



Infrastructure Connects the World

Basis with a View



Key financial indicators

Result	Unit	2010	2009	Change in %
Revenues	EUR mn	36.8	45.5	-19.1
Total operating revenues	EUR mn	40.4	48.5	-16.7
Earnings before interest and taxes (EBIT)	EUR mn	-1.8	-24.3	92.6
Earnings before taxes (EBT)	EUR mn	4.4	-51.3	
Consolidated net result for the year	EUR mn	5.0	-55.8	

Balance sheet	Unit	31/12/2010	31/12/2009	Change in %
Total assets	EUR mn	106.2	112.4	-5.5
Equity	EUR mn	46.1	33.1	39.3
Equity ratio	%	43.4	29.4	+14.0%-Pts

Employees	Unit	31/12/2010	31/12/2009	Change in %
Average number of employees	Number	261	296	-11.8
Personnel expenses	EUR mn	20.5	21.6	-5.1
Personnel expense ratio	%	55.7	47.5	+8.2%-Pts

Share	Unit	2010	2009	
Earnings per share (basic)	EUR	0.19	-2.33	
Earnings per share (diluted)	EUR	0.19	-2.33	

Group-specific measures	Unit	2010	2009	Change in %
Placed equity capital and equity capital investments ¹⁾	EUR mn	127.2	132.7	-4.1
Customers	Number	123,300	122,300	0.8
New issues	Number	8	13	-38.5
Investment volume (aggregate)	EUR mn	14,977	14,828	1.0
Administered trust assets	EUR mn	4,889	4,901	-0.2
Trust fees	EUR mn	21.8	21.4	1.9

1) Thereof EUR 47.2 million reinvestments respectively capital increases in existing funds in 2010, EUR 6.9 million reinvestments respectively capital increases in existing funds in 2009.

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Dear shareholders and business friends of HCI Capital AG,

2010 was the year in which the HCI Group set a new course for the future. Following the most severe recession seen in the global economy since the Second World War – and in the history of our industry – our main task was to place the Company back on a sound financial basis and to embark on a new path for its future development. We have systematically implemented the measures needed to achieve this. By obtaining a release from contingent liabilities and converting our bank debts into equity in order to substantially strengthen our equity base, we have successfully completed a broad financial reorganisation of the HCI Group. In terms of strategy, we have also narrowed the focus of our business. While this is by no means a revolution, it is a logical step that will enable us in future to concentrate on investments in tangible assets which benefit from global trends and at the same time reflect HCI's core competence. We are certain that this will provide us with a solid foundation for the future success of the Company.

What drove our operating business in 2010? For the world economy and global trade, 2010 was the year of recovery. This recovery came much sooner and was more pronounced than we could have anticipated a year ago. Nevertheless, the tense situation with regard to debt levels in some countries means that there is still uncertainty on the financial markets. For the closed-end fund sector, 2010 was a year of stagnation and, we hope, a year that marked the end of the crisis and the start of a new growth phase.

One consequence of the financial and economic crisis is the continued reluctance of investors to make long-term investments that offer at best limited fungibility. Cash is king – even though the interest on investments that can be cashed in at any time is almost zero. On top of this, many brokers, particularly in the banking sector, have temporarily restricted or discontinued the sale of closed-end funds. From our perspective this is yet another unfortunate delayed reaction to market turbulence. It will not compensate for the drop in returns that has already occurred and will prevent investors from benefiting from new market opportunities. The industry association Verband Geschlossene Fonds (VGF) reported a figure of EUR 5.84 billion in equity

capital placed for 2010 – at first glance a year-on-year increase of around 13%. However, this does not take into account the fact that some of the equity capital placed relates to restructuring measures for existing funds and that some of it was also raised from institutional investors. Overall, it is likely that the new business recorded by issuing houses in the area of closed-end funds for private investors actually stagnated in 2010.

Against this backdrop, the equity capital placed by the HCI Group, including equity capital investments, dropped by about 4% from EUR 132.7 million in 2009 to EUR 127.2 million in the reporting year. However, there was a clear increase in demand towards the end of the year and the ship funds HCI HAMMONIA Korsika and HCI Shipping Opportunity were successfully closed on 30 December 2010. In addition to this, we had already reached our target equity capital for HCI Energy 2 Solar by November. Once again last year, ship investments represented the largest proportion of placements in HCI's product portfolio. In all, approximately EUR 119.5 million was invested in HCI ship funds. This figure includes EUR 47.2 million which was invested in existing ship funds, thereby safeguarding their future market potential. However, we did not earn any commission here. The overall result was a drop in revenues from EUR 45.5 million in the previous year to EUR 36.8 million in 2010. Revenues from After Sales Services and Asset Management had an important stabilising effect here. At EUR 27.1 million altogether, they were virtually the same as in the previous year.

Non-recurring factors relating to the financial reorganisation of the HCI Group had a particular impact on both the statement of income and the balance sheet in 2010. We took decisive action in 2010 to sustainably improve the Company's risk-bearing capabilities as well as its equity and liquidity position. The release from guarantees and placement guarantees that HCI had issued prior to the financial and economic crisis primarily for ordered ships provided the Company with a boost. As a result, our contingent liabilities fell from around EUR 1.7 billion to about EUR 43.0 million within the space of a year. Added to this was the

conversion of bank debt into equity, which caused the equity ratio to rise from 29.4% to 43.4%. I would like to take this opportunity to sincerely thank all parties involved who have worked with us on the financial reorganisation of HCI. Together we have created a solid foundation for our Company – a “foundation with prospects”, to quote the title of our Annual Report 2010. Of this we are certain.

The HCI Group's earnings before interest and taxes (EBIT) improved year on year from EUR -24.3 million to EUR -1.8 million primarily as a result of the overall positive performance of its investments. The previously mentioned debt-equity swap generated significant earnings that far outweighed the additional expenses incurred from the release from contingent liabilities and thus led to a positive financial result of EUR 6.2 million. Together with slightly positive tax effects, the overall outcome was a consolidated net income for the year of EUR 5.0 million. 2010 was a difficult year for HCI's operating business; however, in terms of the financial restructuring of the HCI Group it was an extremely successful one.

So what is the next step? The following point is an important one to make: In spite of the recent turbulence on the markets, closed-end funds have not become any less attractive as an investment form. Closed-end funds have an investment period lasting ten or more years. They follow long-term market trends, not short-term price changes. Closed-end funds provide investors with exclusive access to investments in tangible assets, such as ships or real estate properties, that no other investment instrument offers in this form. The investments are based on precise budgeting that no stock investment or open-end investment fund can deliver. Take HCI as an example: The performance ratio for HCI's operational ship fleet is 98%, and for the entire tangible asset portfolio of ships and real estate 94%. As well as this, the earnings generated from closed-end funds are much less volatile than the market average. In 2010 HCI received the Seal of Sustainability 2010 from FondsMedia GmbH for this positive performance and its exemplary documentation of results. HCI sets the market standards.

“Infrastructure Connects the World” – this is the main theme of our 2010 Company report. As the world's population continues to rise, the global economy and global trade are expected to grow substantially over the medium

and long term, accompanied by increasing urbanisation in the world's metropolises and soaring demand for alternative forms of energy generation. These global trends will continue, regardless of short-term economic fluctuations or current political decisions. We believe that these long-term global trends offer exciting prospects for investments in infrastructure that will benefit world economies and provide our investors with opportunities for returns. We will therefore concentrate in future on investments in infrastructure where we have the necessary expertise and where there are long-term opportunities for investments made via closed-end funds: Ship – Real Estate – Renewable Energy.

Actively managing our existing funds, primarily in the asset class Ship, continues to be important too. Even though conditions on shipping markets have improved, it will take a while – as expected – for the liquidity situation to ease with regard to existing funds. In order to effectively perform the tasks required here, we have realigned HCI Treuhand's activities and have considerably increased capacities in the areas of fund controlling, restructuring management and investor relations. We are also developing tailored restructuring concepts and implementing optimal continuation solutions that serve the interests of our investors. In doing so we are making a significant contribution towards strengthening the confidence of our investors and sales partners. This reliability and professionalism is a key part of our efforts to drive the sale of new ship investments forwards again.

With regard to new business in 2011, our product range will focus on the asset classes Ship and Real Estate. Container shipping markets will benefit more than others from the recovery of the global economy. With affordable purchase prices, sustainable employment concepts and a solid finance structure, this market sector once again offers investors good entry opportunities. HCI is thus planning to introduce a range of new ship funds here in 2011. The first container ship fund, the 3,100 TEU ship HCI JPO Leo, is expected to be marketed in April 2011. In addition to this, HCI will also considerably expand its spectrum of real estate products in 2011. In line with the increasing economic importance of the global transport network and the growing significance of world metropolises, HCI is set to launch Berlin Airport Center on the market. This investment concept will provide a fresh new impulse to counter the market standard of a single-tenant culture that has taken hold in

the last two years. Further projects for real estate funds are also in preparation. In the area of Renewable Energy we will also conduct our business selectively and expand this segment on a gradual basis.

Dear shareholders and business friends of HCI Capital AG, 2010 was a year in which our Company was tested. Thanks to your support and the immense dedication of all of our employees, we passed this test with flying colours. Let us now move forward with a more refined profile, a solid financial base and new products together with our partners in Design and Sales. We hope that you will accompany us on the journey ahead.

Hamburg, March 2011

A handwritten signature in black ink, appearing to read 'R. Friedrichs', with a long horizontal stroke extending to the right.

Dr Ralf Friedrichs
Chairman of the Management Board

Management board of HCI Capital AG

Dr Ralf Friedrichs
Chairman of the Management
Board



Dr Oliver Moosmayer
Member of the Management
Board



Dr Andreas Pres
Member of the Management
Board



1983–1987

Studied economics and organisational sciences

1991–1995

Doctoral study at the Institute for Tax Management

1999

Examination as a tax advisor

1995–2001

Worked for various audit and tax advisory firms

2001–2003

Tax and legal consultant to the HCI Group

2003–2005

Managing Director, HCI Holding GmbH

2005–2007

Member of the Management Board of HCI Capital AG

Since 1 June 2008

Appointed Chairman of the Management Board of HCI Capital AG

1990–1992

Vocational training as a bank officer

1993–1997

Studied law

1997–2000

Hamburger Sparkasse, Group Development

2000

Doctorate in law

2000–2003

Head of Marketing, HCI Hanseatische Capitalberatungsgesellschaft mbH, Hamburg, responsible for HCI Group's PR and strategic development

2003–2007

Managing Director, HSC Hanseatische Sachwert Concept GmbH, Hamburg (a subsidiary of HCI Capital AG), and of various limited investment partnerships

Since 1 October 2007

Member of the Management Board of HCI Capital AG

1984–1990

Studied law at the Universities of Freiburg and Munich

1986–1992

Studied business administration at LMU, Munich

1994

Second state bar examination in Munich; doctorate in law

1994–2000

Consultant, THE BOSTON CONSULTING GROUP, Munich/Chicago

2000–2001

Chairman of the Management Board and CFO of Odeon Film AG, Munich

2002–2008

CFO of EM.Sport Media AG, Munich

Since 13 August 2008

Member of the Management Board of HCI Capital AG





Establishing effective transport links.

The international exchange of goods is growing faster than overall economic output as a result of the ever-increasing interconnectedness of the global network and the worldwide division of labour. Thanks to its high level of flexibility in handling containers and low transport costs, container shipping in particular forms the backbone of the worldwide exchange of manufactured products.

HCI: Reliability – Exclusiveness – Innovation

HCI in profile

The HCI Group has been operating in the market for closed-end funds since 1985 and is one of the industry's leading issuing houses. In over 25 years, the HCI Group has realised a total investment volume of around EUR 15 billion in 516 issues. Its traditional product portfolio comprises capital investments in the segments Ship, Real Estate, Secondary Life Insurance Markets, Private Equity Funds of Funds, Aircraft and Energy. The HCI Group's focus in the future will be on the asset classes Ship, Real Estate and Energy, where it will offer real investments in tangible assets that keep the global infrastructure network moving.



HCI – one of the leading issuing houses in Germany (as of 31 Dec 2010)

- 516 funds launched
- EUR 15 billion in investment volume realised
- EUR 6 billion in investor capital
- 123,300 investors
- Over 25 years of experience in designing and launching closed-end funds

The HCI Group's roots lie in closed-end ship funds. With a market share of more than 15% in terms of equity capital invested in closed-end ship funds, HCI is the clear market leader in this area. In addition to this, HCI has by far the most successful track record in ship investments completed, with a total of 195 ships sold.

Market leader in ship funds – overview of HCI's ship investments (as of 31 Dec 2010)

- 332 ships in operation
- 244 current ship funds
- 195 ships sold
- EUR 3.2 billion in current investor capital
- EUR 4.2 billion in investor capital (cumulative)
- EUR 12.1 billion in investment volume (cumulative)

Since 1985, more than 123,300 investors have invested in the HCI Group's products. At present, HCI manages around EUR 5 billion of end clients' equity capital. The Company works together with a select range of partners in order to utilise the potential created by ideas and market opportunities and develop valuable prospects and investment products for all involved.

The HCI Group's awards



Reliability: lasting market presence – transparency – performance

For the HCI Group, reliability is both a core value and an essential factor for success. An investment in a closed-end fund is a long-term investment, with terms of up to ten years and more. Maintaining a lasting market presence, providing regular and transparent communication about the investment and ensuring that the funds achieve their aims reliably are the foundations for our investors' and business partners' confidence.

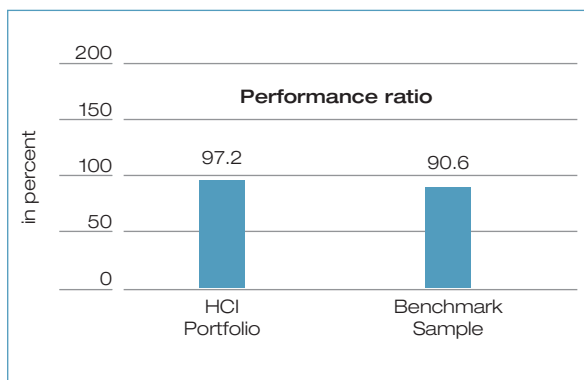
When it comes to reliability, HCI occupies a leading position in the market for closed-end funds, as is shown by the sustainability analysis carried out by FondsMedia in 2010. According to the study, out of 250 initiators of closed-end funds operating in 2001, only 37 are still present in the market today. In concrete terms, this means that only 14.8% of

the companies active on the market in 2001 are still active today with regard to an internet presence, actual performance records for their existing portfolio and an ongoing issuance activity. With a market presence stretching back more than 25 years and a level of transparency that sets the market standards, the HCI Group clearly stands out above the rest.

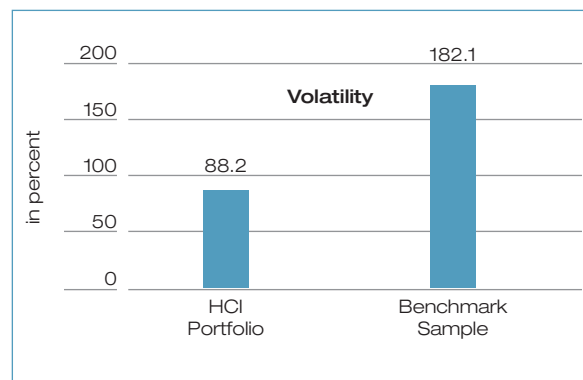
FondsMedia: "The precision with which results are documented in HCI's performance record make it one that should be used by others as a model"

Reliability is, however, only possible when there is a good overall performance by the investment products launched. HCI meets this requirement, as is especially clear from its performance ratio in ship funds already launched. At 97.2%, the figure is far higher than the market average. The earnings generated by the Company were higher and considerably less volatile in comparison with its competitors.

Comparison of results for HCI's historical ship funds with the benchmark sample



Source: FondsMedia Nachhaltigkeitssiegel 2010 HCI Capital AG



The performance rate for HCI's operational fleet is 98%, while the figure for the entire tangible asset portfolio of ships and real estate properties is 94%.

HCI sets the market standards. Fonds Media GmbH awarded the Seal of Sustainability 2010 to the HCI Group for its exemplary documentation of results and the extremely positive performance of its funds.



FondsMedia: *"To be awarded the Seal of Sustainability, a company must first of all have a long history in business as well as a detailed record which shows a predominantly positive performance. Based on the results it has presented, HCI Capital AG passes this test with flying colours."*

By thinking and acting in a transparent manner, HCI is able to provide its clients and partners with a long-term orientation and a quantifiable performance of its funds. More than 25 years of experience in the market make us a reliable partner.



Exclusiveness: exclusive products that enable portfolio diversification

For private investors, closed-end funds are a premium product. That is because this type of investment, which involves long-term capital commitment and relatively high minimum investment amounts, is aimed first and foremost at entrepreneurial and high net worth clients who specifically want to use the investment to diversify their portfolios. Investors in closed-end funds focus on long-term market trends, not short-term share price changes. They are given exclusive access to investments in tangible assets, such as ships and real estate properties, that no other investment instrument can offer in this form.

Classic limited partnership funds invest in physical investment assets. This means that investment parameters, i.e. purchase price, deployment or rental model, finance modalities and possible disposal scenarios, can be calculated. Based on these calculations, expected values for future cash flows over the planned term of the investment can be predicted and used as a benchmark for the actual performance of the investment. No share purchase or open-end investment fund can offer budgeting as precise as this.

The investor, just like the owner of a company, participates in the opportunities and risks of the investment. Limited partnership funds also offer tax advantages, e.g. through tonnage tax or double taxation agreements. Such advantages are only of limited use to people investing in shares



or investment funds. The investor is also involved in key decisions relating to the investment, such as significant changes to the financing structure, distributions and the final stages of the investment when the assets are sold.

All of this means that closed-end funds are a unique type of investment, and one that is not suitable for all investors. They have an exclusive character and can be regarded as a “pearl” in the client’s investment portfolio.

As one of the leading initiators of closed-end funds, we want our investors to be able to share in this exclusiveness. For us, exclusiveness means:

- working together with our expert partners to enable unparalleled access to investments in tangible assets,
- to ensure the best possible returns of the investments by an excellent asset management,
- providing investors with complete, prompt and transparent information on the performance of their investment at all times,
- involving investors in key decisions relating to the investment, thus allowing them to make decisions that are in their own best interests.



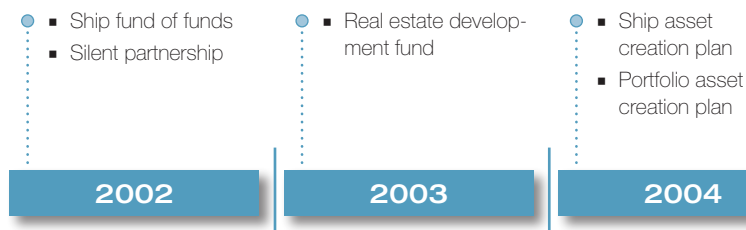
Fresh ideas: seizing market opportunities with innovative concepts

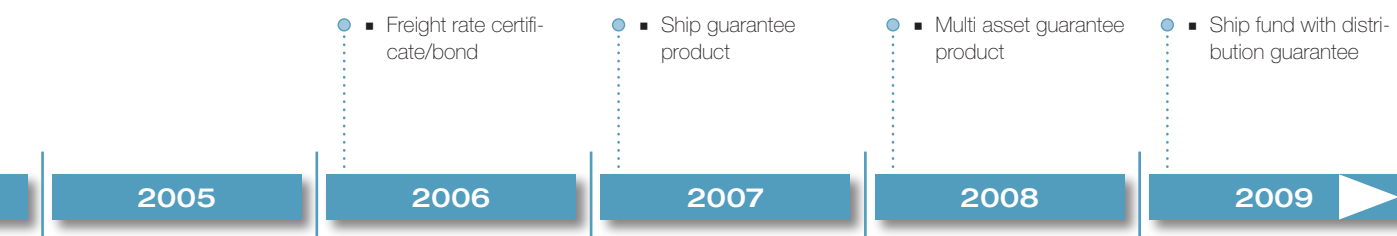
The HCI Group has always set new standards in the past by developing innovative investment concepts. It is our goal to continuously inject fresh ideas into the concept of closed-end funds and their underlying assets. In doing so, we aim to meet the specific needs of investors – for example, in relation to capital commitment or security – more effectively, target new groups of investors, and adapt our fund models to changes in taxation policy and regulatory conditions.

This list shows how HCI has created a broad foundation for investments in ships that is unmatched by any other issuing house. We offer products ranging from classic closed-end funds, to fund of fund concepts for a diversified ship portfolio investment, to asset creation plans for gradual saving in an even more diversified ship investment – specially designed as a starter product for younger investors with higher incomes – to ship funds with capital or distribution guarantees for security oriented investors right up to investments in publicly quoted ship companies. HCI HAMMONIA SHIPPING AG is listed on the stock exchange and via higher fungibility allows institutional investors to access this asset class too.

Fresh thinking is our foundation for creating the impulse needed to continuously improve these exclusive forms of investment in an ever-changing environment.

Brief overview of HCI's innovations









Making space for the world's growing population.

Basic human needs include having a place to live and work. The current trend is towards increasing urbanisation. In the future, ever more people will live in expanding cities. Real estate contributes significantly to the richness of society in developing countries – an investment with long-term prospects.

Infrastructure Connects the World

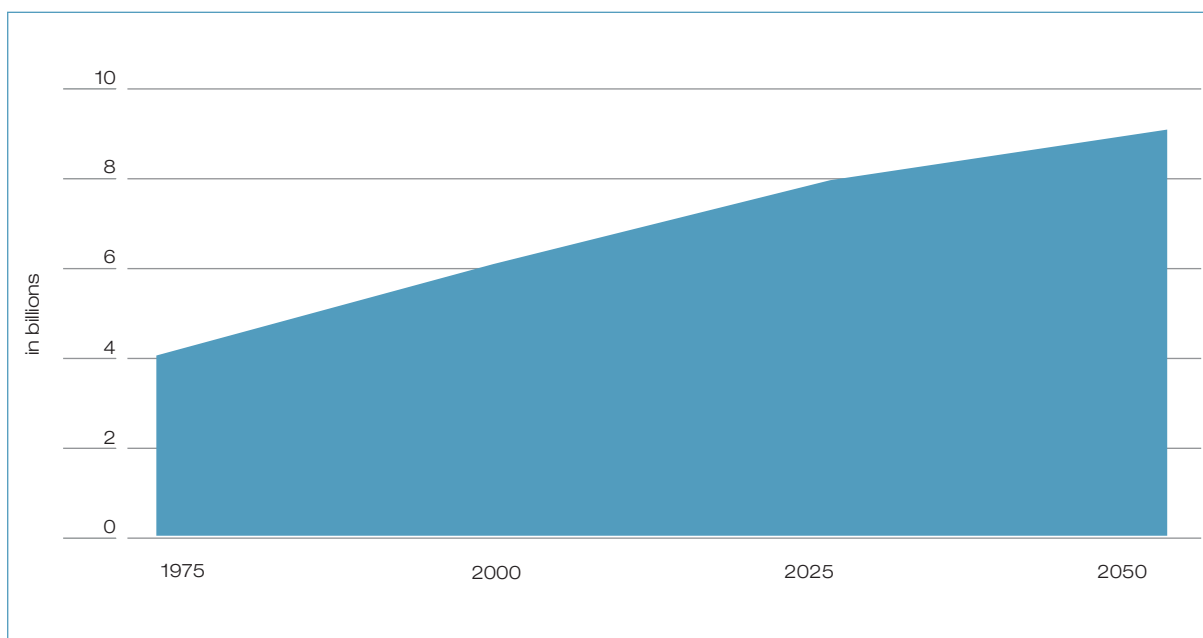
Infrastructure: the basis for economic growth and prosperity

Infrastructure is the key to productivity and economic growth. It reduces transaction costs and increases the efficiency of an economy. Infrastructure forms the basis for the global economic and trade growth that has been continuing almost uninterrupted for decades. A flourishing global economy needs modes of shipment and ports, transport and logistics, real estate and energy as well as modern telecommunications systems, to name but a few examples. Ever since the renowned economist Adam Smith explored how important infrastructure is for “the wealth of nations”

in the 18th century, it has been at the centre of economic and developmental policy. According to a study published by the World Bank in summer 2010, a doubling of infrastructural capital leads to an increase in national product of almost 10%.

