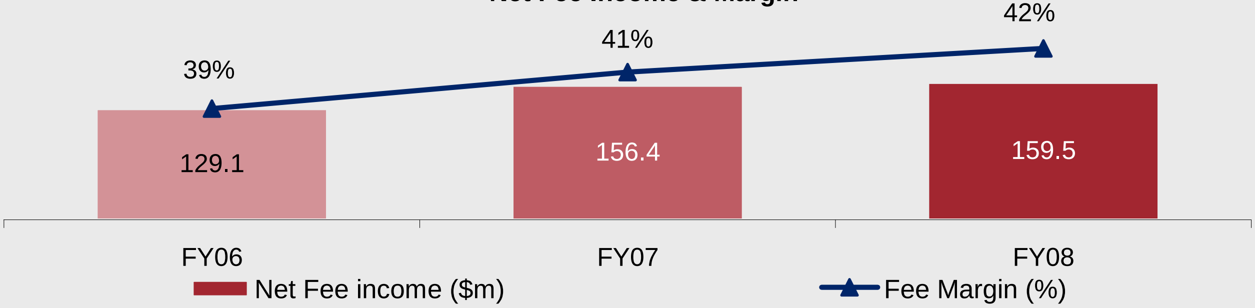


[1] Market price per ordinary share as at June 30, 2006: $2,359 (BSE), June 30, 2007: $2,550 (LSE), June 30, 2008: $2,550 (LSE)

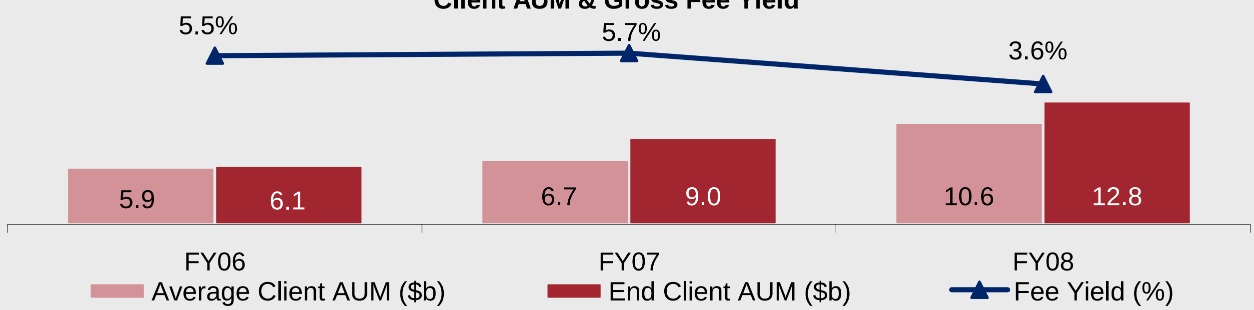
[2] Expressed in terms of Ordinary Shares. 100 GDRs represent 1 Ordinary Share

CLIENT BUSINESS

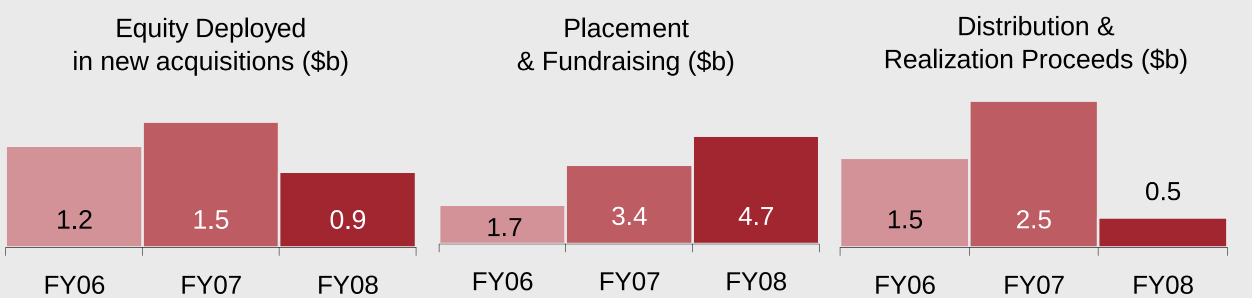
Net Fee Income & Margin



Client AUM & Gross Fee Yield[3]