A major trend in global development is that the continuing dynamic growth of the world's population will feed the necessity for investment in infrastructure. Since 1980, the world's population has grown from around 4.5 billion to more than 6.9 billion people as of the end of 2010. The United Nations expects the global population to increase to 9.2 billion by the year 2050.

Growth in world population

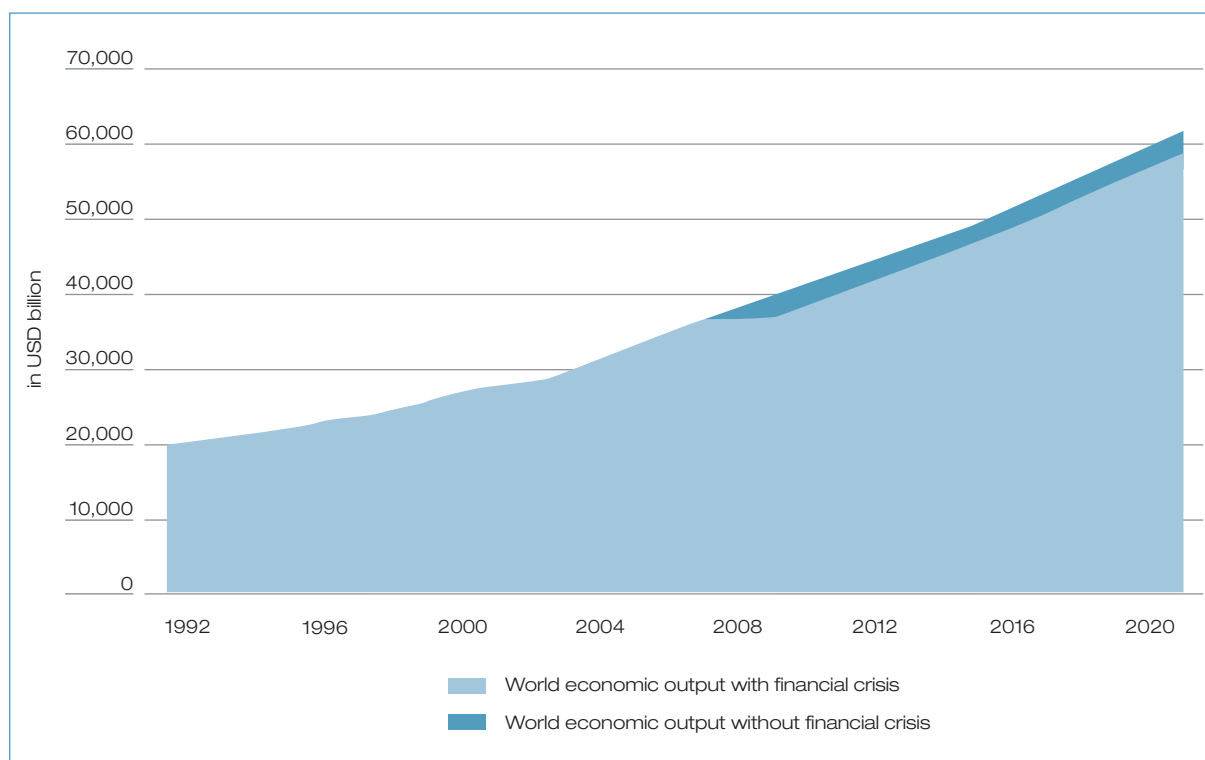


Source: UN – Department of Economic and Social Affairs: World Population Prospects: The 2008 Revision.

The future growth of the global economy will be determined by demographic changes, in terms of both supply and demand. Population growth influences the demand for

goods, the need for infrastructure and the supply of labour. Technical advancements and investments in physical and human capital are also drivers of growth.

Development of global GDP



Source: Langfristige Perspektiven von Anlegern in Sachwerten, HWWI 2009.

There are three long-term trends that will have a major impact on global economic development and encourage investment in infrastructure in particular:

1. Global production and global trade will continue on their long-term growth paths.
2. Urbanisation will continue to increase, meaning that people will conduct their business and private lives more and more in metropolitan areas.
3. Added to this will be a steady rise in the demand for energy and the associated challenges caused by dwindling resources and ongoing climate change.

We strongly believe that these trends offer exciting prospects for investments in infrastructure that will benefit world economies and provide our investors with opportunities for returns.

In terms of investments in infrastructure, the HCI Group is focusing on the areas where we have the necessary expertise and there are long-term opportunities for investments made via closed-end funds. These areas are:

- Transport and Logistics – in particular ships,
- Real Estate and
- Renewable Energy.

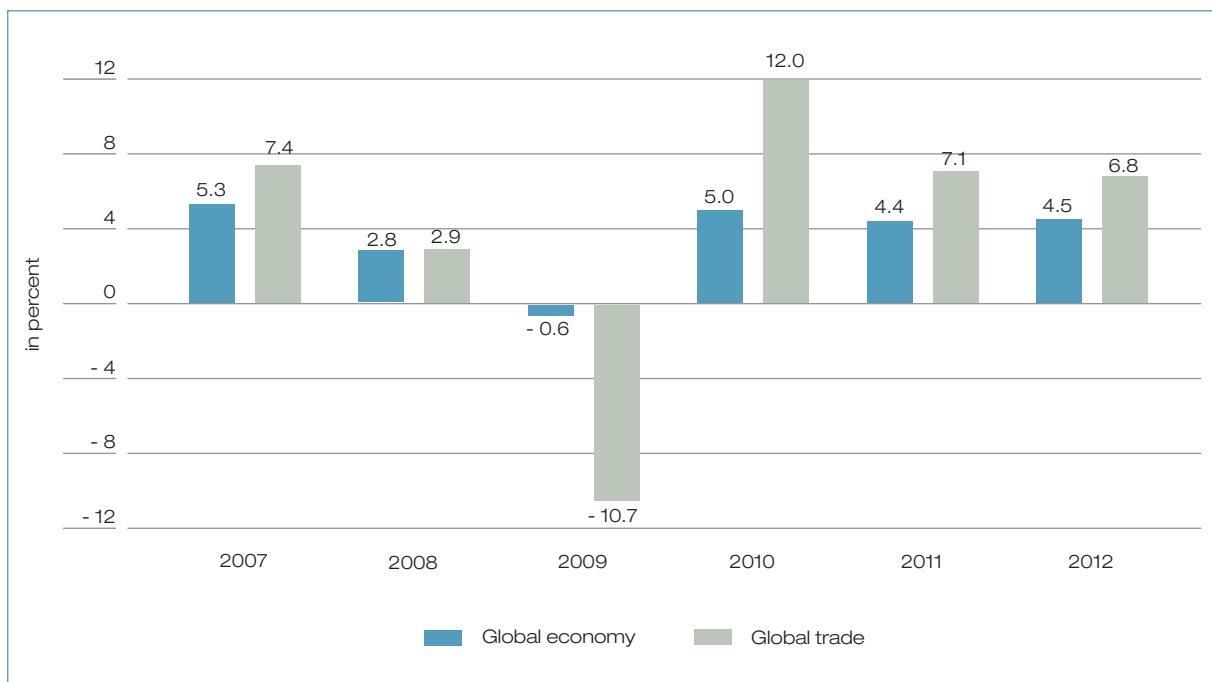
Global trend: growing world economy based on the division of labour – impulse for shipping

The global economy has been in a period of accelerated structural change for some time now. While the traditional power centres of the global economy in Western Europe and North America have lost some of their dynamism and are searching for new concepts, the economic importance of developing and emerging market countries is rapidly increasing. Today, China and India are the main drivers of economic development. However, other Asian countries as well as many economies in Latin America, the Middle East,

Africa, and Central and Eastern Europe are also advancing and increasing their weight in the global exchange of goods and services. The growth of the world economy is thus happening at a much broader geographic level. As a result, trade and transport routes have also expanded significantly. This means that new and more robust infrastructure is needed, especially in the area of transport and logistics.

Given the lasting influence of these growth drivers, even recessions as severe as the one seen in 2009 become less significant when viewed over the long term. Current economic developments and forecasts for the global economy and global trade are in line with the continuing growth trend.

Annual growth rates of the global economy and global trade (from 2010 forecast)

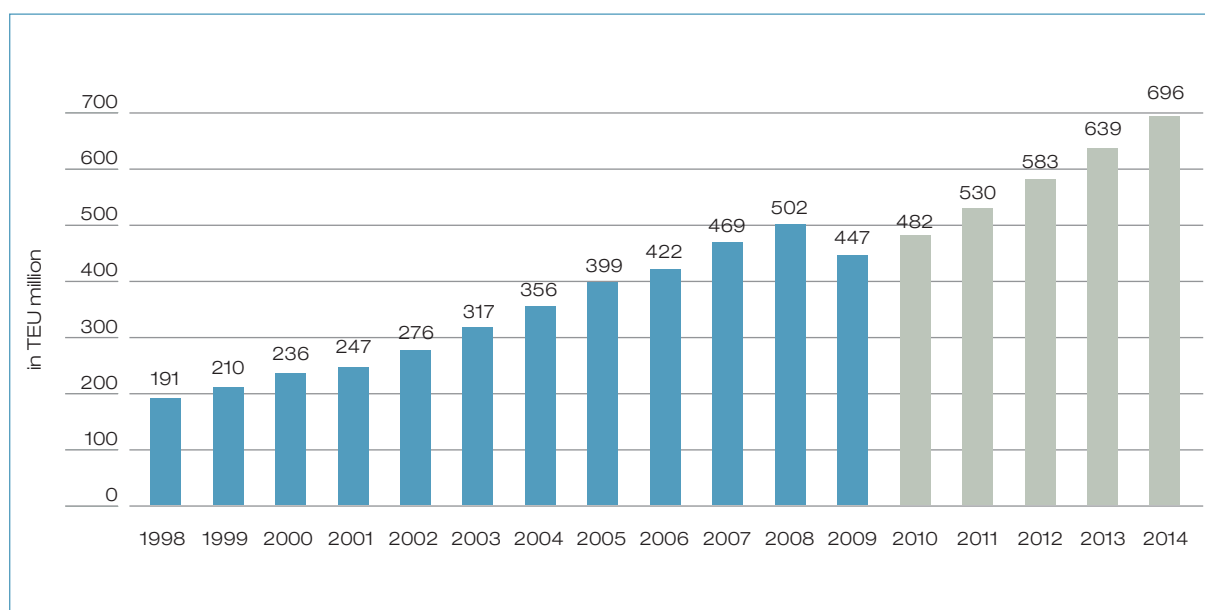


Source: IMF October 2010/January 2011.

Shipping markets in particular are benefiting from these developments. Almost all international goods trade (98%) involves transport by sea. Since the end of 2009, charter rates have risen dramatically, but for the most part they are

still below the long-term average figures. Forecasts for the amount of goods handled in container shipping predict a return to the long-term growth trend.

Amount of goods handled in container shipping (from 2010 forecast)



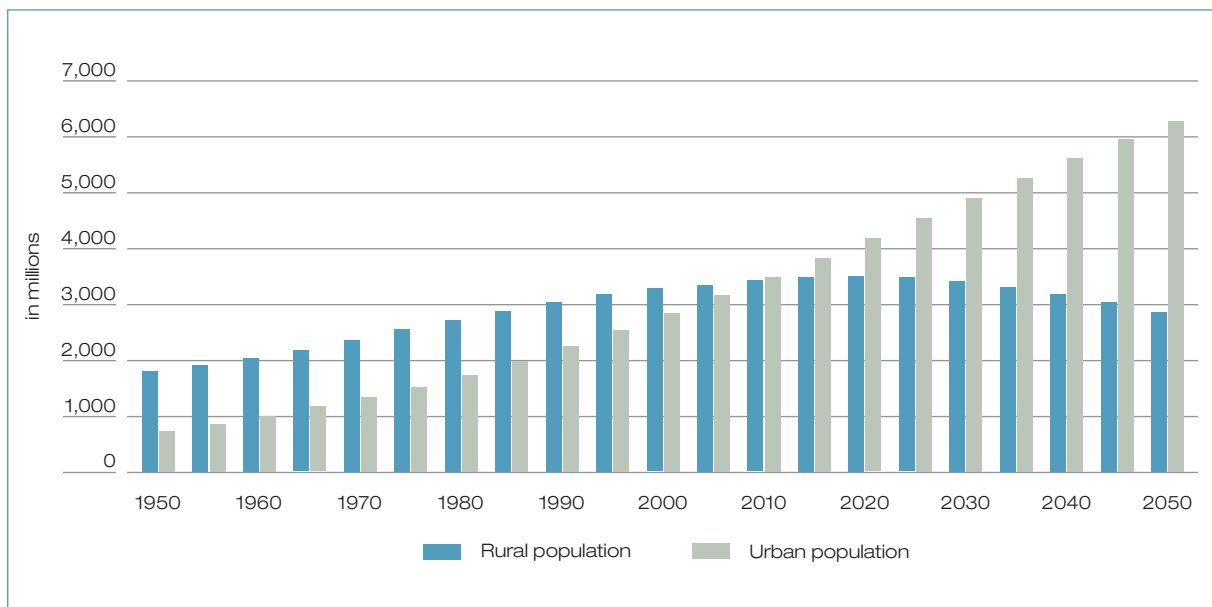
Source: Clarkson Research Limited 2009, FondsMedia MarketPoint 2010.

Global trend: increasing urbanisation – impulse for the real estate market

Alongside population growth, a second trend can be seen, namely the trend towards urbanisation. This is happening primarily in rapidly industrialising countries, but also in countries with underdeveloped rural regions that offer their

inhabitants an insufficient livelihood. For the first time ever in 2007, more people in the world lived in cities than in the countryside. The United Nations predicts that world-wide urbanisation will increase even further in the future. It is expected to rise to more than 60 % by 2030 and to reach around 70 % in 2050. In absolute terms, this means that the number of people living in cities will double between 2005 and 2050, from 3 billion to almost 6 billion.

Urbanisation: urban and rural population from 1950 to 2050



Source: UN – Department of Economic and Social Affairs (UN/DESA): World Urbanization Prospects: The 2009 Revision.

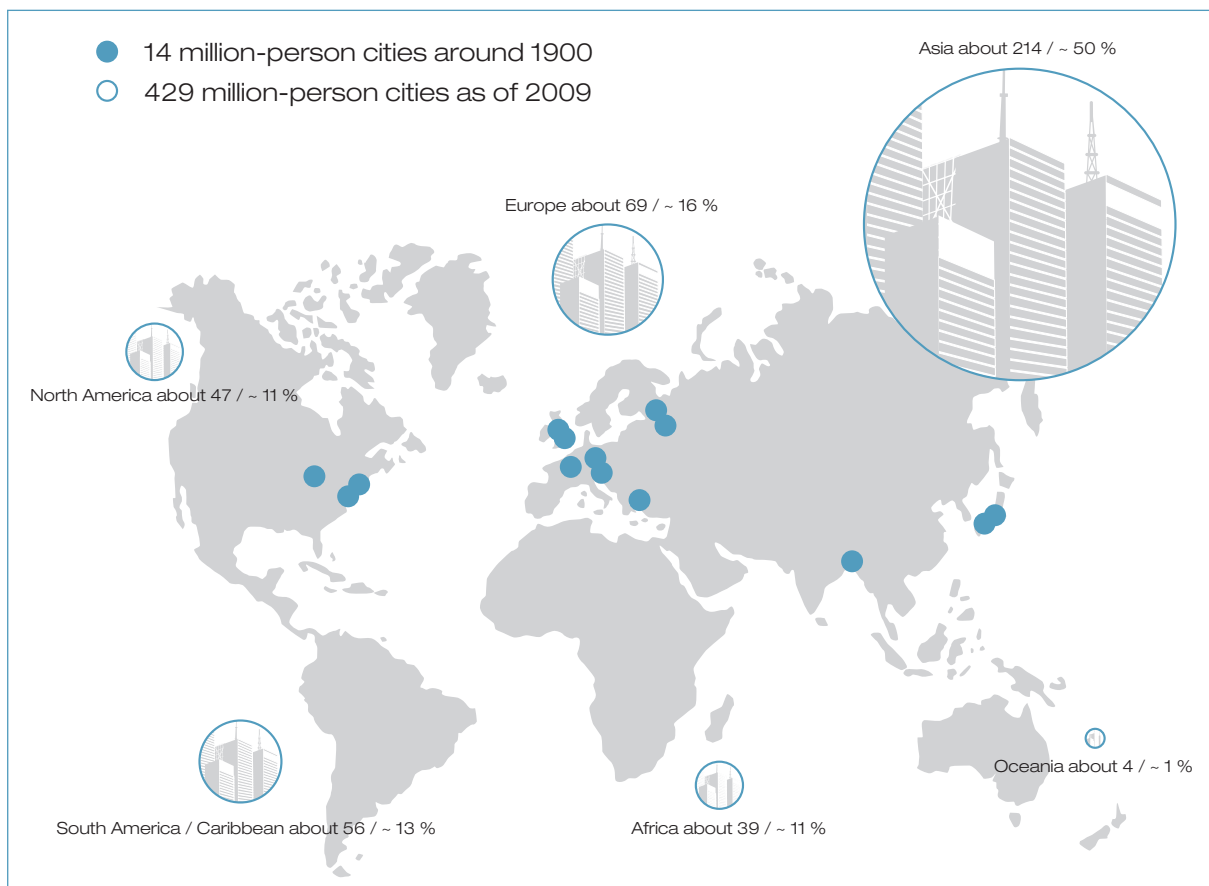
In many countries, rapidly growing million-person cities and metropolitan areas are developing in this process. These cities and areas frequently have well in excess of 10 million inhabitants, are currently the most important growth centres in the world and often account for more than 50 % of their country's overall resources and economic output. Examples include Mexico City, with almost 23 million people and accounting for around 60 % of Mexico's resources and economic output, Buenos Aires (approximately 50 % of Argentina's resources and economy) and Seoul (South Korea). These urban areas have seen their number of inhabitants pass the 10 million mark since the 1990s in particular. Despite having an urbanisation level of just 30 %, China has more than 20 cities with a population in excess of 5 million. A similar trend can be seen in India at present. While most of these metropolises are in Asia, Latin America has the most people living in cities.

Urbanisation in the industrialised countries of Europe had already started to pick up pace in the 1950s. There are

signs here too that the percentage of people living in cities will rise further in the coming years.

A rapidly growing population and increasing urbanisation are the driving factors behind the huge need for investment in infrastructure. The increasing demands placed on infrastructure are having an impact in the real estate sector. Airports, seaports, container ship terminals and logistics facilities all need to increase their capacities. International transport hubs are more attractive than ever to industrial companies and service providers. The demand for commercial real estate and office buildings at these hotspots in the globally linked economy is rising as a result. This also applies to Germany, where the domestic economy is inextricably linked to international division of labour. Although Germany has a sufficient stock of real estate overall, in many cases it does not have the necessary degree of regional distribution and does not meet modern requirements. There is thus also a considerable need for investment here too.

Million-person cities – 1900 compared to 2009

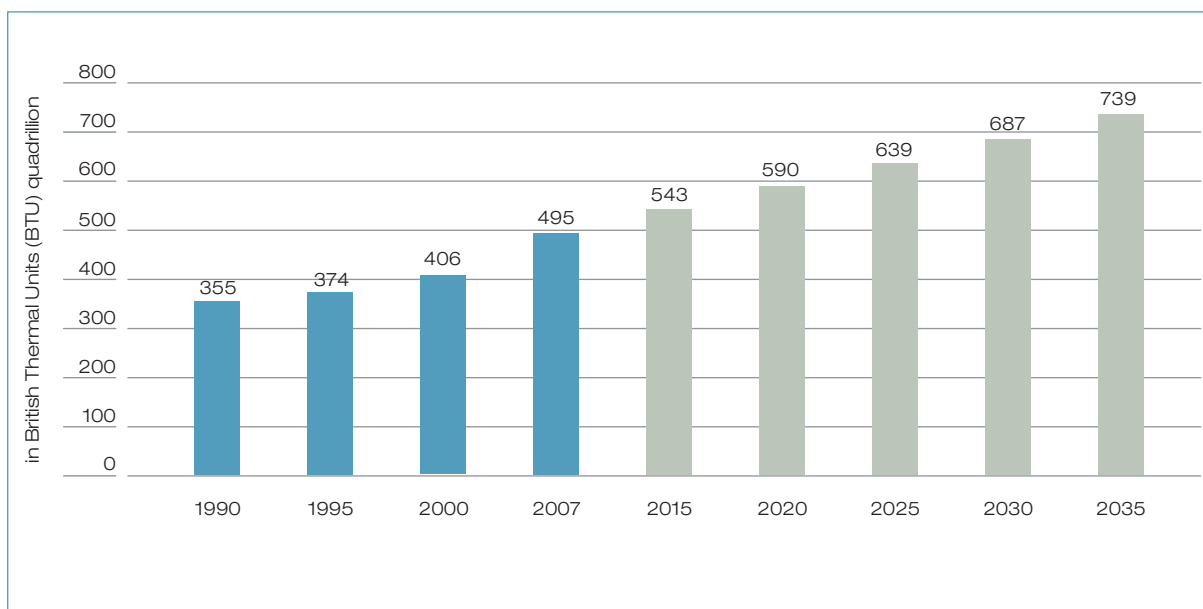


Source: Bundeszentrale für politische Bildung, own calculations.

Global trend: meeting the rising demand for energy on a sustainable basis

In addition to growth in world trade and increasing urbanisation, another global trend is having a fundamental impact on the infrastructure of our economies: the rising worldwide demand for energy that is environmentally friendly and does not damage the climate.

Worldwide energy consumption, 1990–2035 (from 2015 forecast)



Source: U.S. Department of Energy 2010.

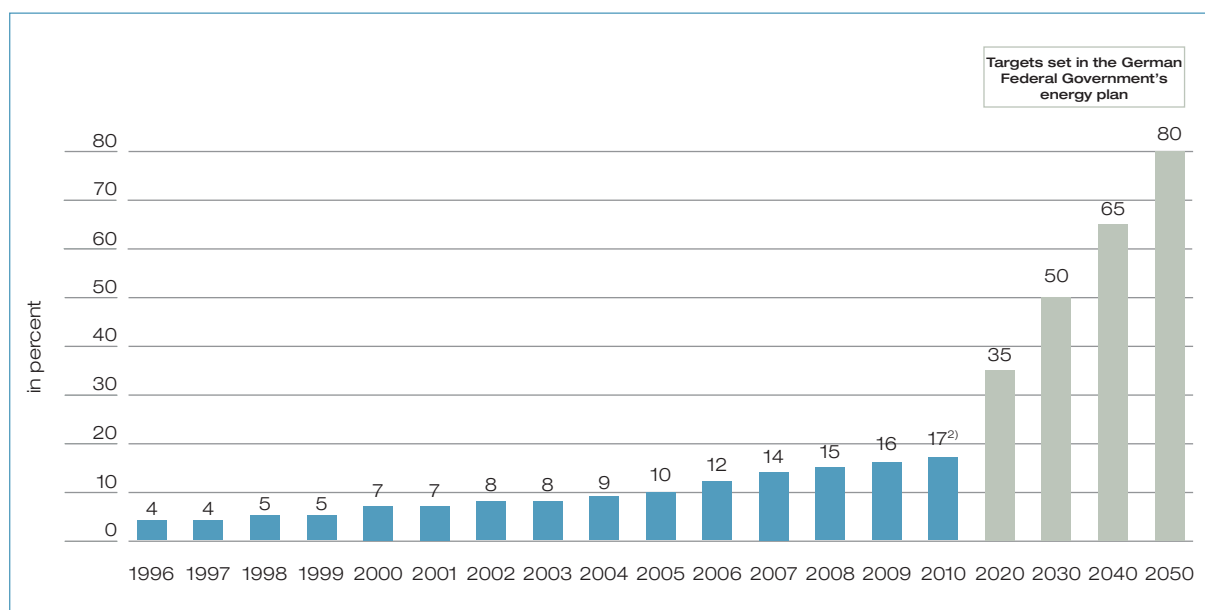
Most of the world's current energy supply comes from fossil fuels such as oil, coal and natural gas or from nuclear fuels like uranium. However, the supply of these fossil fuels is finite and nuclear energy is becoming less and less socially acceptable. These fuel types contrast with renewable energy sources, which are – in human discretion – regarded as inexhaustible and therefore sustainable. Renewable energy comprises hydropower, wind energy, solar energy and geothermal energy.

In order to reduce CO₂ emissions worldwide, political and social changes have taken hold in recent years, with the focus now on meeting the demand for energy on a sustainable basis. The topic of renewable energy is at the centre of politics, economics and society in general. In Germany, renewable energy accounted for around 16% of total electricity generated in 2010.

The German Federal Government and Parliament approved the Energiekonzept 2050 in autumn 2010. This plan calls for 80% of electricity consumed to come from renewable energy by 2050 and for energy consumption to be halved

by then. CO₂ emissions should fall by 80% to 95% as a result. Similar initiatives have been launched in many other countries.

Percentage of electricity from renewable energy sources¹⁾



1) Based on Germany's gross domestic electricity consumption.

2) Estimate.

Source: BDEW, BMWi 2010.

Renewable energy will be generated for a regulated market and fed in at government-fixed prices. Although there are various political concepts for promoting renewable energy, the overall direction is clearly stipulated. This makes investing in sustainable energy production a lucrative investment

with limited risk. And regardless of this, the steadily rising demand for energy and technological advancements will ensure that renewable energy offers considerable growth potential for profitable investments.





Without energy, people cannot conduct basic activities.

The challenge lies in supplying power in the future on an environmentally sustainable basis so that the energy requirements of a growing population can be met. The sun provides more energy every day than is needed by the entire human race. This means that photovoltaics, in addition to other forms of renewable energy, is one of the pillars of a sustainable energy supply.

Investments in Infrastructure

Transport and Logistics – Ship

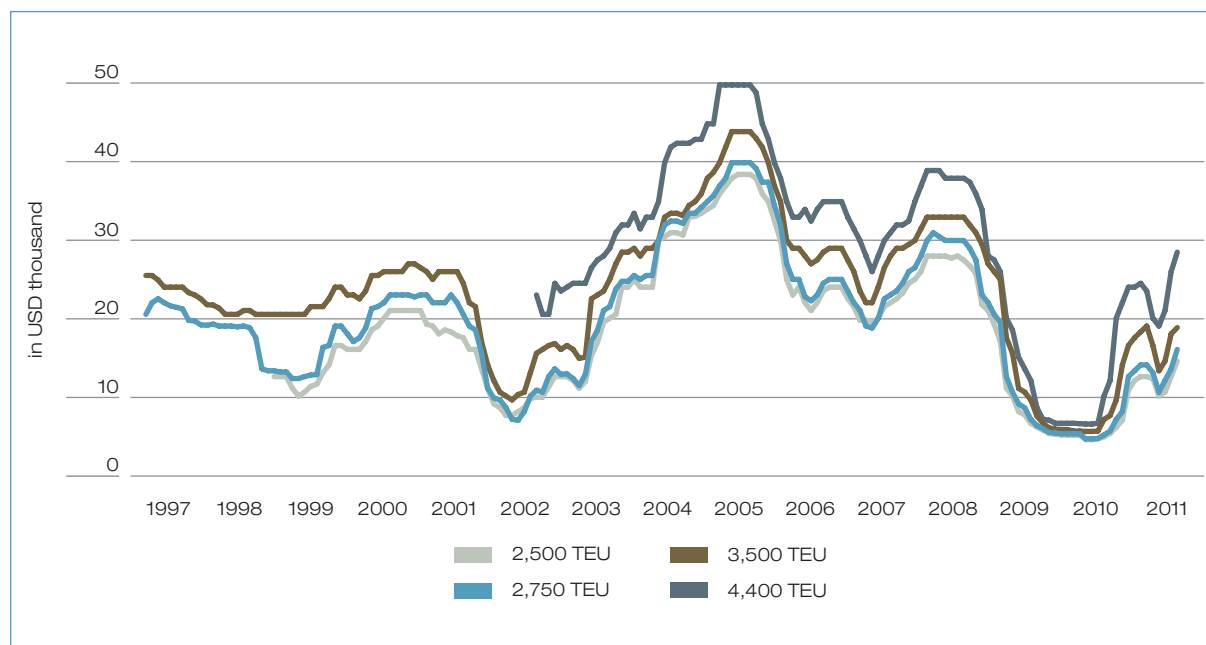
HCI SHIPPING OPPORTUNITY – seizing market opportunities

In 2010, HCI offered the HCI Shipping Opportunity fund to risk-aware investors who wanted to take advantage of opportunities for returns in shipping markets by making anti-cyclical investments. The cyclical fluctuations in the shipping markets provide attractive opportunities to acquire high-quality ships at favourable prices. When the shipping markets recover, the ships will quickly benefit from increasing charter rates. It is intended that the ships will eventually be sold to realise any increase in value. The HCI Shipping Opportunity fund exploits what are currently still advantageous market conditions by investing in new or used ships and then operating them. A total of EUR 11 million in equity

capital was raised for the fund before subscriptions were closed on 31 December 2010. The shipowner Peter Döhle Schiffahrts-KG has an interest in the fund company worth EUR 1 million.

In November 2010, the ship fund invested at favourable conditions in a 2,800 TEU container ship newbuild belonging to the northern German shipyard Nordic Yards. The ship was acquired at a price that was 30% below the original price in the newbuild agreement and is expected to be delivered as early as May 2011. The financing is guaranteed and a chartering agreement has already been brokered via Peter Döhle Schiffahrts-KG for the first two years. This chartering covers the operating and financing costs, which means that the investment has a solid foundation and the ship has a good starting position in the resurgent charter market.

Container shipping charter rates 1997–2011



Source: Clarkson Research Limited 2011 (see disclaimer p. 162); Container shipping charter rates 6–12 months.



Real Estate

HCI Berlin Airport Center – at the hub of the metropolis's traffic

What train stations did in past centuries, airports are trying to do now: to be more than just transit stations for passengers or loading bays for freight. The efforts being made by airports are capturing the attention of many national and international companies: airports are no longer just places for transport connections but are now seen instead as business quarters that offer advantages. At a time when flexibility is becoming more and more important for businesses, companies that rank mobility high on their list of priorities are finding a new home at airports.

By locating near airports, globally operating companies can obtain advantages in terms of mobility and logistics. Since 1978, air traffic has grown by an average of 5.3% per year. Airports are the hotspots of today's business world and, according to a study by the consultancy A.T. Kearney and the Fraunhofer Institute for Material Flow and Logistics, they are increasingly being turned into "business cities" with offices, hotels and conference centres.

Top regions in Germany

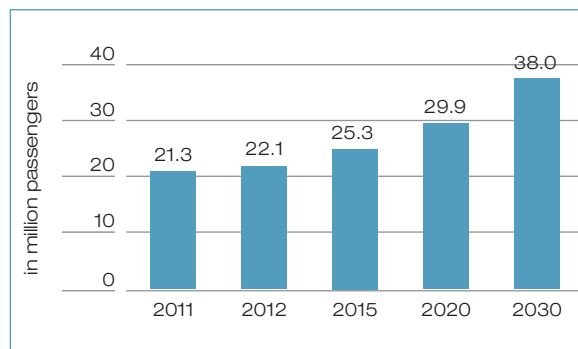
Rank	Region	Index
1	Hamburg	53.7
2	Berlin	52.5
3	Munich	43.2
4	Frankfurt	36.9
5	Cologne	31.7
6	Stuttgart	29.3
7	Hanover	28.0
8	Düsseldorf	26.7
9	Biberach	25.8
10	Esslingen	25.6

Source: Prognos Zukunftsatlas Branchen 2009.

Berlin-Brandenburg is a growth region. Germany's capital city and its immediate surrounding area is not just attracting a host of new inhabitants. The number of new companies in Berlin is also well above the national average. Within the German economy's most important growth industries, a study by the renowned economic research institute Prognos puts Berlin in a formidable 2nd place out of Germany's 25 regions that have promising fields characterised by

strong growth. The region's growth is also increasingly attracting the attention of companies and investors from all over Europe.

Passenger forecast for the Berlin-Brandenburg International Airport 2011 to 2030



Source: AviaSolutions.

With HCI Berlin Airport Center – a real estate in an excellent location – HCI brings an innovative investment concept on the market in this area. This new HCI office real estate property is characterised by an attractive and competitive location. Berlin's new airport, which will also be its only airport once it is opened, Berlin Brandenburg International (BBI), will be an international hub for worldwide passenger and freight transport. BBI will be Germany's third-largest and most modern international airport. It will become an attractive location for national and international companies that rank flexibility and mobility high on their list of priorities.

Top location – sustainable standards – positive earnings forecast

Overview of key details:

- Non-reproducible 1A location
- Green Building – DGNB Gold
- Diversified tenant structure (multi-tenant)
- Fully let with a minimum term of 10 years
- Good purchase price significantly below the market value
- Stable and high earnings expected thanks to modern and flexible rental area
- Planned term approximately 12 years
- Expected return of around 164%



Energy with a future

HCI Solar funds

Within the relatively young segment of Renewable Energy, the HCI Group has developed its own expertise in recent years. It is one of the Company's key objectives to expand its team of experts in this area further in order to provide our investors with long-term access to this growth segment. With its funds HCI Energy 1 Solar and HCI Energy 2 Solar, the HCI Group has already brought to market four solar energy parks as open area facilities in southern Germany.

Within the current market environment solar energy plants presently comply best with the requirements for steady investment concepts via closed-end funds. In the medium and long term, we also anticipate attractive investment chances especially for wind energy and bio-energy plants.

The sustainable output of the four solar energy parks:

- Total nominal power: around 14.8 MWp on 50 ha of land (around 60 football pitches)
- Expected electricity output: average of 15.6 million kWh per year
- Electricity supply for around 4,100 average households per year
- Environmental protection: prevention of around 187,000 t of climate-damaging CO₂ over a period of 20 years

The investment

	Energy 1 Solar (Igling-Buchloe and Neuhaus-Stetten)	Energy 2 Solar (Dettenhofen and Oberostendorf)
Equity capital invested (excluding premium)	EUR 10.20 million	EUR 4.86 million
Total capital invested	EUR 34.3 million	EUR 17.80 million
Stable feed-in remuneration of	35.49 cent/kWh	31.94 cent/kWh
Expected total distribution before taxes (excluding revenues from sale)	209%	221%
Previous distributions	In 2010: 6% (as per forecasts)	Fund was only set up in 2010

The solar energy parks



The HCI share and investor relations

Performance of the HCI share in 2010

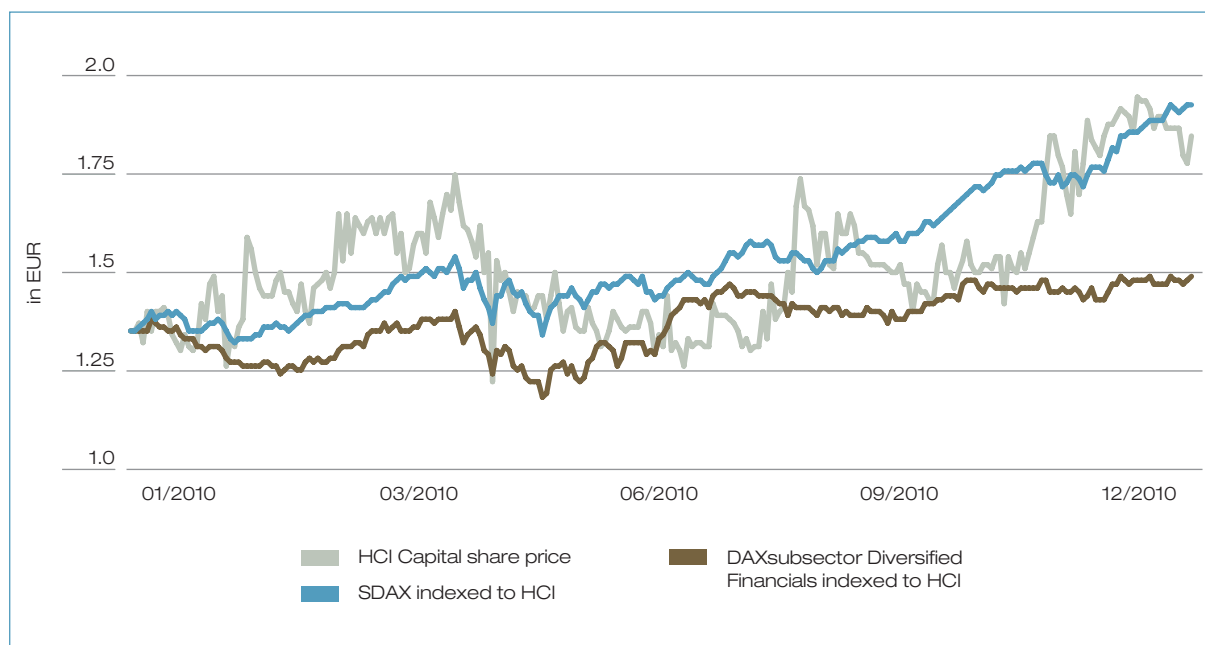
After international stock markets largely moved sideways in the first nine months of the year against a backdrop of unreliable economic assessments, renewed fears of another crisis in the financial sector and the public debt crisis in some euro zone countries, a sharp upward trend took hold in the fourth quarter. The German leading share index, the DAX, closed 2010 up 16.1% at 6,914 points, while the MDAX recorded a rise of 34.9% to close the year at 10,128 points. The SDAX, which ended the year at 5,174 points, managed an impressive performance of 45.8%.

The HCI share was also able to recover from its lowest points in 2010. Based on Xetra closing prices for 2009 and 2010 of EUR 1.31 and EUR 1.85 respectively, it recorded a positive performance of 41.2% for the year as a whole, although in absolute terms the closing price was at a low level. In addition to the overall economic upturn and the revival of shipping markets, which are especially important for HCI, the successful completion of the financial reorganisation at HCI Capital AG had a major impact on the recovery of the share price. In the course of 2010, the share moved between an annual low of EUR 1.22 recorded on 7 May 2010 and a high of EUR 1.95 on 10 December 2010. The average number of shares traded daily on the stock markets rose again to just under 15,000, while average daily turnover increased from EUR 9,000 in the previous year to around EUR 23,000 in 2010.

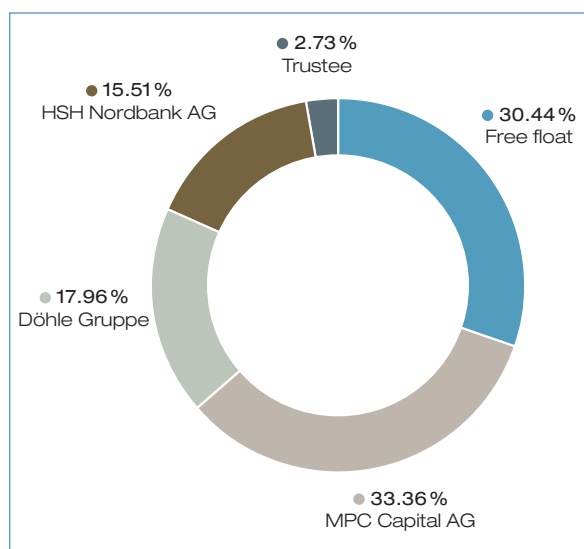
Continuity, reliability and transparency in communication

The aim of our investor relations efforts is to maintain an ongoing, reliable and open exchange of information with capital market participants. We fulfilled this objective during the turbulent times of 2009 and 2010 as well, by continuing to provide the same information as always in our financial communication. We will continue to conduct our investor relations activities in the same way in the future, even though interest in capital markets is currently lower than before the crisis and the number of shares in free float has decreased as a result of the financial reorganisation of the Company. In addition to mandatory publications, our investor relations programme also includes regular telephone conferences with financial analysts and investors when the annual financial statements are being published and for each interim report. As well as this, shareholders and interested investors can contact us for information every day by calling or e-mailing. When in contact with capital market participants, it is important that we communicate both current information and long-term prospects in order to provide a balanced assessment of the Company's sustainable development. We ensure that all investor groups are treated equally by providing information to them simultaneously. This is made possible by the publication of current company presentations and more detailed content on our website. As a result, private investors who do not attend our events for institutional investors and financial analysts have an opportunity to form a qualified opinion of the Company by listening to recordings of conference calls and reading presentations by analysts.

Performance of the HCI share in comparison with the SDAX and DAXsubsector Diversified Financials



Shareholder structure as of 31 December 2010, changed as a result of the financial reorganisation



Key data for HCI share

Share category	No-par-value bearer shares
Number of shares admissible for trading on the stock exchange	24,000,000
Market segment	Prime Standard/Official Market
Listings	Frankfurt Stock Exchange, Hamburg Stock Exchange
First day of trading/issue price	6 October 2005 / EUR 20.50
ISIN	DE000A0D9Y97
WKN	A0D9Y9
Exchange symbol	HXCI
Reuters	HXCI:Gn.DE
Bloomberg	HXCI:GR
Common code	022854488
Number of shares not admissible for trading on the stock exchange ¹⁾	5,354,116
ISIN	DE000A1EWWW2
WKN	A1E WWW

Key indicators for HCI share

	2010	2009
Total number of shares as of 31.12 ¹⁾	29,354,116	24,000,000
Subscribed capital as of 31.12 in EUR million	29,354,116	24,000,000
Year-end closing price in EUR (Xetra)	1.85	1.31
High in EUR (Xetra)	3.53	2.50
Low in EUR (Xetra)	1.22	1.10
Market capitalisation as of 31.12 in EUR million	54.3	31.4
Earnings per share (basic) ²⁾	0.19	-2.33
Earnings per share (diluted) ³⁾	0.19	-2.33
Dividend per share (2010 proposal)	0.00	0.00

1) New shares from the non-cash capital increase on 10 August 2010.

2) Based on 24,000,000 shares in 2009 and 26,098,000 shares in 2010 as a weighted average.

3) Based on 24,000,000 shares in 2009 and 27,330,000 shares in 2010 as a weighted average.

Financial calendar

28 March 2011	Publication of Annual Report 2010
11 May 2011	Publication of Three-Month Report 2011
July 2011	Annual shareholders' meeting
12 August 2011	Publication of Semi-Annual Report 2011
14 November 2011	Publication of Nine-Month Report 2011

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A photograph of a wooden deck with a glass railing, overlooking a body of water and distant hills. The deck is made of light-colored wooden planks, and the railing consists of dark vertical posts and a glass panel. The background shows a clear blue sky and a calm sea. The image is used as a background for the text.

A question of perspective.

Choosing the right location opens up broad and exciting prospects – in terms of both space and time. The view from a superior position makes it possible to capture the greater interrelation. This is true both in geography and in business.

Management report of HCI Capital AG and the Group for the 2010 financial year

A. Business and economic environment

I. Business activities

Diversified product portfolio

Founded in 1985, the HCI Group is one of the leading independent initiators and providers of closed-end funds in Germany. The HCI Group's traditional product portfolio comprised 516 investment products as of 31 December 2010 with cumulative investor capital of around EUR 6.0 billion in the product areas of Transport and Logistics, Real Estate, Energy and Commodities, Secondary Life Insurance Market funds and Private Equity funds of funds. By far the largest part of the portfolio relates to the 430 closed-end ship funds developed by the Company since its foundation. These funds have a cumulative investor capital of approximately EUR 4.2 billion. The HCI Group also offers risk-diversified fund-of-fund structures and asset creation plans within individual product classes. The innovative products with capital guarantees that were introduced into the market in 2007 have likewise established themselves as an integral part of the HCI product portfolio. These also include certificates and bonds for the Baltic Dry freight rate index.

As part of the Company's strategic enhancement in 2010, the executive management took the decision to focus the HCI Group's investment products in future on the asset classes Ship, Real Estate and Renewable Energy.

Broad range of services

The HCI Group's business model is based on complete coverage of the entire value-added chain. Starting with acquisition and commitment of investment assets, the spectrum of services offered by the HCI Group ranges from the design of proven funds and guarantee products, their marketing via varied channels up to active asset management and trust management in the after sales services. This approach provides a sound base to achieve close networking in relevant markets, synergy between the individual levels of the value-added chain and, not least, sustainable value-added contributions for both our clients and our shareholders.

The search for, and identification of, suitable investment properties is carried out by our **design department** for each product area. Depending on the product concept, the design department is supported by experienced partners as needed. The process of selecting target funds for the real estate fund-of-fund concepts is supported by our US partner, the Townsend Group. For its current ship funds, the HCI Group relies on its long-term collaboration with more than 60 large and medium-sized shipowning companies.

Before inclusion in a project, the marketability of each product is reviewed in a selection process carried out by the most important functions (Sales, Design, Management and the Management Board). A highly qualified design team, supported by specialist lawyers, auditors and tax consultants, also generates the impulse required for the further development of existing products and the development of innovative product ideas. The Management Board approves new products before the commitment to the respective properties and their conceptual completion for sales. Depending on the total amount of any financial obligations that the HCI Group undertakes when committing products to properties and marketing them, the Supervisory Board of HCI Capital AG must also provide its approval.

With regard to **sales**, HCI employs a broad multi-channel strategy with a regional focus that enables its sales partners to provide comprehensive local support. The sales partners, who offer HCI's products to private investors, mainly comprise independent financial agents, banks and financial sales networks. The HCI Group's objective is to achieve the broadest possible diversification of its sales channels in order to reduce dependence on individual sales partners. The experienced sales team and the product management team together provide comprehensive support to the sales partners. Further services such as sales training in the area of closed-end funds are available to the sales partners through the HCI Academy.

The HCI Group generates design fee and sales commission through the services offered by its **Design and Sales** areas. They have a significant influence on the Company's revenues and gross profit.

After Sales Services comprise the trust management of equity capital placed as well as other services for about 123,300 investors and currently 244 funds. Closed-end funds normally have long terms, sometimes more than 10 years. After sales services are provided throughout the whole term of the fund and mainly involve assisting investors with all of the commercial and regulatory aspects of their investments within the context of trust management. Further services include continuously monitoring and assessing the relevant markets, obtaining key data, compiling short reports and organising payment flows between investors and individual funds. The trust management and service fees that are earned from these activities and paid from the active funds make another significant contribution to the HCI Group's revenues and gross profit. These fees provide HCI with an ongoing source of income over a long period of time and thus contribute to the stability of its commercial success.

Through its involvement in various areas of **Asset Management**, the HCI Group also taps into other services in the upstream and downstream value-added chain of its financial products. This includes the management of investment assets in funds launched by HCI in the areas of Ship, Real Estate and Secondary Life Insurance Market. For ship funds launched by HCI, asset management (the operation and disposal of an investment asset) is undertaken by the executive shipowner. HCI collaborates here with around 60 different shipowners. Ship fund of funds and fund companies that are structured as asset creation plans or guarantee products are managed by employees of the HCI Group. Funds in the asset classes Real Estate and Secondary Life Insurance Market are also managed by employees of the HCI Group. The fund management fees also provide another source of income for the HCI Group. If ships are successfully sold by fund companies, the HCI Group often shares in the proceeds from these, too, provided that certain returns thresholds are exceeded. For some individual private placements, the HCI Group also receives recurring performance-based fees, which are mainly dependent on successful asset management of the fund company.