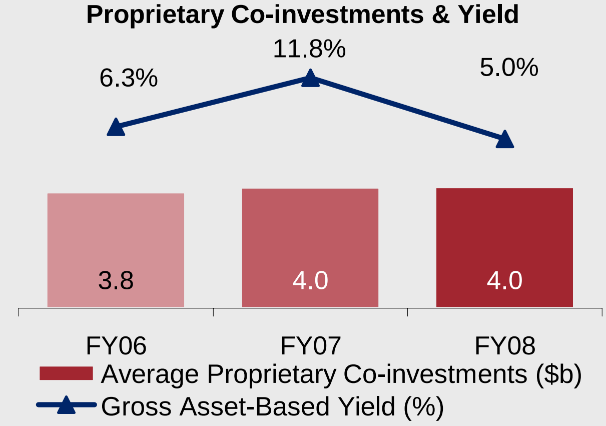


Acquisitions, Fundraising & Distributions

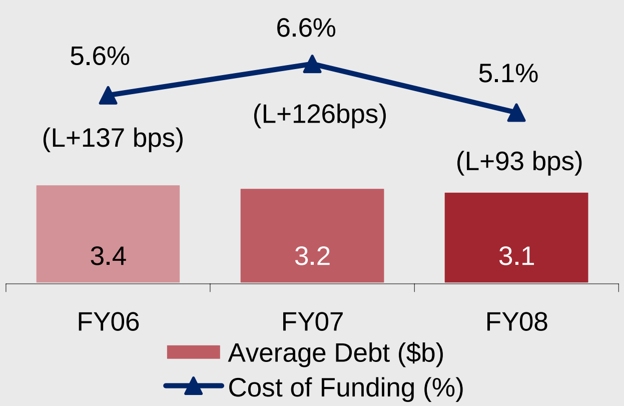


PROPRIETARY CO-INVESTMENT BUSINESS

Proprietary Co-investments & Yield



Debt & Cost of Funding



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

EXECUTIVE SUMMARY

BUSINESS ENVIRONMENT

Investcorp completes its 25th fiscal reporting period during a period of unprecedented dislocation in global financial markets and a combination of inflation and slowdown in economic activity in most developed economies. Investcorp's businesses are feeling the impact of these turbulent market conditions in the United States and Western Europe, its primary investment markets, resulting in reduced net income for the current fiscal year relative to last year's record results.

Following the sub-prime contagion, the US Federal Reserve initiated a series of aggressive policy measures to improve financial market liquidity and stimulate the US economy. The impact of over $250 billion in losses, sustained by the global banking community continues to severely restrain the industry's ability and appetite to lend. The resultant credit crunch, together with upward pressure on commodity and food prices, has had a negative impact on the global economic outlook, and has increased asset price volatility and correlation among different asset classes. This environment poses major challenges to governments and central banks which are trying to sustain economic growth and remain within their targeted range for price inflation. As a consequence of reduced lending, the volume of private equity and real estate transactions has declined significantly in the first half of calendar year 2008 and high volatility and illiquidity in capital markets have adversely impacted hedge fund returns.

Inflationary pressures have also been mounting in the six Gulf countries of the GCC,[1] partly as a result of the fact that several of the region's currencies are pegged directly to the US dollar,[2] which somewhat constrains monetary policy. However, in general, global financial turmoil has had little effect within the GCC and the wider MENA region. Regional growth (in real terms) reached 5.8% in 2007 and is forecast to rise above 6% for at least the next two years.[3] The cumulative impact from high energy prices on investable wealth has been phenomenal. Oil prices at $70 per barrel will generate an estimated $6 trillion in cumulative revenues by 2020. This is expected to sustain the pace of wealth creation for High-Net-Worth Individuals ('HNWI') in the Middle East at an annual rate of over

---

[1] Comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
[2] The Kuwaiti Dinar is pegged to a basket of 'major world currencies.'
[3] IMF World Economic Outlook.