Another important component of asset management is the identification and timely commitment of suitable investment assets for fund products designed and managed by HCI. The pre-financing of these assets by banks until all equity capital is raised from investors is an important element of the HCI Group's business model, particularly in the asset classes Ship and Real Estate. Due to favourable market developments in recent years, the HCI Group has also generated considerable other operating income from the

asset pipeline built up in previous years. It has achieved this by brokering ship sales. Due to the financial and economic crisis, this asset pipeline led to significant risks for the HCI Group that had to be reduced. As a result, in August 2010 the HCI Group was fully released from all of the significant contingent liabilities that it owed to banks in this regard (cf. section A.II Restructuring of the HCI Group).

Pre-financing of investment assets will continue to play an important role in the development of future fund projects. As a result of a fundamental change in financing conditions, the previous forms of pre-financing will, however, decrease in the future and be replaced by various alternative mechanisms (such as vendor loans). In light of this, the HCI Group has developed new concepts to enable ongoing product availability. These include asset commitments that do not necessitate pre-financing or pre-financing guarantees by HCI. Instead, they involve significantly lower penalties in the event that a placement is not successful. With regard to committing assets for ship funds, the HCI Group has entered into preliminary agreements with an array of shipowners. These agreements enable continued access to the asset pipeline released from liability, without necessitating pre-financing obligations on the part of HCI. Finally, the HCI Group considerably strengthened its equity base by converting debt into equity in August 2010. In doing so, the HCI Group has significantly increased its flexibility, enabling it to also obtain pre-financing for new product projects using its own liquidity selectively.

Expansion of target client groups

The HCI Group's product range for traditional closed-end fund investments is directed primarily to meeting the needs of high net worth individuals. As well as sustainable returns on the investment, tax optimisation is often an important consideration too. The minimum investment required for the limited partnership interest is also relatively high in comparison with other types of investment.

The introduction of asset creation plans and structured products (closed-end funds with capital guarantees, certificates) allows the HCI Group to attract new target groups amongst private individual investors. This includes clients who are still in the asset creation phase and are therefore given easier access to a broadly diversified portfolio of closed-end fund investments through asset creation plans with regular and comparatively small contributions. It also includes clients who are looking for access to investments with shorter investment terms, lower investment amounts or greater risk hedging, such as is provided by the ship sector.

In 2007, the HCI Group also started to design products in the ship sector for institutional investors. In the same year, the publicly listed HCI HAMMONIA SHIPPING AG was placed with a wide spectrum of banks, insurance companies and pension funds. In light of the downturn on the capital markets, there has been insufficient demand for new business in this client sector since 2008. The HCI Group considers that there is substantial demand potential amongst institutional investors in the medium and long term for alternative investments in tangible assets. The potential circle of investors includes banks, insurance companies, pension funds, foundations and family offices. The intention is to use this situation to expand business in this client segment. It offers the HCI Group the possibility of tapping into additional business potential and increasing the percentage of regular income using the commission structures specific to the institutional investment business.

Performance-based management

After revenue declines in 2009 and 2010, one of the HCI Group's most important goals is to return to the growth that it has enjoyed for many years. Diversification of the range of products, services and target clients continues to provide a foundation to cushion market fluctuations in individual business areas and to increase regular income from trust management as well as from asset management, the Company's earnings mainstay. In terms of the relevant asset classes, the HCI Group will in future focus its business on infrastructure investments in the areas Ship, Real Estate and Renewable Energy.

Annual targets are based on the planned equity capital placed in the individual product areas. This is a key factor in the success of the HCI Group and determines gross profit and future regular income from trust management and from asset management activities. The second key figure for management is earnings before interest and taxes (EBIT) in accordance with IFRS. Our product design and sales, trust management and asset management activities are planned in line with these key figures and are continuously monitored and managed by our controlling team. Accordingly, since the 2009 financial year the HCI Group has reorganised its segment reporting, which was previously classified by product area, so that the operating segments Design and Sales, After Sales Services (trust business) and Asset Management now disclose EBIT separately.

Maintaining a good credit rating for the HCI Group is another key aim of business and financial policy. In this respect, sustaining a solid equity base and liquidity is an essential management goal. The enormous impact of the latest financial and global economic crisis on the closed-end fund sector and on the HCI Group's business activities prompted the Management Board to take decisive action in 2010 and at the start of 2011. The measures were taken in order to sustainably improve the Company's risk-bearing capabilities as well as its equity and liquidity position. They include a complete release from all significant contingent liabilities owed to banks and the conversion of the HCI Group's bank liabilities into equity (cf. section A.II Restructuring of the HCI Group). As a result, the HCI Group substantially reduced its contingent liabilities from around EUR 1.7 billion as of 31 December 2009 to approximately EUR 42.6 million as of 31 December 2010. The equity ratio rose from 29.4% (31 December 2009) to 43.4% as of 31 December 2010. Cash and cash equivalents amounted to EUR 18.3 million at the end of 2010.

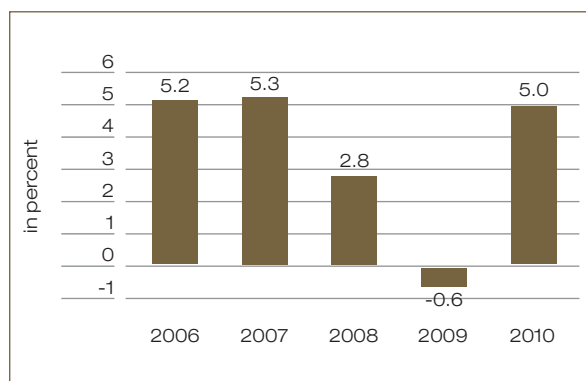
The business activities of the HCI Group are managed and controlled by the Management Board and, at an operational level, by the executive management of subsidiaries in the areas of Design and Sales, After Sales Services and Asset Management.

Please refer to the notes to the consolidated financial statements of HCI Capital AG for the 2010 financial year for information on the main subsidiaries and their locations.

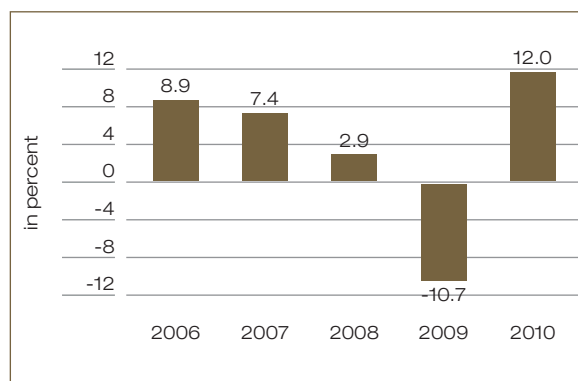
II. Course of business

World economy continues to grow

The global economy has again been showing signs of recovery since as early as the second half of 2009, thanks to various economic stimulus packages, the expansionary monetary policies of central banks and fiscal policy measures. The recovery continued in 2010, at a quicker pace than originally forecast. However, following a surprisingly strong start to the year, growth rates eased off as the months progressed. While growth in emerging market countries in Asia – primarily China and India with expected rates for the full year 2010 of 10.3% and 9.7% respectively¹⁾ – has already returned to the levels seen in previous years²⁾, growth rates in industrialised nations have varied widely.

Fig. 1: Percentage change in global production p.a. 2006–2010e

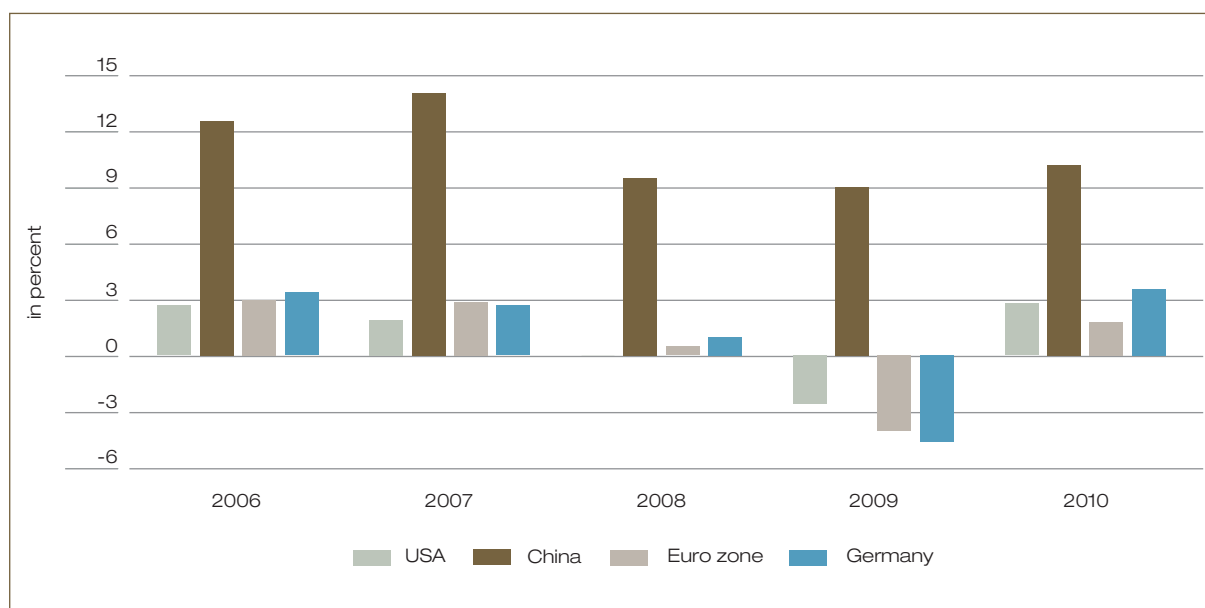
Source: IMF World Economic Outlook Database, October 2010; IMF World Economic Outlook Update, January 2011.

Fig. 2: Percentage change in global trade p.a. 2006–2010e

Source: IMF World Economic Outlook Database, October 2010; IMF World Economic Outlook Update, January 2011.

In the USA, capital expenditure and household consumption helped to increase growth levels in the reporting period. However, this contrasts with foreign trade, which did not

contribute to growth, as well as the ongoing weak performance of labour and real estate markets. All in all, the USA is expected to record a growth rate of 2.8% for 2010.¹⁾

Fig. 3: Percentage change in GDP p.a. 2006–2010e for USA, China, euro zone, Germany

Source: IMF World Economic Outlook Database, October 2010; IMF World Economic Outlook Update, January 2011.

1) HWWI Policy Report No. 15, Konjunktur 2011, p. 6-9; IMF World Economic Outlook Update, January 2011, p. 2.

The high growth rates seen in the euro zone in the first half-year were down in the second half. Reasons for this are a weakening of foreign demand, the fiscal policy consolidation measures taken by some member countries and a wide variation in the growth levels reported by the individual member states. Countries hit particularly hard by the debt crisis, such as Greece and Ireland, saw their economic output decline in the third quarter of 2010. An increase of around 1.8% in the euro zone's GDP is forecast for the full year.^{1), 2)}

A clear turnaround is, however, identifiable following the global economy's substantial slump in the course of the financial and economic crisis. The global economy has returned to growth, and forecasts suggest this will continue in the coming year. Leading economic institutes are predicting growth in worldwide production in the range of 4.5%³⁾, 4.8%⁴⁾ and 5.1%⁵⁾ for the full year 2010.

Germany – the growth engine of Europe in 2010

In Europe, Germany proved to be the growth engine of 2010 and is currently in a good position to compensate the production slump caused by the crisis. The economic upturn, which was more dynamic than expected, had already begun the previous year with the implementation of large stimulus packages for the global economy. These measures led to a significant rise in exports, which in turn prompted the domestic economy to pick up sharply in 2010. As a result of the boost in exports, German companies were able to increase their capital expenditure and thus help the labour market to start recovering. This led to a gradual rise in household spending in the course of the year. Initial calculations by the German Federal Statistical Office for 2010 put economic growth at 3.6% – the greatest increase seen since the reunification of Germany.⁶⁾ Although many early indicators suggest that the economic recovery will also lose pace in Germany, sentiment indicators remain high. The Ifo Business Climate Index for trade and industry in Germany continued to soar as the year ended and reached a score of 109.9 points in December. It was thus 14 points higher than in January and significantly exceeded its mid-year value once more (106.3 points).⁷⁾ Developments in employment in Germany were also ex-

tremely positive. For the first time since the early 1990s, total unemployment fell below the three million mark in October 2010⁸⁾. The Ifo Employment Barometer – which rose sharply from 98.4 points in January to reach a high of 108.5 points in December⁹⁾ – also signals that the recovery in Germany is now having an effect on the labour market.

Uncertainty on the financial markets

A heightened level of uncertainty has dominated the mood on the international financial markets since spring 2010. The debt crisis in several European countries (Greece, Ireland, Portugal and Spain), the anticipated slowdown in global economic expansion and the economic implications of global competitive currency devaluation have all had an impact on the credit, money and currency markets.

The fiscal policy measures taken by governments and the expansionary monetary policies implemented by central banks to overcome the financial and economic crisis and stabilise financial systems resulted in interest rates falling to historically low levels in 2009. There was no global reversal of this trend in the reporting year; however, developments differed greatly between industrialised and emerging market countries. Although the US Federal Reserve raised its discount rate (the interest rate for its short-term loans to commercial banks) in February 2010 by 25 base points to 0.75%¹⁰⁾, since then the trends have increasingly indicated a further relaxation in monetary policy, at least in some industrialised countries. In a surprising move, the Bank of Japan cut its base rate in October 2010 to 0% to 0.10% and then left it at this rate in December. The base rate previously stood at 0.10%¹¹⁾. Both the European Central Bank and the Bank of England's base rates have remained unchanged at 1.0%¹²⁾ and 0.5%¹³⁾ respectively since May 2009. The economic recovery is so far advanced in the major emerging market countries that governments there are now attempting to counteract economic overheating. As early as spring 2010, the central banks in Brazil and India started raising base rates.¹⁴⁾ In October, China's central bank also increased its base rate by a clear 0.25 percentage points to 5.56% for lending, and then by a further 25 base points at the end of the year.¹⁵⁾ The tightening of monetary policy shows the efforts being made by these countries to curb inflation.¹⁶⁾

1) HWWI Policy Report No. 15, Konjunktur 2011, p. 14.

2) Ifo Institut, Euro-zone economic outlook, 7 January 2011; IMF World Economic Outlook Update, January 2011, p. 2.

3) WestLB, Wirtschaftstrends 1st quarter 2011 and full year 2011, Düsseldorf, December 2010, p. 7.

4) HWWI Policy Report No. 15, Konjunktur 2011, Hamburg, December 2010, p. 5.

5) DIW Berlin, Wochenbericht No. 1-2/2011, Berlin, 4 January 2011, p. 5.

6) German Federal Statistical Office, press release No. 010 from 12.01.2011.

7) Ifo Business Climate Index Germany, December 2010.

8) faz.net, Beschäftigtenzahl erreicht Rekord, 30 November 2010.

9) Ifo-Institut, Employment Barometer, December 2010.

10) Welt online, Fed erhöht Zinsen, der Euro rutscht ab, 19 February 2010.

11) Finanzen.net, Bank of Japan senkt Leitzins auf 0% bis 0,10%, 5 October 2010 and finanzen.net, Japan: Zentralbank belässt Leitzinsen unverändert, 21 December 2010.

12) Finanzen.net, EZB lässt Leitzins unverändert, 13 January 2011.

13) Finanzen.net, Bank of England bestätigt Leitzinsniveau, 13 January 2011.

14) Ifo-Institut et al., Joint Economic Forecast, Autumn 2010, p. 10.

15) Finanzen.net, Chinas Notenbank erhöht Leitzinsen, 27 December 2010.

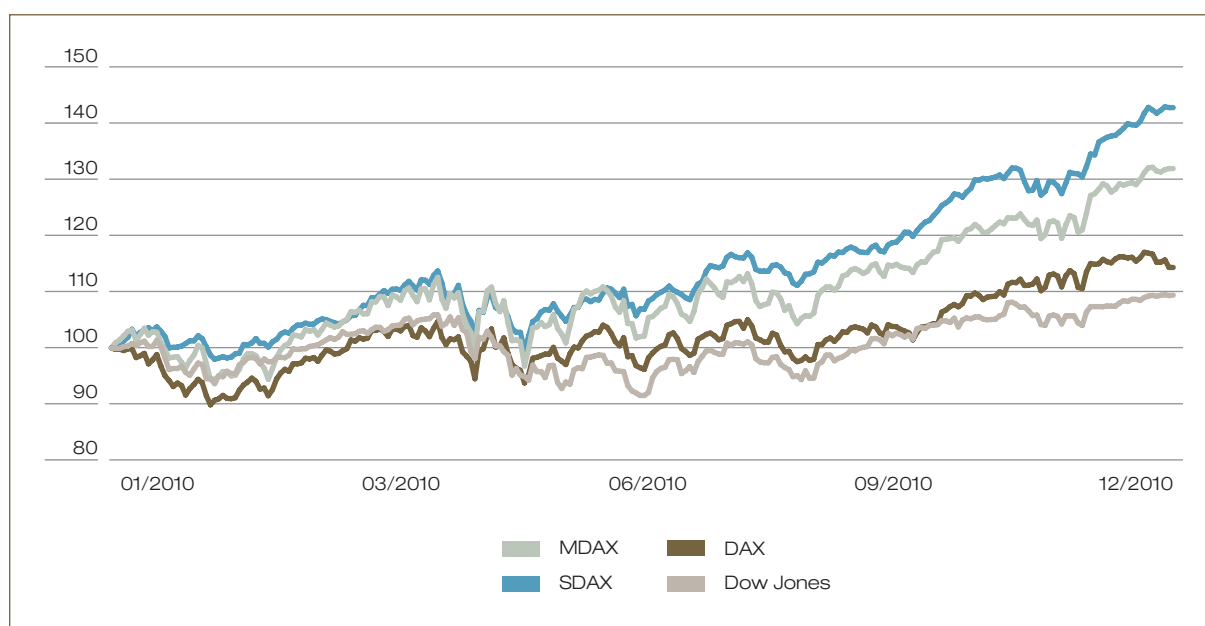
16) HWWI Policy Report No. 15, Konjunktur 2011, December 2010 p. 12.

Share markets end the year on a high note

As a result of the debt crisis in Europe and the USA the stock markets began 2010 amid growing investor uncertainty.¹⁾ Negative trends and inflationary implications prompted investors to flee to substitute currencies such as gold and silver. The impact of this could be seen as of the mid-year point: a further depreciation in the value of the euro²⁾ and increased volatility on the share markets. In July, the Dow Jones fell for a short time to an annual low of 9,614 points. However, within a few weeks the situation stabilised and the index climbed back above the 10,000 mark.

At year-end, the Dow Jones stood at 11,577 points. This corresponds to a year-on-year increase of around 11 %. The DAX also showed a positive performance. Following an initial drop in February to an annual low of 5,433 points and a sideways movement around the 6,000 mark, with decreasing volatility up to the fourth quarter, Germany's leading share index closed the year just short of the 7,000 mark, at 6,914 points. Compared with the same period of the previous year, this represents an increase of 16 %. The best performances were recorded by the indices for medium-sized and small companies – MDAX and SDAX. They closed the year at 10,128 points and 5,174 points, representing year-on-year increases of 35 % and 46 % respectively.³⁾

Fig. 4: Performance of Dow Jones Index, DAX, MDAX and SDAX in the course of 2010 (values indexed)



Source: finanzen.net, 2011.

Volatile currency markets

The currency markets experienced strong exchange rate fluctuations in the course of the year. In particular, debt and the crisis of confidence in the euro zone weakened the external value of the common currency in the first half of the year. After starting the year at a very strong EUR/USD 1.44,

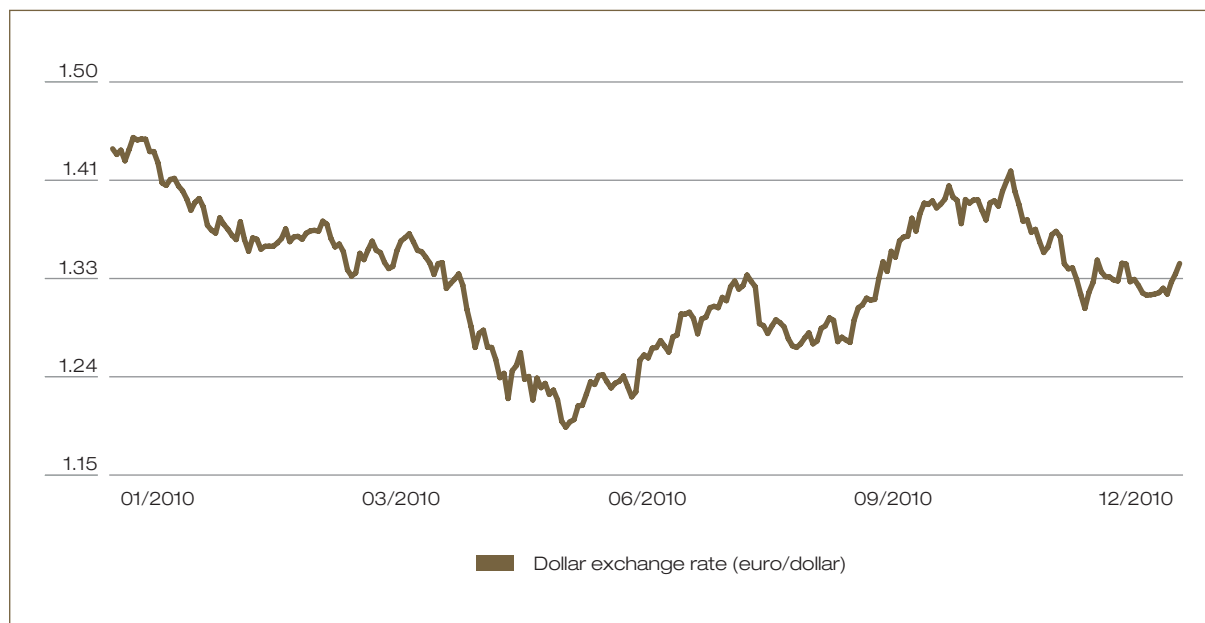
the euro fell almost 17 % over the following six months and reached an annual low of EUR/USD 1.19 in June. The exchange rate continued to move up and down in the second half of the year as well. By the start of November the rate had recovered to EUR/USD 1.42, but it ended the year subject to strong fluctuations once again. The euro closed at EUR/USD 1.34 on 31 December 2010.⁴⁾

1) Union Investment - Studie zum Anlegerverhalten im ersten Quartal 2010.

2) FAZ.net - EZB reagiert auf Inflationssorgen und finanzen.net – Dollar rate 01-12/2010.

3) Finanzen.net – Index values Dow Jones, DAX, SDAX, MDAX 01-12/2010.

4) Finanzen.net – Dollar rate 01-12/2010.

Fig. 5: Development of EUR/USD in 2010

Source: finanzen.net, 2011.

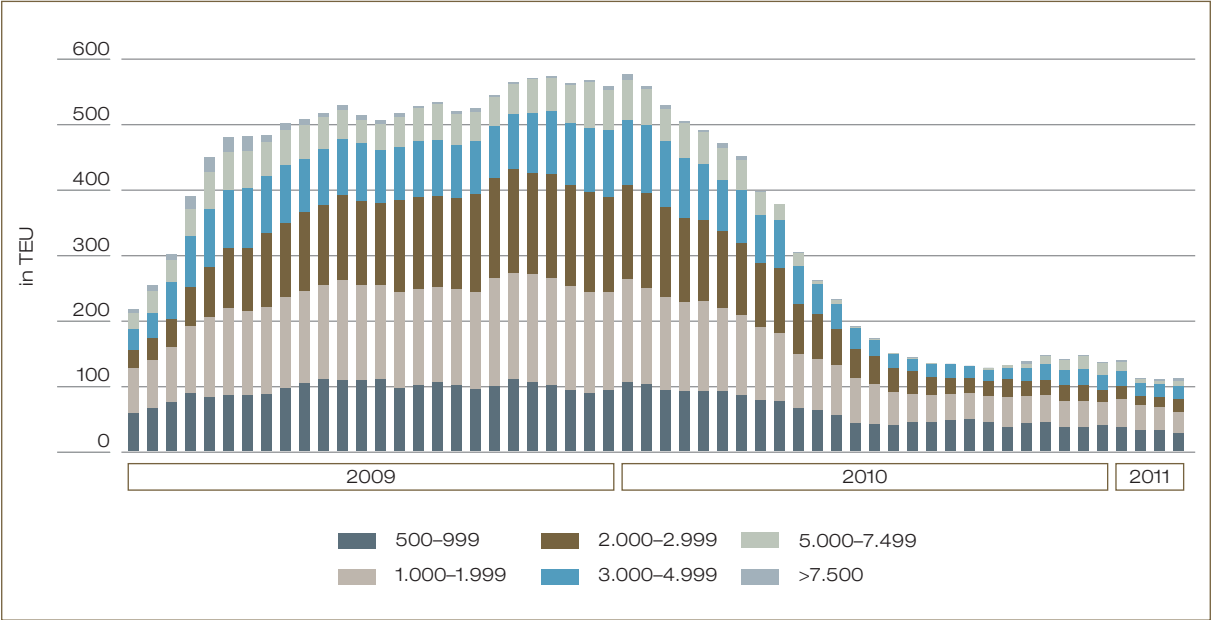
Shipping markets/charter rates

The clear recovery in the global economy and in world trade in 2010 led to a notable turnaround on **container shipping markets** in particular. Deployment and charter rates on the container shipping markets developed positively as a result.

Growth in global trade volume is estimated to be approximately 12% for 2010 and has thus already reached the level seen before the shipping crisis set in. The surge in demand led to a fall of more than 80% in the level of unused

capacities. While 581 ships were idle at the beginning of January 2010 (around 11.6% of fleet capacity), this figure fell for a time to 1.5% of fleet capacity in mid-September 2010. As well as the strong recovery in demand, this development was attributable to the use of slow steaming, which created additional capacity requirements. At the end of 2010 there was a seasonal increase in the number of idle ships to 145 (around 2.3% of fleet capacity). However, this increase was less than had been forecast. Charter rates also fell for a short time, but were up again slightly in December. At the end of January 2011 the number of idle ships had dropped to 110 (around 1.7% of fleet capacity).

Fig. 6: Development in the number of idle container ships 2009–2010

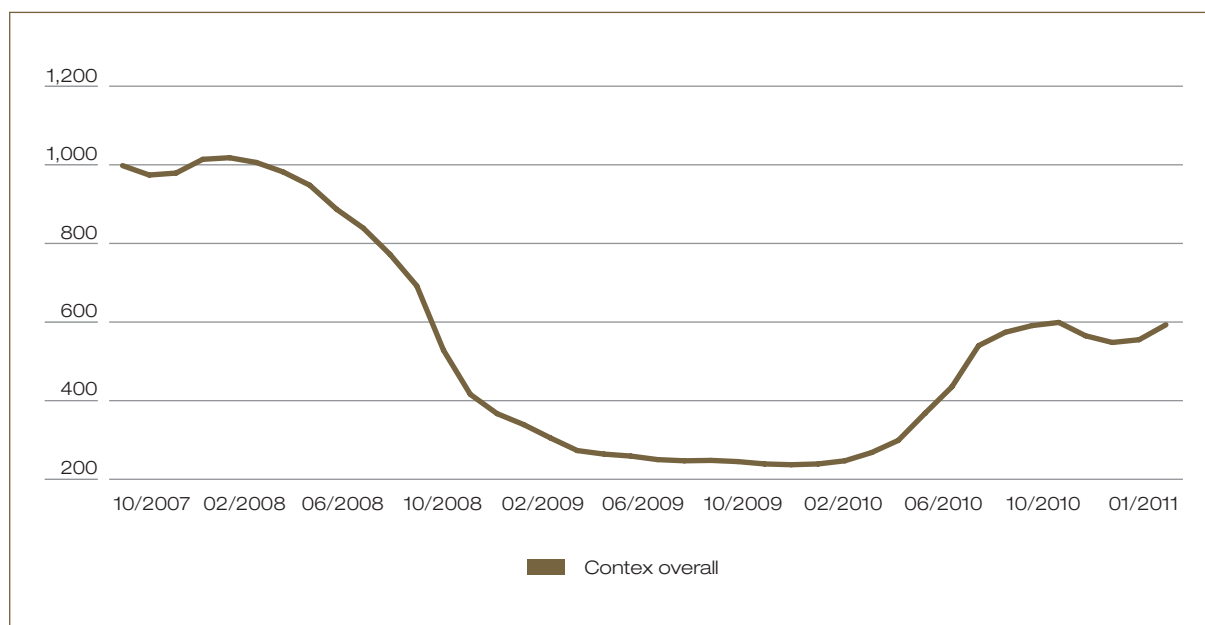


Source: Alphaliner January 2011.

Charter markets had an unexpectedly quick and clear recovery. There were even tonnage capacity shortages in some size segments during the year. Container ships in the 4,000 TEU segment benefited in particular. After hitting an all-time low in November 2009, the Container Ship Time

Charter Rate Index (ConTex) increased from 247 points in January 2010 to 540 points as of the mid-year mark. It closed the year at 555 points. This positive trend continued into 2011 and the ConTex stood at 600 points at the end of January 2011.

Fig. 7: Development of the ConTex 2007–2010



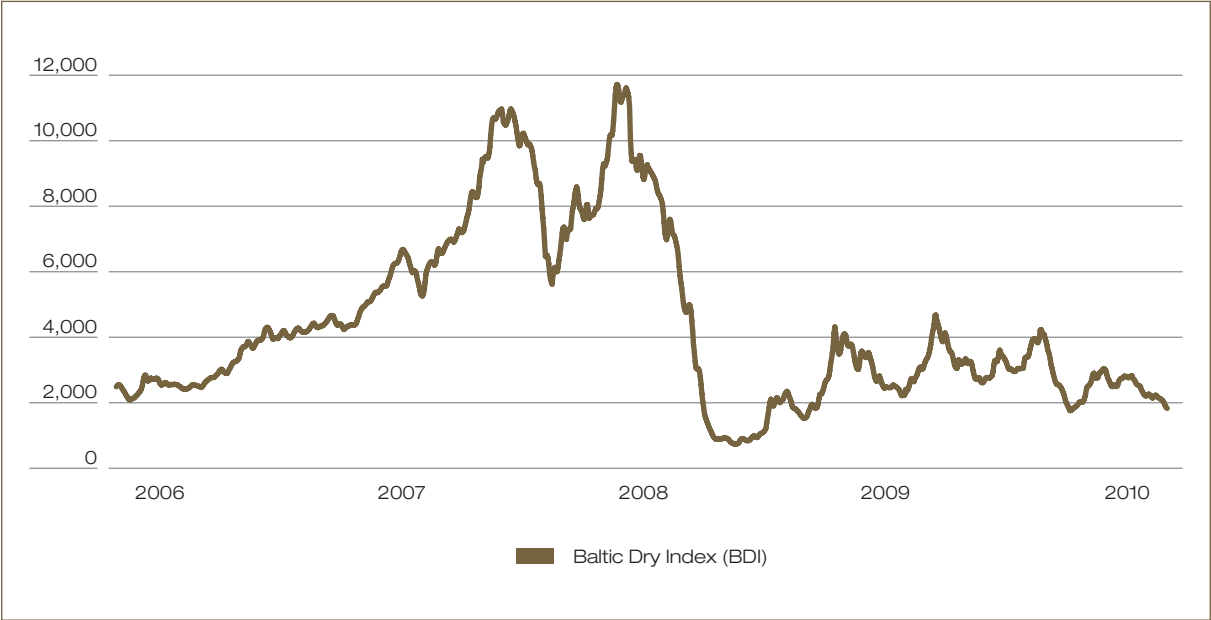
Source: Vereinigung Hamburger Schiffsmakler und Schiffsagenten e.V. (VHSS), 2011.

Another indicator for the positive assessments of market participants is the revival on the newbuild and second-hand markets. There was a notable increase in newbuild orders in the third quarter of 2010. Nevertheless, the order volume of around 27 % of the total full container fleet remains at a relatively low level as of the start of 2011. It was significantly higher at the beginning of 2008, at more than 60 %. Approximately 78 % of the current order book relates to units over 5,100 TEU.

Throughout 2010, charter rates on the **bulker markets** remained highly volatile, especially in the capesize bulker market. However, a relatively large degree of fluctuation is typical for this market segment. Developments in rates for bulk goods shipping are heavily dependent on demand for iron ore and coal, especially in China. This demand for commodities is liable to fluctuate considerably in line with production trends and stock levels. Despite a year-on-year rise in transport demand in 2010, the steady increase in

tonnage capacities as a result of newbuild deliveries prevented charter rates from growing more significantly. The Baltic Dry Index (an index for the shipping prices of various bulk goods) rose in the first half of the year, from approximately 3,000 points at the beginning of 2010 to around 4,200 points in late May 2010. As market growth slowed down, the index fell considerably to just 1,840 points in the middle of July. Following a temporary recovery in rates, the index stood at just 1,773 points at year-end 2010 and had dropped even further by late January 2011 to 1,107 points. The reasons behind this clear downward trend are over-capacities in the bulker fleet and a reluctance to purchase iron ore in China at present. Another factor was the flooding disaster in Australia, which forced many iron ore mines to cease production. One consequence of the current difficulties on the market was the insolvency of Korea Lines – one of the biggest operators and charterers of bulk carriers – in January 2011. It remains to be seen how the market will be further affected by these developments.

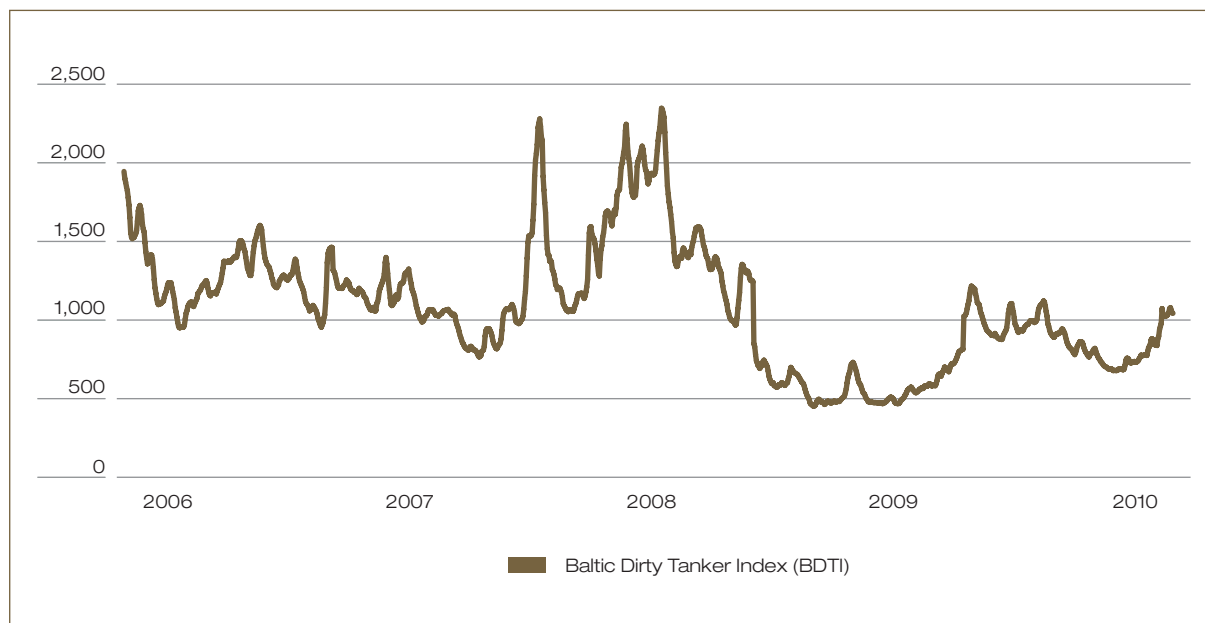
Fig. 8: Development of the Baltic Dry Index 2006–2010



Source: Clarkson Research 2011.

The **tanker** market has also traditionally been volatile and at times reacts suddenly to political developments in oil-producing countries, as was the case with North Africa at the start of 2011. Although the markets for large crude oil tankers rose sharply in early 2010, the charter rates for small product tankers in particular remained under pressure due to considerable fleet growth. A similar picture was seen again halfway through the year. At the end of September 2010, the charter markets for all size classes were low. However, since then they have been increasing – due to seasonal factors as a result of the hot weather period. In spite of an increase in the demand for crude oil, the over-supply of ships remains a negative factor. Added to this is the notable reduction in storage at sea since early 2010.

Falling margins between the current oil market price and the forward price mean that deploying tankers at sea is no longer economically attractive. Ships have been freed up as a result, increasing capacities even further. Following a seasonal increase in demand, the BDTI (Baltic Dirty Tanker Index) climbed from 814 points at the end of 2009 to 964 points at the end of March 2010. By early July, it had dropped back down to 820 points. After this seasonal increase the index reached a high of 1,079 points in mid-December 2010, soon dropping back however to 842 points at the start of January 2011. This weak trend continued, with the BDTI closing at just 662 points at the end of January 2011.

Fig. 9: Development of the Baltic Dirty Tanker Index 2006–2010

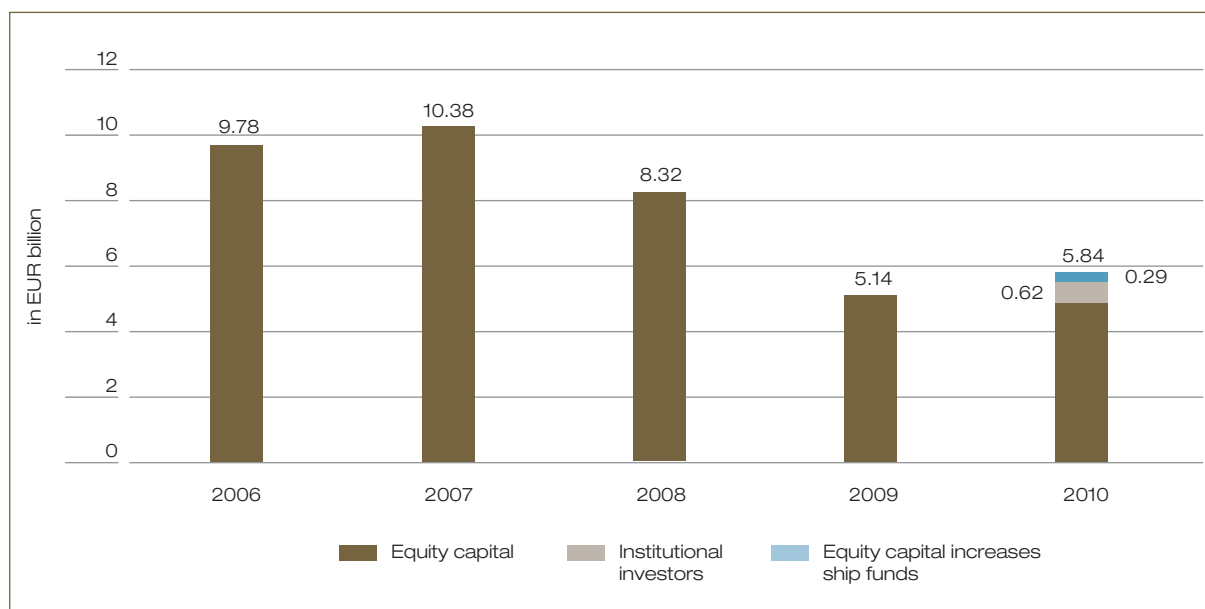
Source: Clarkson Research 2011.

Only slight recovery in the market for closed-end funds

While the overall economy returned to growth in 2010, the market for closed-end funds has yet to experience a significant revival. Investor reticence was still apparent in the reporting year and placement results showed only a marginal improvement as a consequence. The industry association Verband Geschlossene Fonds (VGF) reported a year-on-year increase of around 13% in equity capital placed in 2010, from EUR 5.14 billion to EUR 5.84 billion. However, approximately EUR 286 million, or 5%, of this total relates to restructuring (capital increases and reinvestment of previous distributions) in existing ship funds and around

EUR 620 million – more than one tenth of equity capital placed – was raised from institutional investors. Although the previous year's figures do not include any equity capital for restructuring, the association does not provide any information on how much of the equity capital placed in 2009 came from institutional investors. Nevertheless, the figures indicate that original new business with retail investors in 2010 was stagnant when compared with the previous year. Overall, the placement of equity capital throughout the industry was very volatile in the reporting period, although the year ended on a high note with approximately EUR 833 million placed in December. This was significantly higher than the average for the preceding months of around EUR 455 million.

Fig. 10: Development of equity capital placed in the overall market 2006–2010 in EUR billion



Source: VGF industry figures 2009, 2010.

Overall market performance in the individual product areas relevant for the HCI Group in the 2010 financial year are as follows:

In the reporting period, as in the previous year, closed-end funds in the areas Real Estate and Renewable Energy were in particular demand.

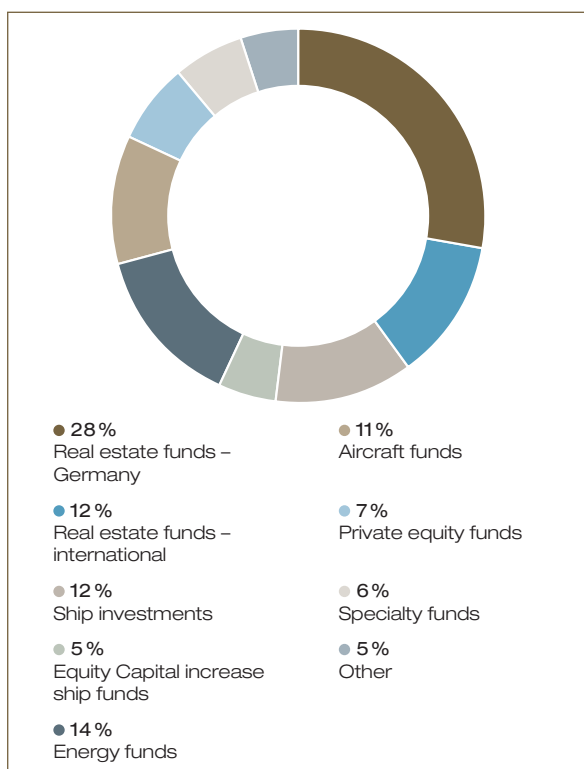
Closed-end real estate funds had an equity capital volume of EUR 2.3 billion in 2010 (2009: EUR 2.5 billion) and continue to be by far the largest asset class in the industry. A significant reduction in the amount placed in international real estate to just EUR 0.7 billion – down 47 % compared with 2009 – was almost completely offset by the huge

growth seen once again in German real estate funds. A total of EUR 1.6 billion of equity capital was placed in these funds, representing a year-on-year improvement of 46 %. The market share of real estate funds in Germany is thus approximately 28 % (2009: 22 %).

There was also considerable growth in the amount placed in **energy funds** in comparison with 2009. At EUR 832.2 million (2009: EUR 547.2 million), the placement result was up 52 % on the previous year. Photovoltaic systems continue to account for the largest share of investment assets. Energy funds now have a market share of around 14 %, up from 11 % in 2009. This puts it in second place in the overall ranking of asset classes, behind domestic real estate.

The **closed-end ship fund** segment failed to recover again in 2010. Although the figures published by the industry association VGF for 2010 show a year-on-year increase of 34% in the amount placed in this area, from EUR 742.7 million to EUR 996.3 million, around EUR 285.6 million of the total relates to capital increases and the reinvestment of previous distributions from investors in existing funds. New business in closed-end ship funds amounted to approximately EUR 710.7 million in 2010, which corresponds to a fall of 4.3% compared with the previous year. In sum, ship funds achieved a market share of 12% in new business in 2010 and thus continue to be the third-largest product area in the overall market.

Fig. 11: Market shares of asset classes in 2010 (VGF industry figures 2010)



Source: VGF industry figures 2010.

Business developments at the HCI Group

Financial and economic crisis affects placement result

The general weakness of the market also affected business developments at the HCI Group in 2010. The total in-

vested by HCI's clients across all asset classes was around EUR 127.2 million (previous year: EUR 132.7 million).

Equity capital placed¹⁾ and equity capital investments in 2010 in EUR million

	01/01/2010 – 31/12/2010	01/01/2009 – 31/12/2009
Transport and Logistics	72.5	88.2
Ship	72.3	85.7
Traditional investments	40.4	48.8
Of which placed via: asset creation plans	14.1	13.6
guarantee products	2.0	4.7
Equity capital invested by ship managers ²⁾	24.4	2.4
Certificates	2.9	6.3
Guarantee products	0.1	9.3
Asset creation plans	4.5	18.9
Aircraft³⁾	0.2	2.5
Traditional investments	0.0	0.8
Of which placed via: asset creation plans	0.0	0.2
Asset creation plans	0.2	1.7
Real Estate	1.5	1.1
Secondary Life Insurance Market	1.2	12.5
Traditional investments	0.7	9.2
Of which placed via: asset creation plans	0.1	2.1
guarantee products	0.6	0.0
Asset creation plans	0.5	3.3
Energy and Commodities	4.8	24.0
Deepsea Oil Explorer	0.0	9.0
Guarantee products	0.0	4.8
Renewable energy	4.8	10.2
Traditional investments	4.8	10.2
Of which placed via: asset creation plans	0.0	0.0
guarantee products	0.6	0.0
Total equity capital placed	80.0	125.8
Equity capital investments⁴⁾	47.2	6.9
Total equity capital placed and equity capital investments	127.2	132.7

1) The equity capital placed by the HCI Group is defined as equity capital raised from investors by the HCI Group and resulting generally in commissions earned. This also includes the equity capital placed in funds that are explicitly subject of being wound up if a specified minimum equity capital amount is not reached. The commission-bearing capital also includes equity capital for which the HCI Group does not receive any commission due to specific fee structures at the time it was placed. It does not include cancelled shares from investors that lead to a repayment of sales commission. Capital reductions which also lead to a reduction in sales commission also reduce the amount of equity capital placed. Capital reductions that did not result in a reduction in sales commission in 2010 totalled EUR 2.4 million.

2) The equity capital raised in the Ship area includes participations in limited partnerships by shipowners amounting to EUR 24.4 million (2010) respectively EUR 2.4 million (2009), which are not subject to commission. The previous year's figures have been restated accordingly for comparison purposes.

3) The HCI Aircraft One fund was withdrawn from sale in May 2009 and closed in January 2010 in connection with a new financing concept. The HCI Group has not offered any other aircraft funds since then. However, Asset Creation Plan 8 continues to invest in shares in closed-end funds specialising in the asset classes Ship, Aircraft and Secondary Life Insurance Market.

4) In accordance with how industry figures for the overall market are reported, all reinvestments and capital increases in existing funds are added to the placement result as equity capital investments.

Placement results in the individual product areas were as follows:

The **Transport and Logistics** product area comprises the asset classes Ship and Aircraft. EUR 119.6 million (2009: EUR 95.1 million) was invested in this area in the reporting period. All of these investments were made in the asset class **Ship**, with around EUR 64.8 million placed in classic closed-end funds and approximately EUR 4.5 million placed as investments in asset creation plans, which in turn invest in ships. This category also includes the capital-protected freight rate bond on the Baltic Dry Index, which was issued by HCI in May 2010 and which achieved a placement total of approximately EUR 2.9 million within a short space of time. Ship investments also include around EUR 47.1 million which was invested in existing ship funds in order to safeguard their future market potential. HCI did not offer any products in the asset class Aircraft during the reporting period.