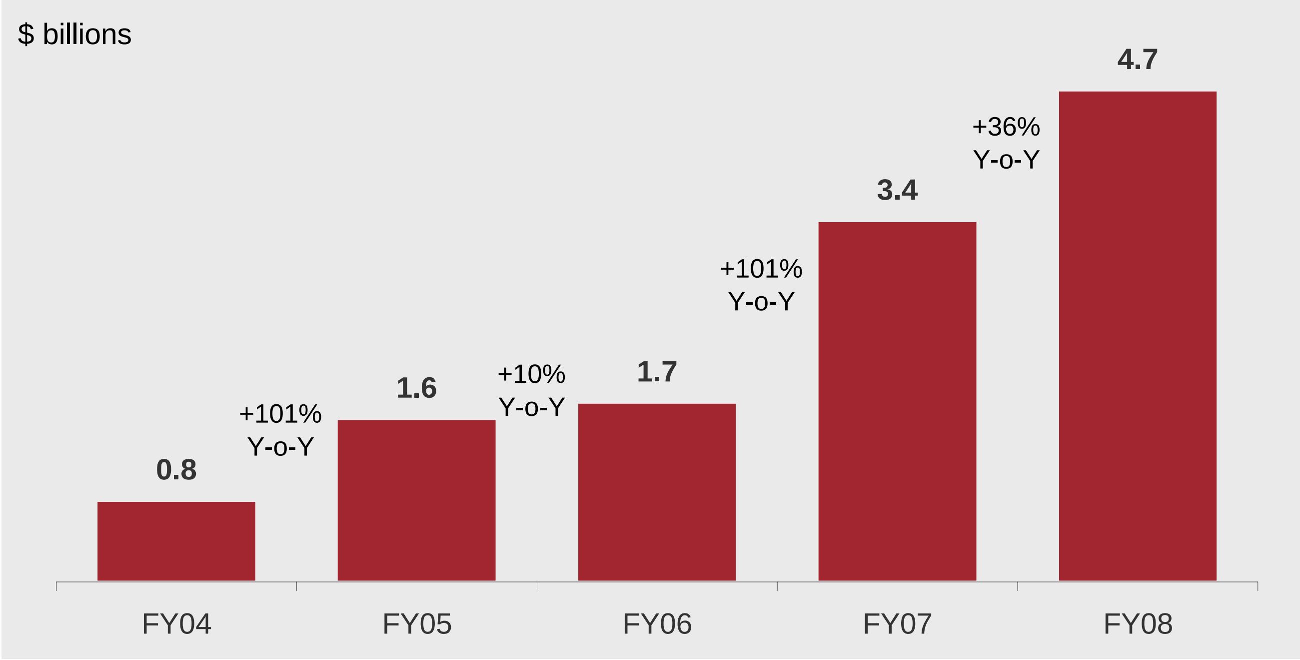
15% over the next five years, the highest regional growth rate in the world. These factors augur well for Investcorp's Gulf fund-raising franchise as large and increasing pools of investable capital are expected to be allocated to alternative assets.

CLIENT BUSINESS PERFORMANCE

The contrasts between the economic environments in the Middle East and the West, and also between Investcorp's client franchise in the GCC and its investment businesses in the West, were reflected in Investcorp's performance and results for the fiscal year ended June 30, 2008 ('fiscal 2008' or 'FY08').

Product placement and fund-raising surged to $4.7 billion in FY08, an increase of 36% over FY07. This record performance is underpinned by Investcorp's focus on leveraging its brand in the Gulf to capture an increasing share of investable wealth in the GCC region and the secular shift of investment allocations into alternative assets.

Placement & Fundraising Activities



In addition to deal-by-deal placement activity with Investcorp's core private client franchise in the Gulf, the record placement amount for FY08 also reflects the completion of $2.6 billion in various closed-end fundraising initiatives launched in FY07, including a PE fund focused on growth capital investing in the Gulf. In addition, Investcorp has recently signed a $1 billion joint venture with a GCC sovereign investment fund for US real estate debt investing.

FY08: Placement & Fundraising Activities

Deal-by-deal placements are driven by new PE and RE investment activity. Deal flow during FY08 has been impacted by the credit dislocation in global markets causing a decline in capital deployment and therefore impacting the volume of deal-by-deal placement.