In the **Real Estate** area, a volume amounting to EUR 1.5 million was placed in the fund HCI Wohnkonzept Hamburg in 2010 (2009: EUR 1.1 million). In the **Energy and Commodities** area, a total of EUR 4.8 million in equity capital was raised for the fund HCI Energy 2 Solar before it closed in November 2010. The previous year's result in this area of EUR 24.0 million included not just the amount placed in HCI Energy 1 Solar (EUR 10.2 million) but also investments in HCI Deepsea Oil Explorer as well as the Protect version of this product. In the product area **Secondary Life Insurance Market**, a total of EUR 1.2 million (2009: EUR 12.5 million) was placed in classic closed-end funds and asset creation plans in 2010.

In future, the HCI Group intends to focus its product range on the asset classes Ship, Real Estate and Renewable Energy.

Broad diversification of sales channels

The main sales channels in this reporting period were:

- Savings banks
- Large and private banks
- Cooperative banks
- Independent sales partners
- Pools/large sales partners

Sales in the reporting period were distributed amongst the various sales channels as follows: independent financial brokers made the largest contribution to the sales result

with a share of 76.4% (2009: 53.2%). Other sales channels contributed as follows: savings banks 4.9% (2009: 20.3%), cooperative banks 13.7% (2009: 13.0%), and large and private banks 2.4% (2009: 6.7%). Pools and large sales partners accounted for 2.6% (2009: 6.8%) of the placement volume.

Around 415 active sales partners sold HCI products in the 2010 financial year. That is much less than in the previous year (2009: 800), due mainly to the fact that many sales partners only offered selected products from closed-end funds as a result of the difficult market conditions in the 2010 financial year. As a result of negotiations which continued in the financial year and only concluded in August 2010 between the HCI Group and the banks with regard to the implementation of a restructuring agreement, a number of sales partners have held back from selling HCI products. Finally, the negative effects of the shipping crisis on the performance of existing funds have led sales partners and investors to focus on other product areas.

The HCI Group's selling activities continue to be broadly diversified across the various sales channels. Independent financial brokers had greater importance than in previous years. Due to the challenging market conditions, the banks' sales organisations included almost no ship fund products in their product range in the reporting period. Banking sales partners focused their product selection for closed-end funds mainly on real estate, solar energy and aircraft funds in the 2010 financial year. As a result, sales partners in the banking sector primarily invested in HCI Energy 2 Solar, the HCI freight rate bond and asset creation plans from the HCI Group's product range.

As well as product sales via our sales network, our asset creation and guarantee products are also increasingly contributing to the placement success of the HCI Group. In the reporting period, a total of EUR 17.4 million (previous year: EUR 20.6 million) of equity capital was placed in closed-end ship funds, secondary life insurance market funds and aircraft funds via asset creation plans and guarantee products (Shipping Protect, Multi Asset Protect). As the placement result for asset creation plans and guarantee products was considerably lower than in the previous year at EUR 5.2 million (previous year: EUR 38.0 million), the placement volume for these funds fell by 86%. Via its continually expanding stock of asset creation plans – whereby investors make regular payments over a specified period – the HCI Group is still able to gradually increase the placement potential of recurring proceeds from the asset creation plans. This, in turn, makes a considerable contribution to placement vol-

umes. Investors in asset creation plans profit from a long-term investment savings model that allows them to invest in a broadly diversified portfolio of closed-end funds.

Expansion of After Sales Services activities

The activities performed as part of After Sales Services (trust management) were expanded in 2010. Due to the ongoing placement of equity capital in funds across all product areas for private investors, the accumulated equity capital managed as of 31 December 2010 (taking withdrawals into account) was maintained at a level of EUR 4.9 billion. The number of investors increased to 123,300 as of year-end (previous year: 122,300). Trust management activities thus ensured sustainable income from trust management and service fees.

In light of the severe consequences of the financial and economic crisis, particularly in the area of closed-end ship funds, the HCI Group reorganised and greatly expanded the activities covered by After Sales Services in its trust business. The reorganisation of these activities commenced in the previous year and was completed in the 2010 financial year. This included significant changes in the area of fund controlling. Using an early-warning system, the fund controlling department continuously analyses the economic performance of each individual fund in order to identify any threatened liquidity shortfalls in the individual fund companies at the earliest possible moment. The most important function of this early-warning system is the continuous flow of information from the individual fund managers to the fund controlling department with regard to liquidity and anticipated liquidity developments. The fund controlling department provides the trust managers with regular reports on the development of the whole ship fund portfolio. HCI has also set up a new team consisting of 13 employees (as of 31 December 2010) in its trust business to concentrate solely on the management of ship funds that require a restructuring of financing as a result of liquidity shortfalls. This team provides the executive shipowners of the relevant fund with support in developing restructuring concepts, negotiating with banks and securing investor approval.

Restructuring concept of the HCI Group

In recent years HCI has built up a comprehensive asset pipeline of ships in conjunction with shipowners. As a result of the financial and economic crisis and its severe effects on shipping markets, considerable risks have emerged for the HCI Group from the contingent liabilities related to these developments (guarantees and placement guarantees). At

the end of 2008, HCI therefore began to conduct intensive talks with its main creditor banks HSH Nordbank AG and the Commerzbank Group, and with its principal shareholders MPC Capital AG and the Döhle Group in order to develop economically sustainable solutions together.

By summer 2009, a comprehensive restructuring concept had been agreed with the main creditor banks and the principal shareholders. It includes the following key points:

- a long-term moratorium with respect to all of the significant guarantees and placement guarantees (contingent liabilities) to banks,
- a statement of intent on releasing HCI from these contingent liabilities,
- the conversion of current Group financing into long-term financing or a conversion into equity, and
- after the release from liability, a capital increase for HCI Capital AG.

Release from liability successfully completed

The restructuring agreement was signed by all the banks involved in February 2010. With this, the first stage of the plan came into force: the banks' assurance not to make any claims against the HCI Group for guarantees and placement guarantees in the period to 30 September 2013. The guarantees and placement guarantees in question largely related to ordered ships. In August 2010, together with the banks, HCI completed the crucial and final step to consolidate its contingent liabilities. Following a financial reorganisation of all of the individual projects, the banks agreed to permanently discharge the HCI Group of these financial obligations. The guarantees and placement guarantees of the HCI Group decreased by around EUR 1.6 billion as a result of this and stood at EUR 42.7 million as of 31 December 2010.

Converting liabilities increases equity ratio to 43.4%

In addition to this, the HCI Group's position was further strengthened in August 2010 by another element of the restructuring concept: HSH Nordbank and a second bank both decided to convert loans owed by the HCI Group into equity. In doing so they have forgone receivables amounting to around EUR 31.5 million by a contribution in-kind. This is another important step forwards for the HCI Group's creditworthiness. The measure increases the equity ratio to 43.4% as of 31 December 2010.

The capital increase by a contribution in-kind was effected on 10 August 2010 using authorised capital, excluding other shareholders' subscription rights. HSH Nordbank and a trustee for the second bank received a total of 5,354,116 new shares. With this, HCI Capital AG's subscribed capital increased from EUR 24,000,000 to EUR 29,354,116. HCI Capital AG's shareholder structure also changed as a result. This is now as follows: the two major shareholders – MPC Capital AG and the Döhle Group – own 33.36% and 17.96% of the shares respectively. HSH Nordbank is now also a large shareholder, holding a 15.51% stake. The trustee acting for the second bank holds 2.73%. Free float accounts for the remaining 30.44%.

B. Financial performance, cash flows and financial position of the HCI Group

I. Financial performance

1. Financial performance of the HCI Group

The financial performance of the HCI Group in the 2010 financial year can be compared with the previous year as follows:

In EUR million	2010	2009 (restated)
Revenues	36.8	45.5
Other operating income	3.7	4.6
Changes in inventories	-0.1	-1.7
Cost of purchased services	-5.7	-13.5
Personnel expenses	-20.5	-21.6
Write-downs	-0.9	-1.8
Other operating expenses	-23.0	-20.9
Results of associated companies and joint ventures accounted for under the equity method	7.9	-14.9
Earnings before interest and taxes (EBIT)	-1.8	-24.3
Financial result	6.2	-27.0
Earnings before taxes (EBT)	4.4	-51.3
Income taxes	0.6	-4.5
Consolidated net result	5.0	-55.8

Please refer to note (21) in the notes to the consolidated financial statements for information on the adjustment to the previous year's information.

Due to the sharp year-on-year decline in the placement **result**, revenues fell by 19.2% in the reporting period from

EUR 45.5 million to EUR 36.8 million and are comprised as follows:

In EUR million	2010	2009 (restated)
Transport and Logistics	7.1	12.0
Real Estate	1.1	0.5
Energy and Commodities	0.9	4.3
Secondary Life Insurance Market	0.1	1.3
Other	0.1	--
Design and Sales	9.3	18.1
Transport and Logistics	17.4	17.0
Real Estate	2.6	2.4
Energy and Commodities	0.2	0.2
Secondary Life Insurance Market	1.3	1.4
Other	0.3	0.4
After Sales Services	21.8	21.4
Asset Management	5.3	5.9
Other remuneration	0.4	0.1
Total revenues	36.8	45.5

The reduction in revenues from Design and Sales of EUR 8.8 million in comparison with the previous year is due in particular to the fall in equity capital placed from EUR 125.8 million in the previous year to EUR 80.0 million. Nevertheless, the HCI Group succeeded in selling products with strong margins. Continuous revenues from trust management services also had a greater impact in relation to total revenues.

There were no significant changes in revenues from After Sales Services of EUR 21.8 million as against EUR 21.4 million in the previous year, or in revenues from Asset Management of EUR 5.3 million (previous year: EUR 5.9 million). Other remuneration amounted to EUR 0.4 million (previous year: EUR 0.1 million) in the reporting year.

Please refer to section 2 "Financial performance of segments" for further details on revenues.

Other operating income, at EUR 3.7 million, was EUR 0.9 million lower than in the previous year (EUR 4.6 million). It includes income from recharging costs of EUR 0.5 million (previous year: EUR 0.7 million). Income from ship brokerage (asset trading) of EUR 3.0 million was recognised in the 2009 financial year.

Changes in inventories include EUR 0.1 million in write-downs on capitalised work in progress and finished services. In 2009, write-downs of EUR 2.3 million were made on products withdrawn from placement.

The **cost of purchased services**, which mainly comprises commission paid to sales partners and prospectus creation costs, fell to EUR 5.7 million in the reporting period as a result of the significant reduction in the placement result and is therefore 57.8% below the previous year's figure of EUR 13.5 million.

Commission expenses shrank more dramatically than revenues, reflecting the fact that revenues from trust management, which are not affected by the cost of purchased services, accounted for a higher percentage of revenues. Trust management and service fees accounted for 59.2% of total revenues in 2010, up from 47.0% in 2009. The gross margin rose slightly from EUR 30.3 million in the previous year to EUR 31.0 million in the reporting year, thus improving from 66.6% to 84.2% in 2010 based on revenues.

Personnel expenses decreased from EUR 21.6 million in the previous year to around EUR 20.5 million in 2010. Personnel expenses include severance payments and current obligations to pay salaries until the expiry of employment contracts amounting to approximately EUR 0.5 million (previous year: EUR 1.6 million) for employees whose employment contracts were terminated in 2010. The average number of employees was reduced from 296 in 2009 to 261 in 2010 and there were 254 employees as of 31 December 2010.

Other operating expenses totalled EUR 23.0 million, a fall of EUR 2.1 million, or around 10.0%, compared with the previous year (EUR 20.9 million). Taking into account bank fees of EUR 2.6 million for the release from contingent liabilities, other operating expenses were down slightly on the previous year. This was largely thanks to a reduction in the following components of material costs: decreases in advertising, travel and entertainment costs as well as in postage and telecommunication costs added up to EUR 0.9 million. In addition to this, rental and lease expenses fell by EUR 0.3 million. On the other hand, legal and consulting expenses increased from EUR 5.2 million in 2009 to EUR 6.3 million in 2010. Around EUR 3.9 million of this relates to consultancy services in connection with the restructuring agreement and other restructuring costs and other expenses from onerous contracts.

The **results of associated companies and joint ventures accounted for under the equity method** improved significantly by EUR 22.8 million from EUR -14.9 million in the previous year to EUR 7.9 million in the reporting period.

In 2010, the Company reversed EUR 6.3 million of the write-downs made in the previous year on its interests in HAMMONIA Reederei GmbH & Co. KG. However, it also had to make further write-downs of EUR 1.7 million on its interests in eFonds Solutions AG. The pro rata results of all associated companies and joint ventures accounted for under the equity method totalled around EUR 3.3 million in 2010. In the previous year, it was necessary to recognise allowances amounting to EUR 7.9 million for interests held in associated companies and EUR 1.4 million for interests held in ship ordering companies run as joint ventures with shipowners. These impairments were caused by developments in the fund and shipping markets that had deteriorated further during the 2009 financial year. In addition, there was a pro rata negative result of EUR 5.6 million from the investment in associated companies and joint ventures.

Earnings before interest and taxes (**EBIT**) of EUR -1.8 million increased significantly by EUR 22.5 million on the previous year's figure of EUR -24.3 million as a result of the business developments in 2010 outlined earlier.

The **financial result** came in at EUR 6.2 million and is considerably better than in the previous year (EUR -27.0 million). Other financial result of EUR 8.6 million includes two major factors, namely the conversion of bank liabilities into equity and the granting of a call option, which had a sizeable impact on the result for the year and therefore on the HCI Group's financial performance.

On 10 August 2010, HSH Nordbank AG and a trustee for a second bank announced that they would participate in the capital increase in the form of a contribution in-kind by converting their receivables, as expected. This meant that the loans had to be derecognised and a gain of EUR 23.6 million were then recorded. Equity increased by EUR 7.4 million – the loan amount corresponding to the shares available for the capital increase by a contribution in-kind. In contrast, the recognition of a liability for the obligation due to the banks in association with the completed release from contingent liabilities led to an expense of EUR 8.5 million in the reporting year.

The second major factor that had a sizeable impact on HCI's financial performance was the recognition of the negative fair value of a call option granted by the HCI Group to the co-shareholders of an associated company amounting to EUR 6.6 million. The HCI Group, as writer of a call option, is obligated to transfer half of the interests it holds to the co-shareholders. The negative value of this option includes the fair value for the company as of 31 December 2010.

The previous year's other financial result of EUR -23.1 million was mainly due to impairments of EUR 5.5 million on assets available for sale, allowances for loans and financial receivables amounting to EUR 12.2 million, and the measurement of assets held for sale at fair value less costs to sell in interests in associated companies and joint ventures previously accounted for under the equity method amounting to EUR 3.5 million.

Net interest income dropped to EUR -2.4 million (previous year: EUR -1.0 million).

Earnings before taxes (EBT) came in at EUR 4.4 million in 2010 – a significant increase on last year's figure (EUR -51.3 million).

Income taxes amounted to EUR +0.6 million in the financial year 2010 (previous year: tax expense of EUR -4.5 million). The previous year's tax expense is largely attributable to the derecognition of previously recognised deferred tax assets on loss carry forwards as a result of changes in planned scenarios.

The overall result of the effects described was a positive **consolidated net result for the period** of EUR 5.0 million (previous year: EUR -55.8 million), representing a significant improvement of about EUR 60.8 million on the previous year's figure.

In EUR million

Revenues
Changes in inventories
Cost of purchased services
Gross profit
Other operating income
Personnel expenses
Write-downs
Other operating expenses
Results of associated companies and joint ventures accounted for under the equity method
Earnings before interest and taxes (EBIT)

2. Financial performance of segments

The HCI Group chooses to present reportable operating segments separately as per IFRS 8. In line with the internal management system used by HCI Capital AG's Management Board to manage the HCI Group's various segments, the areas Design and Sales, After Sales Services and Asset Management have been defined as operating segments. Please refer to the notes in section A.I. "Broad range of services" for information on the activities of the individual segments.

Design and Sales

The financial performance of the Design and Sales segment was as follows in the reporting period:

	2010	2009
Revenues	9.3	18.2
Changes in inventories	-0.1	-1.7
Cost of purchased services	-5.7	-13.5
Gross profit	3.5	3.0
Other operating income	0.7	0.4
Personnel expenses	-7.1	-9.4
Write-downs	0.0	-0.9
Other operating expenses	-8.0	-7.6
Results of associated companies and joint ventures accounted for under the equity method	-2.7	-2.4
Earnings before interest and taxes (EBIT)	-13.6	-16.9

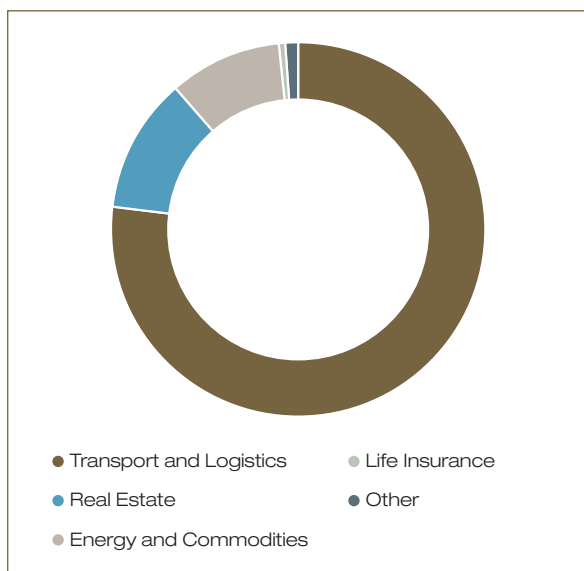
Equity capital placed and equity capital investments in HCI products fell by 4.1 % from EUR 132.7 million to EUR 127.2 million, although there were investments of EUR 47.2 million in 2010 (previous year: EUR 6.9 million) from reinvestments in existing funds. This had a major effect on the fi-

ancial performance of the Design and Sales segment, as revenues and the cost of purchased services are dependent on the amount of equity capital placed in the retail area for each product area.

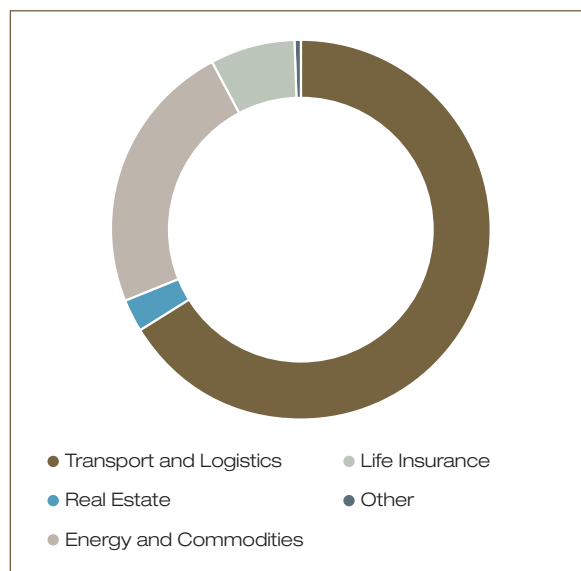
In proportional terms, the fall in revenues from Design and Sales fees in 2010 was greater than the reduction in equity

capital placed and equity capital investments. Revenues for the individual product areas are as follows:

2010



2009



As with revenues, the cost of purchased services, which is based on the commission paid to the HCI Group's sales partners, depends on the amount of equity capital placed. The cost of purchased services showed a clear drop of 57.8% from EUR 13.5 million to EUR 5.7 million due to the product mix and non-recurring effects in equity capital placed.

Changes in inventories of work in progress and finished services were significantly affected during the 2009 financial year by the impairment of capitalised services amounting to EUR 2.3 million as a result of poor placement opportunities for certain products. Impairments amounting to EUR 0.1 million were made in 2010.

As a result, the HCI Group recorded a slight rise in gross profit from EUR 3.0 million to EUR 3.5 million.

Personnel expenses were reduced during the 2010 financial year by EUR 2.3 million. This is mainly due to a reduction in staff numbers in Design and Sales.

Other operating expenses were slightly higher in 2010 than in the previous year as a result of non-recurring factors. At the same time, savings were once more reported in the areas of advertising, travel, entertainment and representation due to the systematic implementation of the cost management programme.

The results of associated companies and joint ventures accounted for under the equity method dropped to EUR -2.7 million (previous year: EUR -2.4 million). This was primarily due to the results reported by eFonds Solutions AG as well as impairments made at that company.

The overall result of these developments was a year-on-year improvement of EUR 3.3 million in EBIT to EUR -13.6 million in the Design and Sales segment.

After Sales Services

The financial performance of the After Sales Services segment was as follows in the reporting period:

In EUR million	2010	2009
Revenues	21.8	21.4
Other operating income	1.4	1.5
Personnel expenses	-6.6	-5.6
Write-downs	0.0	-0.2
Other operating expenses	-6.4	-6.3
Earnings before interest and taxes (EBIT)	10.2	10.8

Revenues in the After Sales Services segment comprise ongoing trust management and service fees, one-off fees for raising equity capital, and revenues from interest and currency management fees in the product area Ship.

The ongoing trust management and service fees in 2010 of EUR 21.0 million were almost the same as in the previous year, which is due to the constant volume of trust management business.

One-off trust management and service fees fell due to the low level of equity capital placed.

Revenues from interest and currency management developed positively as a result of the growing number of ships for which the HCI Group provides this service and at EUR 0.7 million were slightly higher than in the previous year (EUR 0.5 million).

Personnel expenses rose by EUR 1.0 million to EUR 6.6 million, due to the growth of the restructuring team and the expansion of the Fund Assistance department.

Other operating expenses in the After Sales Services segment were almost the same as in the previous year. Other operating expenses in 2010 included allowances recognised for trust receivables of EUR 0.9 million (previous year: EUR 1.0 million).

At EUR 10.2 million, EBIT in the After Sales Services segment was slightly lower than the previous year's figure (EUR 10.8 million).

Asset Management

The financial performance of the Asset Management segment was as follows in the reporting period:

In EUR million	2010	2009 (restated))
Revenues	5.7	5.9
Other operating income	0.8	3.4
Personnel expenses	-1.7	-1.7
Write-downs	-0.4	-0.4
Other operating expenses	-1.4	-1.2
Results of associated companies and joint ventures accounted for under the equity method	10.7	-12.6
Earnings before interest and taxes (EBIT)	13.7	-6.6

Revenues in the Asset Management segment were almost unchanged in comparison with the previous year. The revenues include for the first time in 2010 fees received by the HCI Group as part of provisions in the bylaws in the form of advance distributions from Secondary Life Insurance Market funds. The relevant revenues totalled EUR 2.6 million in 2010. In conjunction with the amended reporting of the amounts previously recorded in other financial result, the previous year's figure was restated accordingly by EUR 2.9 million as per IAS 8 to ensure that the financial statements can be compared.

Management revenues from looking after HCI HAMMONIA SHIPPING AG came to EUR 1.3 million (previous year: EUR 1.5 million).

A further EUR 1.2 million (previous year: EUR 1.5 million) results from the management of assets in the Netherlands and the USA in real estate funds set up by the HCI Group.

Other operating income was EUR 2.6 million below the previous year's figure at EUR 0.8 million. This was primarily attributable to reduced earnings from shipping brokerage as a result of current developments in the shipping markets.

The increase in the results of associated companies and joint ventures accounted for under the equity method to EUR 10.7 million (previous year: EUR -12.6 million) was due in particular to the positive result of EUR 10.5 million (previous year: EUR -8.8 million) from HCI's investment in HAMMONIA Reederei GmbH & Co. KG, including an impairment reversal on the shares of EUR 6.3 million. The HCI Group also recorded a pro rata gain of EUR 0.2 million from the building companies in the shipping sector.

The overall result of these developments was a year-on-year increase of EUR 20.3 million in EBIT to EUR 13.7 million in the Asset Management segment.

Other/Holding

The Other/Holding segment includes all items not directly allocated to the other segments and the holding function.

The financial performance of the Other/Holding segment was as follows in the reporting period:

In EUR million

	2010	2009
Other operating income	4.5	2.9
Personnel expenses	-5.1	-4.9
Write-downs	-0.5	-0.4
Other operating expenses	-11.0	-9.3
Earnings before interest and taxes (EBIT)	-12.1	-11.7

Other operating income was slightly up on the previous year at EUR 4.5 million. The Other/Holding segment also includes income from the recharging of costs to internal Group segments.

The rise in personnel expenses of EUR 0.4 million results mainly from provisions for bonus payments.

Other operating expenses increased by EUR 1.7 million to EUR 11.0 million, primarily as a result of bank fees for the release from contingent liabilities totalling EUR 2.6 million.

The overall result of these developments was a year-on-year decrease of EUR 0.4 million in EBIT to EUR -12.1 million in the Other/Holding segment.

II. Cash flows

In EUR million	2010	2009
Consolidated net result	5.0	-55.8
Non-cash income and expenses and elimination of net tax, interest and investment income	-9.9	49.2
Changes in net working capital	-0.9	1.0
Interest and income taxes paid and received	1.6	8.0
Distributions received	0.2	0.0
Cash flow from operating activities	-4.0	2.4
Cash flow from investing activities	0.7	-6.6
Cash flow from financing activities	-2.2	-1.6
Net cash inflow/outflow	-5.5	-5.8
Cash and cash equivalents at beginning of period	23.3	29.3
Exchange rate-related changes	0.5	-0.2
Cash and cash equivalents at end of period	18.3	23.3

In the 2010 financial year, the HCI Group generated a negative cash flow from operating activities of EUR -4.0 million (previous year: EUR +2.4 million). Compared to the same period of the previous year, this was a decline of EUR 6.4 million. The fall in comparison with the previous year is due mainly to weaker operating business. The change can also be attributed to the net amount from income taxes received and paid of EUR 1.6 million in comparison with the previous year's figure of EUR 8.0 million.

The cash flow from investing activities of EUR 0.7 million is primarily the balance from capital expenditure on other investments and associated companies and a positive cash flow from the sale of other investments. Compared to the previous year, the cash flow from investing activities improved by EUR 7.3 million.

The repayment of liabilities to banks led to a negative cash flow from financing activities amounting to EUR 2.2 million. This represents a year-on-year increase of EUR 0.6 million which is primarily attributable to payments for transaction costs relating to the non-cash capital increase.

All of this caused cash and cash equivalents to contract by around EUR 5.5 million as of 31 December 2010, notwithstanding changes due to foreign exchange rate changes. Cash and cash equivalents stood at EUR 18.3 million as of the end of the reporting period.

III. Financial position

The financial position of the HCI Group is as follows:

	31/12/2010		31/12/2009	
	In EUR million	in %	In EUR million	in %
Assets				
Intangible assets, investments, and property, plant and equipment	45.7	43.0	38.1	33.9
Non-current receivables and other assets	6.7	6.3	9.4	8.4
Work in progress and finished services	0.6	0.6	0.6	0.5
Current receivables and other assets	32.3	30.4	38.8	34.5
Securities	1.8	1.7	1.5	1.3
Cash and cash equivalents	18.3	17.2	23.3	20.7
Assets held for sale	0.0	0.0	0.5	0.5
Deferred taxes	0.8	0.8	0.2	0.2
Total assets	106.2	100.0	112.4	100.0
Equity and liabilities				
Consolidated equity	46.1	43.4	33.1	29.4
Non-current provisions and liabilities	15.3	14.4	4.4	3.9
Current provisions	3.9	3.7	2.1	1.9
Current liabilities	37.4	35.2	69.1	61.5
Deferred taxes	3.5	3.3	3.7	3.3
Total equity and liabilities	106.2	100.0	112.4	100.0

Total assets as of 31 December 2010 fell by EUR 6.2 million in comparison with the previous year from EUR 112.4 million to EUR 106.2 million.

Non-current assets including deferred tax assets increased from EUR 47.7 million to EUR 53.2 million. This was mainly due to the rise of EUR 7.6 million in **intangible assets, investments, and property, plant and equipment** from EUR 38.1 million to EUR 45.7 million. Interests in associated companies and joint ventures accounted for under the equity method increased from EUR 20.8 million to EUR 28.3 million. This change was mainly attributable to impairment reversals of EUR 6.3 million on the interests in associated companies and joint ventures, although the Company made write-downs on its interests in eFonds Solutions AG totalling EUR 1.7 million. The change was also due to the pro rata results of the associated companies and joint ventures amounting to EUR 3.2 million.

There was a year-on-year fall in **non-current receivables and other assets** from EUR 9.4 million to EUR 6.7 million, which essentially resulted from the repayment of a loan by a real estate fund company amounting to EUR 2.6 million.

Current assets were reduced from EUR 64.7 million to EUR 53.0 million. The percentage of current assets contained in total assets decreased from 57.6% as of 31 December 2009 to 49.9% as of 31 December 2010 as a result.

Work in progress and finished services, which include capitalised services related to the design of funds, were unchanged at EUR 0.6 million.

The decrease in **receivables from related parties** was prompted by the payment received for purchase price receivables outstanding in the previous year for ship sales of approximately EUR 2.0 million as well as by a further loan repayment of EUR 0.6 million.

In addition, the HCI Group received income tax refunds, which made a considerable impact on reducing **income tax receivables** of EUR 4.5 million.

The increase in **securities** of EUR 0.3 million results principally from the measurement of shares using the closing share price quoted on the Frankfurt Stock Exchange on the reporting date.

Please refer to the notes on cash flows for information on the reduction in **cash and cash equivalents**.

Equity rose year on year by EUR 13.1 million to EUR 46.1 million. This was essentially due to the positive consolidated net result of EUR 5.0 million for 2010 and the non-cash capital increase carried out in August 2010 from authorised capital. Following the issue of 5.4 million new no-par-value shares and the transfer of EUR 2.1 million to additional paid-in capital, equity increased by a further EUR 7.6 million. The positive consolidated net result was primarily due to the above-mentioned earnings related to the conversion of financial liabilities. However, these were offset to a large extent by restructuring expenses. The equity ratio increased from 29.4 % to 43.4 % as a result of the effects described.

Non-current provisions and liabilities rose from EUR 8.1 million to EUR 18.8 million as of 31 December 2010. This was because loans totalling EUR 3.8 million which were previously reported as current financial liabilities are now available on a non-current basis in connection with the agreement from 11 February 2010 on the moratorium and release from liability. In addition to this, non-current other financial liabilities rose following the recognition of the present value of the banks' entitlement to compensation in the amount of EUR 8.5 million arising from the agreement concerning the moratorium and intended release from liability. This stipulates that after the full release from liability, the banks should receive compensation of EUR 12.5 million that is payable when the agreed release from liability has been fully completed and the HCI Group has met specified earnings and liquidity thresholds.

Current provisions and liabilities were cut by EUR 29.9 million. The reduction was primarily attributable to a EUR 34.0 million fall in financial liabilities to EUR 1.6 million. This was a result of the conversion and reclassification of current loans to equity and non-current financial liabilities. This was counteracted by the rise in other financial liabilities of EUR 6.6 million to EUR 11.8 million due to the granting of a call option for interests in HAMMONIA Reederei to co-shareholders. This call option was recognised at its negative fair value of EUR 6.6 million as of the reporting date. There was a corresponding increase in the value of interests held.

Please refer to the notes on cash flows for information about the change in cash and cash equivalents.

C. Human resources

Our employees' expertise in complex markets and the extent to which they identify with the Company is key to the success of the HCI Group. The performance of the HCI Group in 2010 again placed huge demands on the Company's creativity and ability to adapt as well as on the underlying value creation process. Against a background of relentlessly difficult market developments caused by the financial and economic crisis, which have led to significant falls in the HCI Group's revenues since 2009, it was inevitable that cost structures would have to be adapted to market conditions. This included lowering personnel expenses and therefore reducing the number of employees. Most of the necessary staff reductions had already been made by the middle of 2009. Adjustments to employee numbers were relatively small in 2010 and mainly occurred in sales. In view of the challenges imposed on the Group by the difficult market conditions, it was necessary to increase staff in certain cases, in particular in trust management.

The key personnel figures in a year-on-year comparison were as follows:

	2010	2009
Average number of employees	261	296
of which trainees	15	16
Personnel expenses in EUR million	20.5	21.6

In addition to fixed salaries, executive management and certain staff members receive contractually agreed bonus payments that are linked to the employee's annual targets. Profit and/or revenue sharing agreements exist for a small number of managers, departmental heads and sales staff. As part of the HCl Group's release from liability, the executive management of the Company agreed to defer 10% of their fixed salary once a certain salary threshold is reached. The salary amounts deferred will only be paid when the HCl Group exceeds certain earnings thresholds again. The executive management of the HCl Group is thus making an additional contribution in order to help the Company during the current market difficulties.

D. Events subsequent to the balance sheet date

Companies operating within the Beluga Group filed for insolvency on 16 and 17 March 2011. As a result, HCl cancelled without notice its main contracts with the Beluga Group for ship funds managed by Beluga and transferred management of the ships to HAMMONIA Reederei. In addition, the funds affected have obtained initial financing commitments for shortages. However, it cannot be ruled out that payment extensions or allowances may be necessary for the HCl Group in this regard. HCl is working closely with the new fund managers and the funds' new contractual partners in order to facilitate as smooth a deployment as possible for the ships in question.

As of 17 March 2011, HCl agreed to the cancellation of the only remaining placement guarantee of USD 16.95 million subject to a condition precedent.

Apart from the events outlined here, there were no significant events in the 2011 financial year.

E. Accounting-related internal control system

Pursuant to the German Accounting Law Reform Act (Bil-MoG), capital market-oriented companies as defined in Section 264d of the German Commercial Code (HGB) are required to outline in their management report the important features of their accounting-related internal control system and their risk management system.

The HCl Group continuously develops its Group-wide accounting-related internal control system (ICS) and risk management system. These systems regulate the organisational, control and monitoring structures, processes and measures to ensure the accuracy and reliability of the internal and external accounting methods and the applicable laws and regulations.

The aim of these systems is to record, process, present and document all business transactions in a full, prompt and correct manner in compliance with legal requirements and the Company's articles of association and internal regulations.

The most important elements of this process are usually determination of the control environment that defines the framework for the principles, processes and measures, risk assessment and subsequent control measures in order to sufficiently counter the risks identified depending on the type of risk and probability of occurrence. The effectiveness and efficiency of the process is monitored by the compliance officer and the Chief Financial Officer of HCl Capital AG in conjunction with the controlling department and the manager of the financial and accounting department.

The accounting-related internal control and risk management system implemented throughout the Group covers all of the processes that are crucial for the preparation of the consolidated and separate financial statements of HCI Capital AG and all of its main subsidiaries.

The most important measures for ensuring the effectiveness of the accounting-related internal control system and the risk management system are the division of functions between the different departments and the allocation of responsibilities within these departments, the implementation of control processes with respect to legal regulations, the provisions of the articles of association and internal instructions and processes, and the IT system-based authorisation concept. The services of external experts are also sought if needed for this.

F. Report on risks and opportunities

I. Risks regarding the future performance of the Company

Risks are defined as potential unfavourable developments that may influence the HCI Group's financial situation. Such risks may occur, with a probability that is specific to the relevant type of risk, but there is no certainty that they will occur.

The HCI Group has a centrally organised risk management system which covers all of the Group's activities. Systematic risk identification and quantification, and the assessment of the probability of occurrence are all integral parts of the system. Taken together with measures to avoid, reduce or limit risk, this provides a detailed picture of material risk.

The early detection of risks that pose a threat to the future existence of the HCI Group is guaranteed by the risk management system and its continuous refinement. The Group's approach to risk management involves an ongoing analysis of continuing operations and related processes, the timely analysis of any divergence identified, and permanent communication amongst the risk officers and with the Management Board.

Continuous development of the risk management system is a key factor in determining the ability to respond without delay to any changing circumstances that may have a direct or indirect impact on the assets, financial and earnings position of the HCI Group.

Responsibility for updating and compiling all of the relevant information and for maintaining and developing the risk management system lies with the risk manager. The risk officers from the various departments report to the risk manager. Any material changes in risk exposure are notified immediately to the risk manager and the Management Board. The risk manager in turn reports directly to the Company's CFO. The report on the risk portfolio is discussed by the Management Board and is presented to the Supervisory Board of HCI Capital AG at least every quarter, or on an ad-hoc basis where required.

Specific risk management tools were implemented at HSC Hanseatische Sachwert Concept GmbH, a subsidiary of HCI Capital AG, to comply with stricter requirements related to the licence granted to the subsidiary to provide financial services pursuant to Section 1 (1a) of the German Banking Act (KWG).

1. Political and legal developments

The regulatory requirements for structuring, selling and managing alternative investment funds (which include closed-end funds) may be subject to substantial change in the coming years. This may have a significant impact on structuring costs, a considerable minimum equity capital amount may be required for fund management, and one possible consequence for issuing houses is that regulatory authorities may require general registration. It is currently impossible to forecast the extent to which the implementation of relevant regulations will impact on the closed-end fund industry; however, through its membership of VGF (German Association of Closed-end Funds) the HCI Group is playing an active role in the regulation process with a view to establishing sensible industry standards.

2. Macro-economic risks

In addition to the economic conditions that are crucial to the investment assets, there are a number of other factors that have a direct or indirect impact on the economic performance of the funds issued by the HCI Group and upon which the HCI Group has limited or no influence.

The effects of the financial and economic crisis on HCI product lines are no longer as clearly visible as in the previous year. Nevertheless, the following potential risks are still present: Firstly, arranging financing for projects is taking longer, capital costs are higher and lending policies have become much more restrictive. Secondly, the noticeable

reluctance of clients to invest in closed-end funds is leading to a slowdown in product placements. It is thus necessary for HCI to provide higher collateral during the placement phase in the form of equity capital deposits due to more restrictive lending policies (cf. 3.1.4.1.). Thirdly, the changed business environment has also impacted on existing funds and the managers of these funds need to adapt to the volatility of returns – which is extreme in some cases – in the relevant markets (cf. section 3.2).

It is in this context that the HCI Group's experience, size, credit rating and long-standing close working relationships with banks are playing an increasingly important role in weathering the current challenges.

The HCI Group addressed the challenges of this difficult market environment at an early stage and entered into negotiations in the past two years with its main creditor banks and principal shareholders. This should give the Company sufficient leeway to overcome the crisis. Following the successful implementation of the restructuring concept agreed with its main creditor banks and principal shareholders in 2010, which included a complete release from contingent liabilities and a conversion of bank liabilities into equity, the path was clear for HCI to adapt to the changed market conditions and reposition itself.

3. Sector-specific risks

Its business activities in the segments Design and Sales, After Sales Services and Asset Management with respect to closed-end funds expose the HCI Group to various sector-specific risks resulting from both the market for closed-end investment funds and its specific business activities in the three different segments.

Fundamental factors for the potential returns on fund products are the purchase price payable for the acquisition of the investment asset, the potential earnings that can be generated from operating the asset, and the potential sale price for the asset when the fund reaches maturity. Some asset markets for funds issued by the HCI Group continued to be negatively affected over and above their usual cyclical volatility as a result of the tail-end of the general financial crisis last year. Despite a recovery in the markets, e.g. in the ship and real estate markets, economic developments may continue to impact on realisable sale prices for investment assets and on the recurring revenues generated from operating them. It is possible that in the near future the HCI Group will no longer be in a position to generate the same level of revenues from the sale or management of invest-

ment assets as it has in the past. The risk of this happening will be reduced by specifically selecting marketable investment assets that offer attractive prospects and by actively managing the investment assets to ensure that their value remains solid and that they are sold at the most opportune time.

3.1 Risks relating to the Design and Sales segment

3.1.1. Placement potential of closed-end funds

Investment products offered by the HCI Group face competition from a multitude of other capital investments. In addition to this, there are a number of other providers operating in the market for closed-end funds besides the HCI Group. Some competitors have created a prominent position in the market by specialising in specific product categories or fund structures, whilst others provide a larger product range in some cases or have greater market presence. The whole market is subject to constant flux and external influences. Differences between investment forms can be considerable, particularly with respect to the risk and return profile, tax consequences and how easy they are to sell. Furthermore, investor decisions in favour of or against a specific investment form are affected by general market sentiment. This can result in significant volatility in the demand for individual product areas.

The financial and economic crisis continued to have an impact on closed-end funds in 2010. The industry association Verband Geschlossene Fonds (VGF) reported a year-on-year increase of EUR 0.7 billion in equity capital placed, from EUR 5.14 billion to EUR 5.84 billion. However, approximately EUR 286 million of this total relates to restructuring in the Ship area (reinvestment of previous distributions and capital increases) and around EUR 620 million to institutional investors. Although VGF does not provide any information on what percentage of equity capital placed in the previous year was attributable to institutional investors, it can be assumed that original new business stagnated in comparison with 2009. Equity capital placed therefore remains at a low level. Unlike 2010, however, a further deterioration of the market is not expected in 2011. The rating agency Scope Analysis is forecasting an overall increase in placement volumes for 2011. This risk continues to be countered by a range of products that are tailored to current demands and by targeted sales programmes.

In future, HCI will only provide placement guarantees and pre-financing to a limited degree when committing investment assets for fund products. The resulting contingent liabilities will, however, only be entered into on a justifiable scale. In order to be able to continue offering a broad product range, placements will be hedged wherever possible by means of penalties when committing investment assets. In addition, there are agreements in place with a series of shipowners which state that ships from the previous ship pipeline will continue to be available for placements. In these cases HCI will probably not assume any placement risk as the ships have already been financed by the shipowner or through the banks. In many cases HCI bears the risk of a fund being wound up, which would occur in the event that complete placement is not achieved.

3.1.2. Market developments for individual asset classes

In order to ensure product availability, HCI procures investment assets for its funds and designs and sells these funds. As a result, the Company is affected by developments in the markets it operates in. Markets have been of a predominantly cyclical nature in the past.

- Closed-end ship funds were the third-largest product area in the overall market for closed-end funds in 2010. Product availability in closed-end ship funds is strongly dependent on the ship pipeline, which has been released from contingent liabilities, especially if HCI has the option of committing these ships for funds. HCI has extensive expertise in this asset class and occupies a good competitive position. Nevertheless, the risk remains that revenue targets will be missed in the absence of product or financing availability for the relevant asset classes.
- In the market for closed-end real estate funds, it is necessary to select investment properties in a desired location and at good conditions for committing the fund. In this regard, HCI already has good contacts which enable it to obtain suitable investment properties for committing the fund and to successfully place the investment. Nevertheless, there is a risk that competitors will be chosen as purchasers instead.
- As HCI's third asset class, closed-end energy funds are increasingly gaining in importance. This can also be seen in the placement figures achieved by the industry in 2010 (cf. Only slight recovery in the market for closed-end funds, energy funds, p. 57). The key mar-

kets here are Germany, Spain and France. Along with political risks in terms of current decisions, the extent to which HCI can commit lucrative investment assets for funds is another risk associated with this asset class.

In the future, HCI will counteract the risks in individual markets by offering high-quality products and by making it clear to its partners that the Company continues to be a reliable partner following the successful release from contingent liabilities in 2010.

3.1.3. Dependence on sales partners

HCI has a very low level of direct client business and is therefore dependent on top-performing external sales partners. The sale of HCI products would be restricted if there were a temporary or permanent loss of important individual partners or a number of individual partners. To counter this, HCI pursues a diversification strategy in the form of a multi-channel sales platform that uses the sales channels of independent sales partners, banks and sales organisations. As already outlined under A.I. "Business activities", HCI also co-ordinates closely with its independent sales partners. HCI also develops customised products designed to meet the specific needs of individual sales partners.

HCI counteracts the risks associated with dependence on sales partners by means of a quality management system during the design phase, which is continuously refined. Furthermore, the current recovery of the markets leads us to believe that HCI can maintain its strong market position in the long term with high-quality products and well-diversified sales channels. This, in turn, makes the Company's level of dependence on individual sales partners less important. Nevertheless, in light of the continuing market weakness there is a risk that it will be unable to maintain its long-standing relationships, particularly with top-performing sales partners.

3.1.4 Financing risks

The design and sale of closed-end funds is dependent upon the investment assets for the funds being committed and financed. The pre-financing of these assets by banks until all equity capital is raised from investors was an important element of HCI's business model. As a result of the fundamental changes in financing conditions and opportunities, it is not certain whether this type of financing will be available to the extent needed in the future or whether it will be made available by banks on account of their continuing restrictive lending policies with regard to interim equity

capital financing. This will lead to an increased reliance on low-liquidity penalty models or vendor-loan models and the selective use of the ship pipeline, which has been released from contingent liabilities, for new products.

Thanks to the successful release from contingent liabilities in 2010 and the Company's solid equity base following the debt-to-equity swap with the banks, the HCl Group is well positioned to deal with the challenges outlined. With regard to committing assets for ship funds, HCl has also entered into agreements with a series of shipowners. These agreements enable continued access to the ship pipeline released from contingent liabilities, without necessitating pre-financing obligations on the part of HCl.

3.1.4.1. Ship financing

In order to obtain ship financing, it may be necessary in certain cases for the HCl Group to provide ordering companies with collateral during the delivery and placement phase in the form of higher equity capital deposits than in the past. It is also conceivable that the HCl Group would have to provide collateral (e.g. in the form placement guarantees) in the placement phase. In this case, some of the HCl Group's liquidity would be tied up during the construction and placement phase or would need to be made available for such purposes.

3.1.4.2. Risks from contingent liabilities

During fund design and structuring, the underlying assets are usually ordered or acquired by special purpose entities in which the HCl Group and a cooperation partner hold a stake. Acquisition normally takes place at a time when equity capital to finance the investment has not yet, or has only partly, been raised from investors. In the past, participating banks usually provided short-term interim equity capital financing to supplement long-term structured investment or construction phase loans as part of project financing. In view of the limited opportunities for providing collateral before the relevant fund asset is acquired, our cooperation partners and the HCl Group provided guarantees to the banks as a means of collateral. The financial and economic crisis meant that there was a significant risk of claims being made against HCl in this regard. In August 2010, HCl was released from all significant contingent liabilities to its banks.

In future, HCl will hedge asset commitments by means of penalties and winding-up pledges in the event of an unsuccessful placement in order to avoid as far as possible entering into contingent liabilities in the form of guarantees

and placement guarantees. However, it cannot be ruled out that the HCl Group may have to enter into contingent liabilities to a justifiable extent in the future in connection with the financing and commitment of lucrative investment assets.

As of 31 December 2010, there was essentially one placement guarantee of EUR 12.7 million in place, relating to a single fund. HCl is in negotiations to cancel this guarantee. No significant new placement guarantees were issued.

The amount of acquisition commitments issued as of 31 December 2010 was EUR 8 million.

To protect its new product pipeline, the HCl Group has entered into additional contingent liabilities in certain cases, including equity capital guarantees and guarantees for hedging transactions. In the current environment, there is risk of claims being made under these guarantees. All contingent liabilities are monitored as part of the risk management process.

3.1.5. Prospectus liability

The HCl Group's companies, which develop the economic and legal structure for investment offers themselves, are liable if the design and advertising of the fund is defective. Individual companies in the HCl Group are designers and providers of the products and, as such, are affected by the following risks:

Prospectuses are drawn up for the investment offers made by the HCl Group, and these prospectuses are used by potential investors as the basis for an investment decision. The company directly responsible for the content of the prospectus, and natural persons, are liable to investors with respect to the completeness, clarity and correctness of the fund prospectus. This liability is based on the provisions of the German Securities Prospectus Act (hereafter: VerkProspG) and the German Ordinance on Asset Prospectuses (hereafter: VermVerkProspV). In 2010, there was an increase in the number of claims for damages against the HCl Group. The majority of these related to the current negative performance of individual fund companies triggered by the financial and economic crisis. If one of these claims against HCl is successful, there is an increased and currently unquantifiable risk that other investors may pursue similar claims for damages.