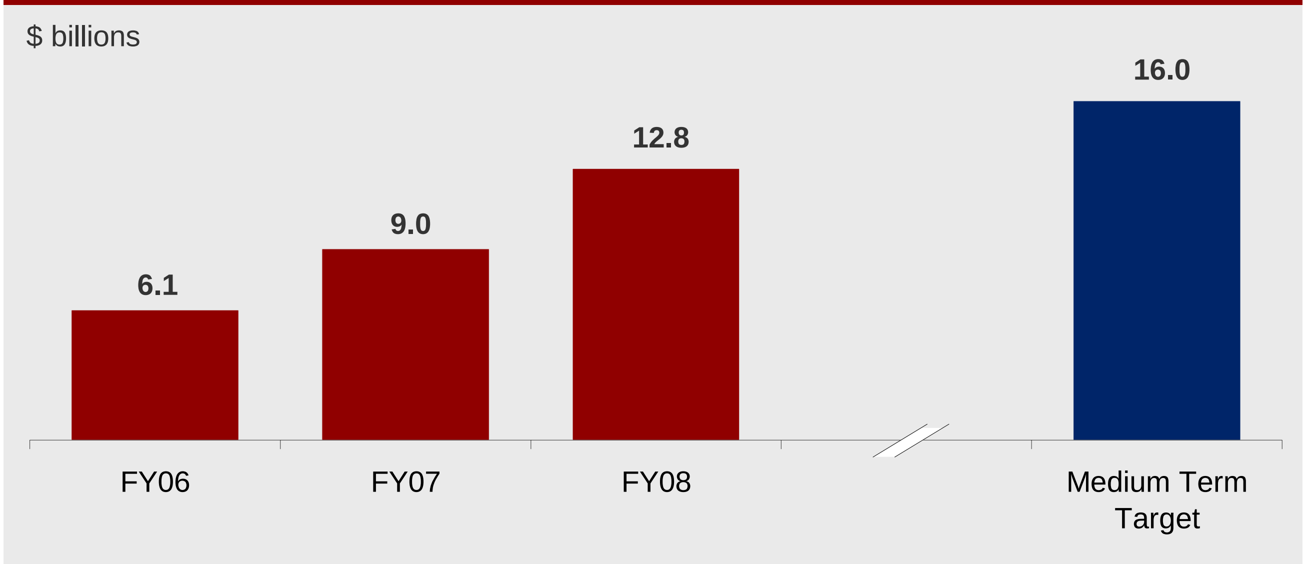
Hedge funds has seen a growth of 31% in client AUM during the year from $4.2 billion to $5.5 billion, with good momentum from both Gulf and non-Gulf markets. The single manager program has grown rapidly in the fiscal year with three new managers seeded and AUM reaching $2 billion. The fund of funds platform has launched three new funds, focused on credit opportunities, balanced strategies and single managers, while the structured products platform continues to rollout new products for both diversified and event driven strategies.

FY08: Placement & Fundraising Activities

Non-Gulf fund-raising includes institutional investors in the new closed-end private equity funds for Western buyouts, Gulf growth capital and technology. It also includes $1.1 billion into hedge funds, predominantly for the single manager platform, where AUM now exceeds $2 billion across seven seeded managers.

Total AUM increased by 34% from $13.2 billion to $17.7 billion. In line with Investcorp's aim of maintaining a relatively steady level of proprietary co-investments, the growth in total AUM was driven by a 42% increase in client assets, which have more than doubled since two years ago. Investcorp has made substantial progress towards achieving its stated medium-term target client AUM of $16 billion.

Client Assets Under Management



Non-Gulf client AUM at June 2008 represents $2.9 billion (22%) of total client AUM, compared to $1.5 billion (17%) as at June 2007.

Only 18% of total client AUM has a current expected tenor of less than three years, providing very good long-term visibility to recurring fee income flows

As part of its ongoing efforts to fill out its product menu in line with evolving investor preferences and to capture a larger share of client investments, Investcorp is evaluating several new business opportunities: private equity mezzanine debt, European real estate, Asian private equity and new structured hedge fund products.

A number of initiatives are underway to increase the penetration of existing institutional and private client accounts using market segmentation techniques and strategic alliances and to expand into new Gulf client segments using third party distribution agreements. In addition, existing products are being customized or placed within new structures to meet investor preferences.

INVESTMENT BUSINESS

Private equity – US and European buyouts: The credit crunch has had a negative impact on transatlantic mid-market buyout volumes and overall valuation multiples have trended down.

During fiscal 2008, the buyout team deployed $438 million of equity across three new acquisitions (Randall-Reilly, Asiakastieto and CEME) and one add-on acquisition (Anjac). In FY07, total equity deployed was $1 billion. There was one exit (Welcome Break) which realized $0.3 billion in proceeds, substantially less than the $2.2 billion returned from exit activity in FY07. Another portfolio company, CCC, has signed a merger agreement with one of its competitors, Mitchell International, Inc., which is subject to regulatory approval. In FY08, Investcorp provided $44 million in support funding to delever three portfolio companies and to finance growth and strategic acquisitions.

Balance sheet carrying values for Investcorp's co-investment in portfolio companies are predominantly based on underlying company earnings and market multiples. Although operating performance of portfolio companies has been reasonably resilient amidst the economic downturn, portfolio valuations have been impacted by a general decline in multiples.

Investcorp's buyout portfolio represents 75% of total shareholders' equity at June 2008, geographically split 57% in the US and 43% in Europe/UK. The largest carrying value for a single company was $163.2 million for TelePacific (13% of total book equity), which includes a performance driven valuation increase of $15.1 million during the fiscal year. No other individual portfolio company represents more than 10% of total book equity.

Private equity – Gulf growth capital: The private equity landscape in the Gulf and the wider MENA region remains very positive, as a portion of energy wealth is diverted by regional governments into local investments. This and other supportive dynamics for private equity investment have provided the newly formed Gulf growth capital team with a very active volume of deals to consider. Subject to regulatory approvals, the Gulf Opportunity Fund I has concluded its first deal, an equity investment of $100 million in a Gulf-based distribution services firm.

Private equity – technology small-cap: Venture capital-backed deal volumes have also been affected by the credit turmoil, although debt financing has less impact on this sector of private equity because it is primarily financed by equity capital. Investcorp made one new acquisition (Utimaco

Safeware AG) of $21 million for Fund III and deployed $44 million in follow-on funding for Fund I and Fund II across eight investments.

Hedge Funds: Hedge fund returns have been affected in the first half of calendar 2008 by higher volatility in global equity and credit markets and the withdrawal of market liquidity. Investcorp was among the best performing fund of funds for calendar 2007, benefiting from portfolio protection strategies and short allocations to sub-prime securities. The business has won a number of industry awards. The sharp deterioration in sentiment in 2008, which witnessed the rescue of Bear Stearns and the liquidation of a few large hedge funds, saw a sharp reversal of returns for proprietary HF co-investments in the second half of FY08 ('2H FY08'). However, the average returns of Investcorp's proprietary HF co-investment over the last three years at LIBOR + 7.5% continue to exceed medium-term risk adjusted targets of LIBOR + 5% to 6.0%.

Investcorp invested in three new single managers in its seeding platform in the fiscal year, adding distressed, global macro and European event driven strategies. Proprietary invested capital in the platform now totals $500 million. The amount of total balance sheet co-investment in HF, including fund of hedge funds and single managers, totaled $2.0 billion at June 2008. Investcorp intends to reduce this co-investment amount to less than $1.5 billion in a phased manner over the next 18 months as part of a plan to free up risk capital to fund new business initiatives.

The macro environment for hedge funds as an asset class is expected to remain generally positive as new opportunities are expected to open up in credit strategies from price distortions arising out of market dislocations. The HF investment team has positioned portfolio asset allocations in a manner intended to take advantage of these opportunities.

Real estate: In FY08, Investcorp's RE business continued to focus on institutional quality assets outside of the sub-prime and residential sectors. Reduced liquidity and constrained credit conditions have led to a significant fall-off in general investment volumes in the first half of calendar 2008. Capitalization rates have started to move up which has led to a broad-based downward pressure on property valuations. Underlying operating fundamentals for US commercial real estate have nonetheless remained generally healthy and the largest downturns in valuations are more location and sector specific.

Despite the general market malaise, the RE business deployed $391 million of new equity capital with an aggregate transaction size of $2.5 billion and $122 million of new debt investments for Mezzanine Fund I and a newly created $1 billion RE credit fund, which will invest in well-protected debt tranches of commercial properties at discounted prices. The team also realized $215 million in exit proceeds.

FINANCIAL PERFORMANCE

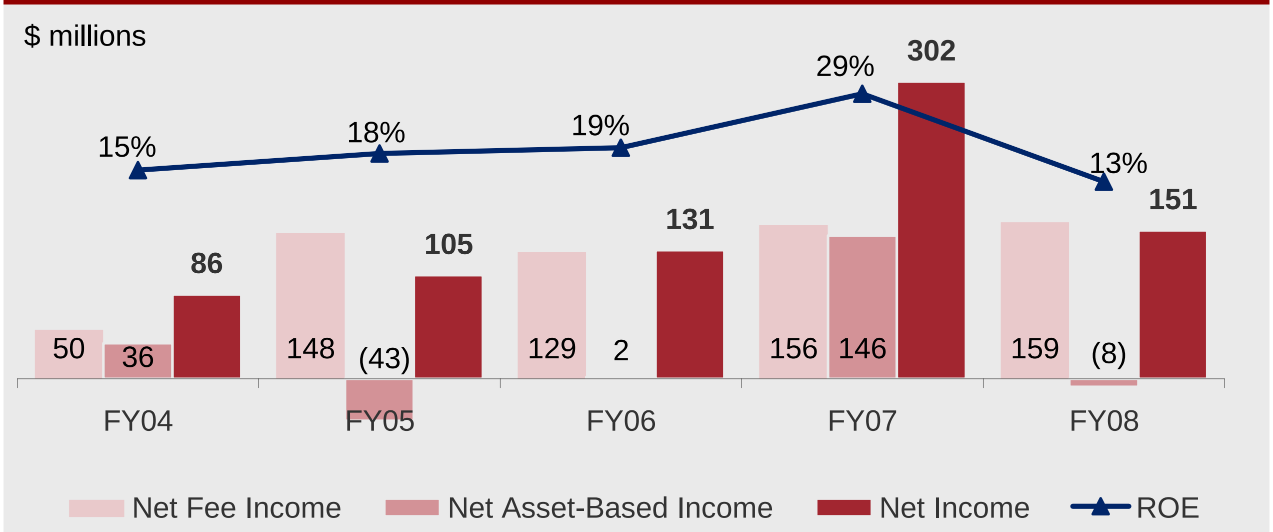
Income

The contrast between a positive fund-raising environment and a tough investment environment, coupled with valuation pressures on proprietary co-investments, provide the back-drop to Investcorp's financial results for fiscal 2008.

Net income of $151.1 million for FY08 is Investcorp's second best performance ever, albeit 50% lower than the record net income of $302.3 reported last year ('fiscal 2007' or 'FY07'). The entire decline has been driven by lower asset yields on the proprietary co-investment portfolio. While asset-based income and yields for FY04-06 were subdued due to write-downs of Investcorp's legacy PE portfolio acquired prior to 2001, FY07 on the other hand was an exceptional year with outsized returns particularly in hedge funds. FY08 asset-based income reflects the impact of the credit crunch, which has driven down HF returns and PE valuation multiples.

Return on average equity (ROE) for FY08 was 13%, compared to last year's ROE of 29%.

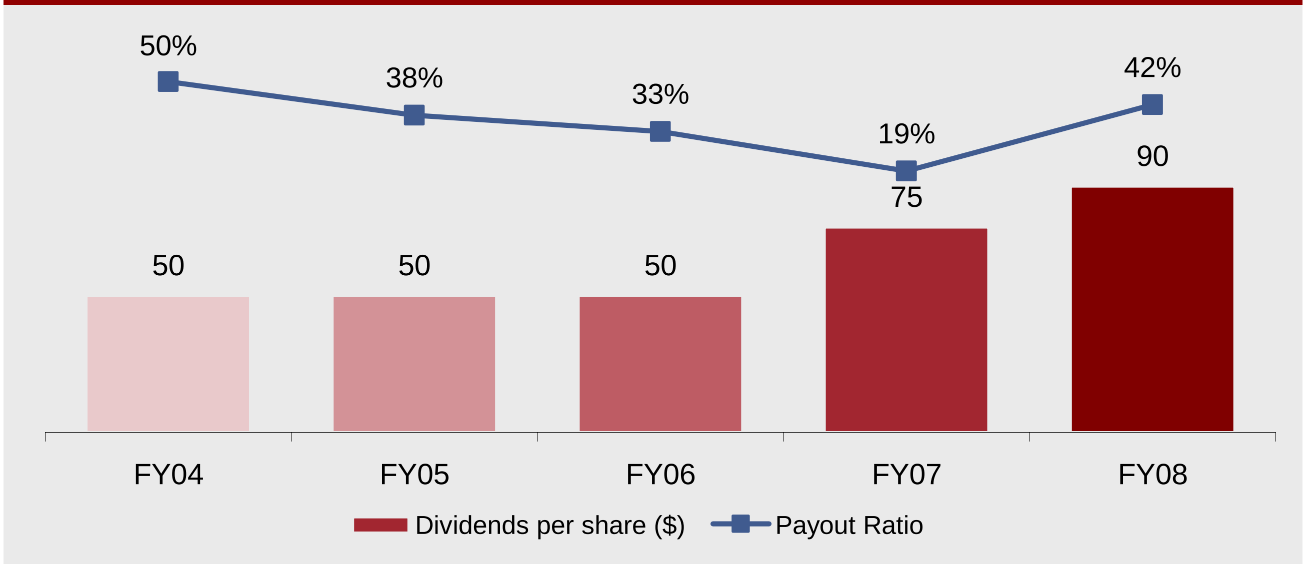
Five Year Net Income Trend



Earnings per Ordinary Share based on ordinary shares outstanding at fiscal year-end for FY08 were $215 compared to $390 for FY07, equivalent to earnings per GDR of $2.15 ($3.90 for FY07). The 45% year-on-year decline in EPS is less than the decline in net income due to net share buybacks during the year as well as the redemption of preference shares in early FY08.

Notwithstanding the decline in earnings, the Board of Directors has proposed an ordinary dividend payout of $90 per share ($0.90 per GDR), an increase of 20% from FY07. This represents a dividend payout ratio of 42%, more than double compared to a 19% level in FY07.

Dividends Per Share & Payout Ratio

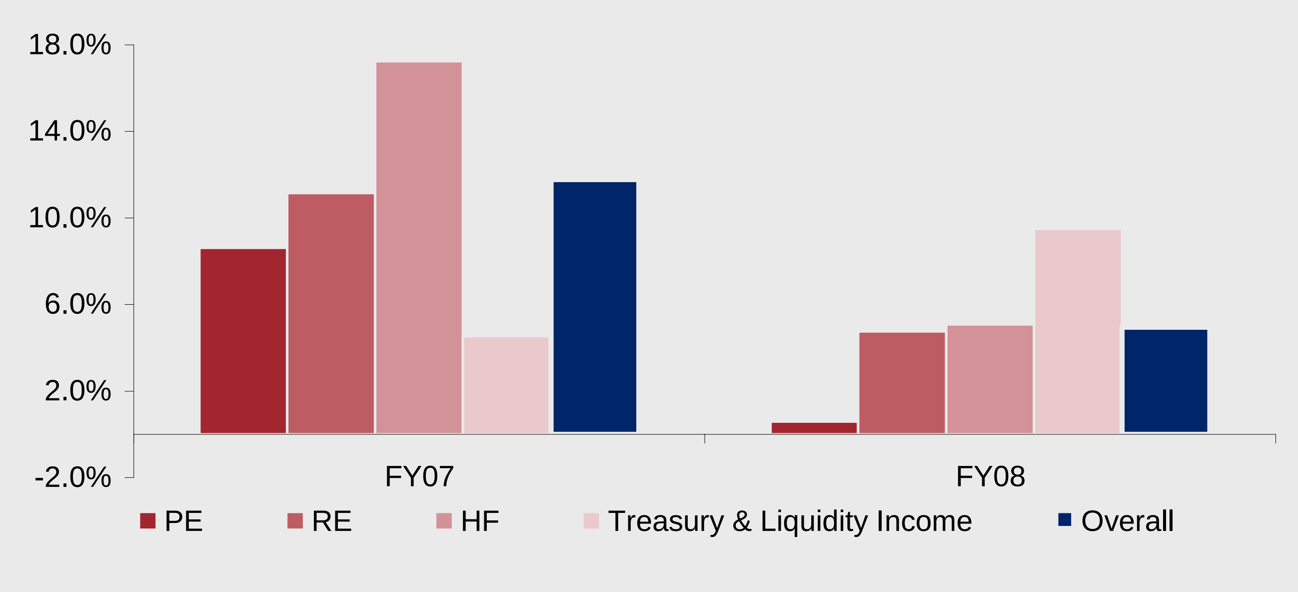


Gross revenues are lower year-on-year by $273.3 million or 32% to $582.4 million. This is almost entirely as a result of lower asset-based income from proprietary co-investments.

Total fee income of $382.9 million was maintained at FY07 levels despite a fall in deal investment activity, due to a 91% increase in management fees from the growth in average client assets under management. Net fee margins (net fee income / gross fee income) increased to 42%, a 1% increase over last year, and net fee income increased to $159.5 million, 2% higher than the $156.4 million reported last year.

Asset-based income returns on balance sheet co-investments have been challenging in FY08, consistent with the downward pressure on all global asset returns and increased market volatility witnessed during the past 12 months. Investcorp has had no direct exposure to sub-prime assets, nor to mortgage-backed securities or structured investment vehicles, which have been subject to large write-offs by global financial institutions.

Gross Asset-Based Yields



Overall gross asset yields on proprietary investments were 5.0% compared to 11.8% in FY07. Returns were lower across all asset classes. In particular, the return on Investcorp's balance sheet co-investment in HF in FY08 at 5.1% (LIBOR +0.8%) was much lower than the 17.2% (LIBOR + 11.9%) return achieved in FY07. Whilst disappointing in terms of absolute levels, these returns compare quite favorably to the HFRI Fund of Funds Diversified which returned -0.55% in absolute terms for the 12 month period ended June 2008.

The PE co-investment portfolio showed a marginally positive gross asset yield of 0.6% (FY07: 9%) impacted by $26 million of net downward valuation adjustments across portfolio companies in both the US and Europe. Average valuation multiples for publicly listed peers of Investcorp's PE buyouts portfolio have fallen from 11.3x as at June 2007 to 9.1x as at June 2008.

Despite the increase in correlation across the board, Investcorp's diversified mix of alternative asset classes have all produced positive returns during a period in which public equities have declined by between 13% (S&P 500) and 17% (MSCI World).

Interest expense has fallen by 25% from $213.8 million to $159.9 million, substantially as a result of lower short-term US dollar benchmark funding rates. Despite the lower cost of leverage, net asset-based earnings showed a loss of $8.4 million.

Aggregate operating expenses decreased by 13% to $266.1 million. This is because of a decrease in total staff costs driven by variable compensation which, given the decline in net income over FY07, was 19% lower.

The distinction between client fee income and proprietary asset-based income has become increasingly important on Investcorp's income statement. The Company has evolved from being an investment firm with a relatively even mix of proprietary invested assets and client assets into a fully-fledged alternative asset management business, focused primarily on managing client assets.

The balance sheet investment in each line of business will remain an important part of the Company's co-investment philosophy as it seeks to align all stakeholder interests. However, Investcorp plans to keep future total proprietary co-investment amounts at approximately current levels. Client AUM is expected to become an increasingly dominant portion of total AUM, and this dynamic will be the key driver as Investcorp seeks to establish and grow a predictable stream of future earnings.

Capital

At June 2008, the shareholder base of the Company comprised 39% public shareholders, 34% strategic shareholders and 16% management shareholders. Public shareholders held 18% in ordinary shares listed on the Bahrain Stock Exchange and 21% in GDRs listed on the London Stock Exchange. The balance of 12% is held by the Company in the form of Treasury shares and shares set aside for future sale to management.

Ordinary shareholders' equity increased due to retained net income but total book equity fell from $1,382 million to $1,237 million primarily because of the redemption of all outstanding preference shares in September 2007. Net book value per ordinary share increased from $1,567 to $1,673.

Investcorp's regulatory capital adequacy ratio ('CAR') at June 2008, reported under the new Basel II regime, was 18.4%, versus a regulatory minimum of 12% and Investcorp's target ratio of mid-teens. This compares to a pro-forma Basel II ratio of 19.0% at June 30, 2007. Over the course of FY09, Investcorp will undergo a formal, independent, Central Bank of Bahrain ('CBB')-mandated risk assessment which will be used by the CBB to determine a specific risk-based minimum CAR target for Investcorp.

Economic capital requirements are calculated under carefully constructed stress tests to balance sheet assets and Investcorp's fee generation model which factor in potential adverse changes to Investcorp's business over a forward five year period. As the proportion of total net income becomes more anchored around fee income flows from client assets relative to asset-based income, the capacity to distribute earnings is expected to continue to grow, subject to the need to retain capital for investment in developing new business initiatives.

Balance Sheet

Total assets increased by 11% to $4.8 billion. Total proprietary co-investments in PE, HF and RE increased by $0.4 billion to $3.4 billion. The overall increase in balance sheet size is thus mainly for transitory working capital requirements. Part of this increase was due to higher underwriting amounts at fiscal year-end. Over FY09 the balance sheet is expected to revert back to a steady state level targeted at $4.5 billion.

Financial leverage (liabilities/equity), adjusted for transitory balances, increased from 2.0x to 2.5x.

Net accessible liquidity, defined as total cash liquidity less term debt maturing within three months plus committed undrawn facilities, was $1.3 billion at June 2008 ($1.7 billion at June 2007). This is equivalent to 23% of assets (adjusted for drawing revolvers). Total liquidity accessible within three months of the balance sheet date is sufficient to repay all short-term inter-bank debt and also meet $0.9 billion of new underwriting requirements.

The average maturity of Investcorp's medium and long-term debt (including committed revolver facilities) is approximately five years. During the year, Investcorp secured a new $243 million five-year financing facility with 15 of its core international relationship banks.

The Company's investment grade credit ratings from Moody's (Baa2, stable outlook), Fitch (BBB, positive outlook) and Capital Intelligence (A-, stable) remain unchanged. During the fiscal year, Standard & Poor's published a BBB rating for Investcorp with stable outlook.