The HCl Group will defend itself to the fullest extent against any claims. The Company can also point to its more than 25 years of experience in the preparation of prospectuses.

The highest internal standards of quality are applied during the design stage. The Group is supported by a comprehensive network of qualified external consultants.

3.2. Risks relating to the After Sales Services segment

After Sales Services, which include trust management of placed equity capital, are a further key element of the value creation process in the HCI Group. Services provided by the HCI Group extend to helping the investor with all company law and regulatory implications of the fund investment.

3.2.1. Reputational risks

The success enjoyed by the HCI Group depends on its reputation, the confidence of investors and sales partners in the professional expertise of the staff, and the quality of its products. Regardless of the causes, the economic failure of an individual fund or product line can be damaging to the Group's reputation. Rapid and significant changes to economic circumstances caused by the financial and economic crisis can cause such failures. The HCI Group counters this risk through more intensive controlling of fund performance, swift reaction by fund managers to changes in the market environment, intensive discussions with involved parties, including banks, charterers and shipowners, and the provision of comprehensive information to investors.

Despite the improved situation on the shipping markets, the returns offered by individual ship funds could still be affected. Avoidance of these risks requires restructuring concepts from the involved parties which, as well as posing a risk to the reputation of HCI, may also necessitate the provision of liquidity by HCI.

The funds managed by the HCI Group generally have sufficient financing to cover the full term of the fund. Despite the improved economic situation, current assessments suggest that certain funds could still perform worse than forecast. The affected funds may require further liquidity to be provided if a liquidity shortage arises as a result of generally restrictive lending policies or the refusal of banks to provide loans already approved, e.g. due to loan-to-value (LTV) terms not being met.

Current assessments also suggest that certain ship funds which have already been restructured may require further restructuring if the payment extensions agreed with the banks expire and the charter situation has not still improved

significantly by that point. If this happens it will be necessary to either sign new agreements with the banks or obtain liquidity for the funds from shareholders.

In order to avoid damage to its reputation, a resulting fall in the marketability of funds, and fund insolvencies, the HCI Group has set up a restructuring team that helps fund managers to develop sustainable restructuring models for existing funds.

3.2.2. Earnings risks

Revenues from trust management and service fees for HCI's existing funds across all asset classes currently make a major contribution to the success of the HCI Group. A large part of these revenues comes from the asset class Ship. If the performance of individual ships in the current market environment is below the level forecast for ships, HCI in some cases defers the trust management and service fees as part of the restructuring. The result of this is a delay in payment, which in turn impacts the liquidity situation. It cannot be ruled out that in the future HCI will also make contributions in the form of deferments and, in some cases, waivers as part of necessary fund restructuring measures.

How the market and the related charter rates in the Ship area and the income situation of the funds all develop is of crucial importance here.

3.2.3. Liability under Section 172(IV) of the German Commercial Code (HGB)

Some HCI Group companies operate for investors as limited liability trustees in a large number of existing funds. Due to this relationship, these HCI companies are registered in the commercial register along with the relevant liability contributions of these investors.

In line with the scheduled distribution of liquidity surpluses not covered by profits to investors for a large number of funds, these funds are at risk of being liable in accordance with Sections 171 and 172(4) of the German Commercial Code (HGB), which affects registered limited liability partners and thus the HCI company as a limited liability trustee. This means that distributions which resulted in a shortfall of the liability contribution would have to be paid back to the relevant fund companies. This scenario generally becomes reality if the fund becomes insolvent and the creditors' claims cannot be met. It might initially lead to a considerable cash outflow for the HCI Group. Any compensation

claims by the limited liability trustee against investors would have to be dealt with individually. This risk described here is countered by involving the restructuring team in the restructuring of funds in the trust management area. For fund companies where claims against HCI companies cannot be ruled out, but are not probable, the amount of distributions not covered by profits which may have to be repaid is estimated at a double-digit million amount between EUR 21 million and EUR 40 million. If claims were made, the HCI Group would have corresponding refund claims against the individual investors who received the liquidity distributions. In the case of one real estate fund, there is an increased risk of claims being made. Provisions have already been set up for this eventuality.

3.2.4. Trustee liability

The limited liability trustees have various obligations, including pre-contractual obligations if applicable, with respect to the trustee agreement to be concluded with investors. Breach of these obligations may lead to claims for damages from investors. The trustee takes a critical approach to issues affecting its investors and observes duties of care and fiduciary duty at all times.

HCI Group companies act as trustees of investors for funds designed by the HCI Group. Concluded trustee agreements in this sector create duties of care that, if breached, can lead to liability of the trustee company. The trust seeks to reduce liability risk by continually optimising processes.

3.3. Risks relating to the Asset Management segment

Shipping markets remained inconsistent in the past year. However, there was a recovery in charter rates overall, in particular for container ships.

The volatility over the past few months makes it difficult to predict medium-term forecasts for charter rate levels in the individual sectors. However, experience shows that increasing globalisation, particularly in shipping, offers long-term potential for growth. For further details on shipping markets, please refer to the sections A.II. "Course of business" and G "Outlook".

HCI real estate funds invest mainly in the Netherlands and Austria, and although these countries have much less volatile real estate markets than the USA and the United Kingdom, HCI real estate funds are also affected by the

poor macro-economic climate. It should be noted that there is usually a time lag before the consequences of an economic crisis are felt in real estate markets, particularly since rental agreements in the commercial sector are usually longer-term. The result is that the possibility of failure to meet original forecasts may be greater and this may lead to a decline in market reputation for the HCI Group. The HCI real estate portfolio in the Netherlands is hugely affected by this at present.

A heightened level of uncertainty dominated the mood on the international financial markets in 2010 and this had an impact on secondary life insurance markets. Investors continue to display considerable reticence. With regard to the market for closed-end funds, the demand for investment products in this segment is almost non-existent at present. This has a corresponding effect on companies that have specialised in purchasing and trading secondary life insurance market policies. The three current secondary life insurance markets (USA, United Kingdom and Germany) should each be viewed in isolation in light of their differing models, but the statements on a fall in demand and the severely restricted trading opportunities apply equally to each market. The secondary life insurance market funds issued and managed by HCI may also fail to perform as well as expected. This could have a negative impact on the earnings generated by Asset Management and damage the Company's reputation.

HCI holds investments in various joint ventures and minority holdings such as funds, shipowners, real estate companies and sales companies. These investments were tested for impairment as of the reporting date and some of them were written down if necessary. However, these write-downs were moderate in comparison with the previous year. Nevertheless, it continues to be the case that some investments may need to be written down further in the coming years. The HCI Group carries out close monitoring of investments in order to identify these risks at an early stage.

The HCI Group also holds individual equity capital and loan capital in asset companies connected with the commitment of ships. These investments were also tested for impairment as of the reporting date. In the case of some special purpose entities which were consolidated as associated companies in the annual financial statements, impairments made in the previous year were reversed due to a clear recovery of container ship markets in the size categories above 4,000 TEU. In other size and type categories, such

as container ships below 4,000 TEU, multi-purpose freighters and bulkers, the ongoing weakness of markets made further impairments necessary. There is a risk that further write-downs will need to be made in the future if markets deteriorate.

4. Risks from centralised functions in the HCI Group

4.1. Personnel risks

The success and sustainability of the HCI Group is mainly based on its well-trained, experienced and motivated employees. The Company would be weakened by the simultaneous loss of several highly qualified employees. The successful conclusion of restructuring measures in 2010 has greatly enabled the Company to retain its employees. However, it was impossible to avoid employee resignations in 2010. Targeted staff reductions were required to allow the HCI Group to collect the human resources required to further strengthen the Group by way of continuing professional development.

4.2. IT risks

The HCI Group has introduced various safety measures to minimise the risk of system failures. These include server virtualisation and regular back-up of the virtual machines, implementation of a back-up strategy including offsite storage, and emergency plans including a disaster recovery plan. Access control systems, encryption software, firewall systems, LAN port monitoring, antivirus software, URL filtering and intrusion prevention are some of the tools used to protect the IT systems and data.

4.3. Financial risks

The spread of the international financial crisis into a global economic crisis has meant that banks have placed strict limits on granting loans, or have ceased such activities entirely, and existing business can only be continued with restrictions and/or under significantly worse terms and conditions. This makes it much more difficult for bank clients to refinance or extend existing financing arrangements. The HCI Group has been unable to escape the effects of the current conditions in the capital markets and must reckon with increased requirements for new financing and for the extension of existing contracts. As a result, it is now more difficult to obtain debt capital. HCI is aiming to minimise its dependence on bank loans.

4.3.1. Conversion of project-related loans into non-current financing

HCI Capital AG obtained a project-related loan for USD 4.75 million from Bankhaus Wölbem in connection with an order for 9 container ships with our cooperation partners. Under the terms of the capital increase carried out last year by a contribution in-kind, Bankhaus Wölbem also had the option of converting the project-related loan into a contribution in-kind. It did not make use of this option. For this reason, it is now possible for HCI to convert the existing loan into non-current financing. Negotiations on the terms and conditions of the non-current financing are currently taking place.

4.3.2. Liquidity risks

The changes in financing terms and conditions and the continuing reluctance of investors to invest in closed-end funds mean that HCI is exposed to an increased liquidity risk due to the fact that proceeds from design and sales fees have failed to materialise. There may also be delays in settling trust receivables, which will further impact on HCI's liquidity situation.

Maintaining a solid equity base and liquidity is an essential management goal. HCI has a well-structured liquidity and receivables management system in place, thanks to its controlling and accounting departments. The fund managers and restructuring team also actively support the controlling and accounting departments. In addition, the measures already taken are continuously being enhanced to ensure that the Company's risk-bearing capabilities and its equity and liquidity position improve.

4.3.3. Currency fluctuations

Currency risks arise if receivables, liabilities or transactions already agreed exist in a currency other than the functional currency of the relevant company of the HCI Group. Such currency fluctuations may change the value of the receivable or liability in the functional currency and have a significant effect on the earnings and financial position. Developments in the exchange rate between the US dollar and the euro are of particular significance for the HCI Group due to its business activities. Currency hedging transactions are entered into to reduce these risks in individual cases. Please refer to note (32)(b)(i) in the notes to the consolidated financial statements for further information, particularly with respect to the sensitivity of existing items to changes in the US dollar exchange rate.

4.3.4. Changes in interest rates

The HCI Group is generally exposed to risks resulting from interest rate changes in connection with loans extended or interest-bearing receivables and variable-rate loans taken out for refinancing purposes. The HCI Group does not have any interest rate hedges, as the absolute risks arising in connection with refinancing that has matched interest rates and maturities is not considered to be significant. Please refer to section (32)(b)(i) of the notes to the consolidated financial statements with regard to the sensitivity of the HCI Group's variable-rate assets and liabilities.

II. Opportunities regarding the future performance of the Group

The business model and successful track record of the HCI Group are based on more than 25 years' experience in the design and sale of closed-end funds. Over the years, the HCI Group has gradually diversified its product portfolio, setting new industry standards and driving innovation with its new asset classes and product structures. With a historical aggregate of EUR 6.0 billion of equity capital under management (EUR 4.9 billion as of 31 December 2010), the HCI Group is one of the leading and most experienced providers in the market. In particular, in the past the HCI Group has established a track record of completing long-term investments in tangible assets which were successful for investors across different market cycles. These factors provide the fundamental basis for significant opportunities which will continue to be available for the HCI Group in the 2011 financial year. Against the background of current market developments, attention should be drawn to the following opportunities:

- We consider that the reluctance shown by investors is only a temporary phenomenon and is a reflection of the high level of uncertainty seen in the past two years about the extent and duration of the crisis in the financial markets and effects on the real economy. In general, investors in Germany have high levels of savings available for investment. As the recovery of the global economy and the financial markets continues, there is a good chance that investors will abandon their reticence and return to making investments in closed-end funds. This is particularly true of investments in shipping, given that there has been a clear recovery on shipping markets in 2010 and prospects for the medium to long term are good. With new products planned for 2011, especially in the asset classes Ship and Real Estate, and a strong sales network, the HCI Group in particular can benefit from this trend.
- The closed-end funds marketed by the HCI Group offer long-term and transparent investments in tangible assets. The strongly diversified product portfolio is also particularly designed to meet varying investor requirements with regard to the term, minimum investment amount and risk/reward profile by offering innovative product structures (guarantee products, asset creation plans). Due to the negative experiences that many investors have had with complex financial products during the financial crisis, we see an opportunity for investments in solid tangible assets to enjoy a revival among investors. In these times of low interest rate policies and rapidly increasing public debt, inflationary tendencies are to be expected. Investments in tangible assets will then become highly attractive propositions. With an investment range focused on tangible assets, especially in ships and real estate, and a strong sales network, the HCI Group in particular could benefit from this trend.
- In our view, in a highly fragmented market the risks for providers of closed-end funds resulting from the financial market crisis will especially hit smaller competitors – competitors who have less well-established products, smaller sales networks, and lower credit standing and financial strength. Therefore, there is a chance that the repercussions of the financial market crisis might favour a consolidation of the market for closed-end funds from which the HCI Group, as one of the leading and most experienced providers in the market, could benefit.
- In view of developments caused by the financial market crisis, we expect that the industry providing closed-end funds and the independent providers of financial services who make a considerable contribution toward HCI's placement success will be subjected to stricter regulatory control. As the HCI Group already meets high quality and transparency standards, we expect to be in a better position than most of our competitors to easily and quickly implement regulatory requirements. With regard to further regulation of independent financial service providers, the HCI Group is also in a better position than others to provide this group of sales partners with services and consultation that will enable them to adapt to the regulatory changes. The HCI Group therefore stands to benefit overall from further industry consolidation as a result of stricter market regulation.
- Future financing arrangements will mean higher equity capital requirements. As a publicly listed company and an industry leader, the HCI Group is able to position itself better than its competitors in this environment.

- At the end of 2008, the HCI Group was already gearing up at an early stage to significantly reduce the risks arising from the financial and economic crisis. The successful conclusion of the release from all significant liabilities owed to banks and the conversion of bank liabilities into equity puts the HCI Group on a solid financial basis. All of this provides opportunities to give a perceptible boost to the placement volumes of the HCI Group using its improved financial leeway.

G. Outlook

World economy to grow at a moderate pace

Leading economic research institutes predict that the global economy will grow in 2011 as well, albeit at a slower pace than in the previous year. Emerging market countries – especially China and India – will continue to be the growth drivers. Both countries are expected to record high growth rates again in 2011. These countries are thus likely to continue having an impact on how the global economy performs for the foreseeable future.¹⁾ The overall economic output of industrialised countries continues to fall short of pre-crisis levels. It is not expected to reach these levels again until the end of 2011. Continuing structural problems in the financial sector, strong pressure to consolidate caused by high levels of public and household debt, and high unemployment are the main factors hindering a return to pre-crisis growth rates.²⁾ Added to this is a growing number of other problem areas that are preventing a more dynamic expansion of the world economy.³⁾ These are not limited to the debt crisis in the euro zone; the expiry of economic stimulus programmes and a tightening of fiscal policies in some countries are also having an impact. Measures to prevent economic overheating in China in particular are being viewed critically. These circumstances are especially noticeable in the USA and in peripheral euro zone countries.⁴⁾ However united the leading economic institutes may be in their prediction that the global economy will continue to recover in 2011 at a slower pace, there are wide variations in their estimates in concrete terms. Forecasts currently lie between 3.6% (source: ifo German Institute for Economic Research) and 4.4% (source: IMF International Monetary Fund⁵⁾).

Economic growth slowed down considerably in the USA during 2010. In addition to lower growth in foreign trade, this was due to the negative effect of a reduction in eco-

nomic stimulus measures. The high level of household debt and the crisis in the real estate sector also had an impact. Unemployment for 2010 hit a historical high of around 9.8%. As a result, domestic consumption is not expected to provide the economy with any significant impulse. This means that growth rates in the USA are not expected to rise significantly and GDP in 2011 will increase by a mere 1.7% (source: ifo⁶⁾) or 3.0% (source: IMF).

Economic institutes are also predicting that the Chinese economy will expand at a slower pace. The reasons for this are risks on the real estate market and further tightening of the restrictive monetary policy in order to curb inflationary tendencies. In addition to this, weak consumption levels in the USA could lead to a fall in demand and therefore a drop in exports. The exchange rate is also having a negative effect on growth, as the renminbi is increasing in value against the US dollar and, in the process, eroding China's competitiveness. Forecasts for China's economic performance in 2011 predict growth of 8.0% (source: ifo⁷⁾) or 9.6% (source: IMF).

Despite the continuing debt crisis in the euro zone, economic growth is still expected to be moderate here. It is anticipated that the export rate will stabilise further and that household consumption will follow suit in the course of the year. However, the imbalance between the various countries in the common currency, which in some cases is immense, will continue⁸⁾. Forecasts for economic growth in the euro zone are relatively harmonious overall, ranging between 1.3% (source: DIW⁹⁾, IfW¹⁰⁾) and 1.5% (source: Hamburg Institute of International Economics [HWWI]¹¹⁾, IMF¹²⁾).

Positive growth rates are also assumed for the German economy in 2011, although they will be lower than in the previous year. Following a surprisingly sharp rise in economic growth in 2010, which was helped by a high level of foreign demand as well as resurgent domestic demand, researchers anticipate that the positive trends will continue. Companies are likely to increase their capital expenditure again and this should continue to have a positive effect on the labour market. Rising employment and higher real disposable household incomes are expected to give further impulse to consumption levels. Exports are also predicted to increase again. Overall, the forecasts point to growth of between 2.2% (source: IMF) and 2.5% (source: HWWI¹³⁾) for Germany in 2011.

1) HWWI Policy Report No. 15, p. 5.

2) Ifo Economic Forecast 2010/2011, Munich, 14.12.2010, p. 3ff.

3) IfW Weltkonjunktur, winter 2010, 15.12.2010, p. 3.

4) Ifo Economic Forecast 2010/2011, p. 4.

5) IMF World Economic Outlook Update, January 2011, p. 2.

6) Ifo Economic Forecast 2010/2011, p. 8.

7) Ifo Economic Forecast 2010/2011, p. 40.

8) Ifo Economic Forecast 2010/2011, p. 10.

9) DIW, Wochenbericht 1-2/2011, p. 5.

10) IfW, Weltkonjunktur, winter 2010, p. 18.

11) HWWI Policy Report No. 15, Konjunktur 2011, Hamburg, December 2010, p. 17.

12) IMF World Economic Outlook Update, January 2011, p. 2.

13) HWWI Policy Report No. 15, Konjunktur 2011, Hamburg, December 2010, p. 23-25.

Medium-term forecasts for the global economy vary widely. In general, production levels are expected to rise again in 2012 since the factors that hinder growth, such as the absence of economic stimulus packages and the continuing restrictive fiscal policies in some countries, are likely to have less of an impact. Forecasts for global economic growth in 2012 range from 2.0% (source: Ifo, HWWI) to 4.0% (source: IfW Kiel Institute for the World Economy)¹⁾ to 4.5% (DIW, IMF).²⁾

Prospects vary on the shipping markets

Experts anticipate that any increases in the size of the container shipping fleet in 2011 will more or less be matched by growth in demand. Forecasts predict that there will even be a shift in favour of the supply side in 2012. This is good news for the continued recovery of charter rates. The low level of capacity increases means that there is good recovery potential for smaller container ships of up to 3,000 TEU. The fleet of ships in the 3,000 to 7,500 TEU categories could record slightly higher increases, but these are likely to be less than the expected growth of the market. Ultrasize container ships are experiencing high, double-digit percentage capacity growth. The resulting knock-on effect (i.e. ships in one size category being forced off their traditional routes by ships in the next-largest size category) will increase market pressure in the other segments. How-

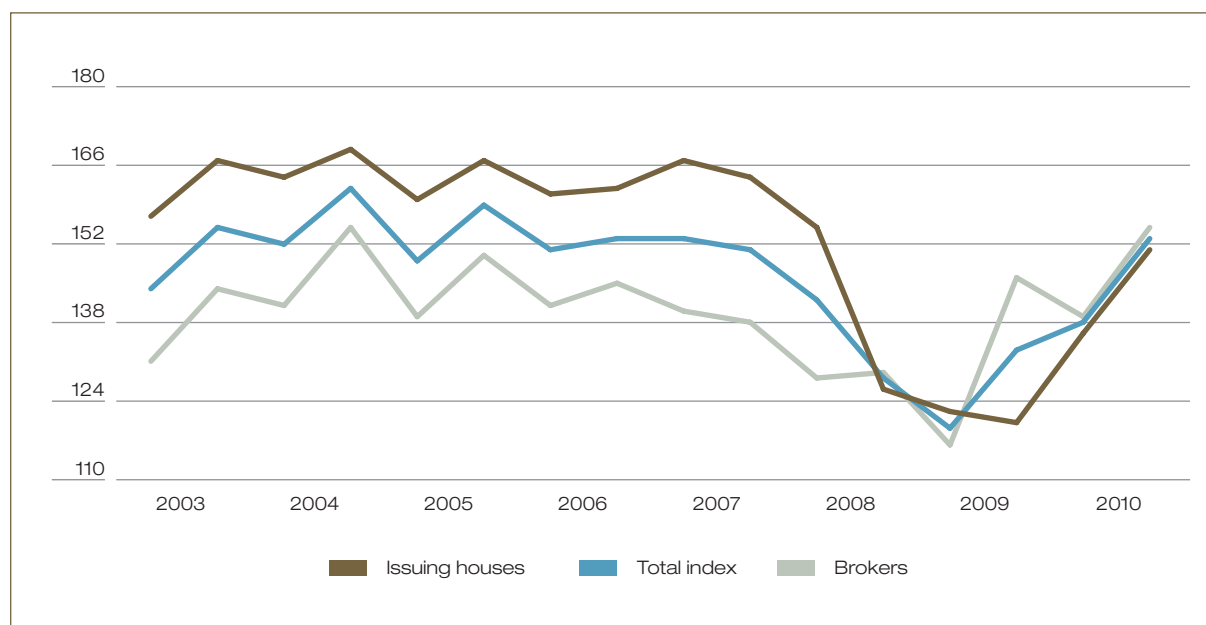
ever, the current infrastructure in ports (draught limitations, quay wall lengths, cranes) will restrict the use of very large container ships and thus limit the impact of this knock-on effect. As these ships can only access a small number of ports, it is expected that the forwarding delivery services offered by smaller ships will be in greater demand.

The biggest increases in the bulker fleet are also expected in the larger ship classes. The total fleet capacity should grow by almost 26% in 2011 alone. At around 12% of fleet capacity, the majority of the order book relates to the cape-size segment. As a result, the greatest pressure on bulk carrier rates is expected here in the next one to two years. Further pressure is expected on the charter and freight markets in the tanker segment due to the high order book and the associated strong fleet growth. MR product tankers of up to 60,000 tdw have the best prospects in the tanker segment at present. Overall, both the bulker and the tanker markets will remain very volatile.

Slight recovery for the sector in sight

Sentiment in the closed-end fund sector improved significantly in 2010. This was evident from the Business Climate Index, which Scope Analysis calculates twice a year for the sector³⁾. The index closed 2010 at 153 points and has thus returned to the pre-crisis level recorded at the start of 2008.

Fig. 12: Scope Business Climate Index 2003–2010



Source: Scope Analysis Report No. 01 – 08.02.2011.

1) IfW, Weltkonjunktur, Winter 2010, 15.12.2010, p. 3, 29.

2) DIW, Wochenbericht 1-2/2011, p. 5.

3) Scope Analysis, Report 01/2011 from 08.02.2011.

More than three quarters of issuing houses surveyed – specifically 87 % – anticipate that their fund business will perform either “well” or “very well” in 2011, with real estate funds in particular expected to enjoy an increase in sales. Analysts at Scope believe that foreign real estate could record even stronger growth again. Although real estate in Germany will continue to be in demand as a safe investment, the recent rise in purchase prices is expected to lead to a shortage on the supply side.

While analysts are forecasting stagnation in the Ship segment, issuing houses are planning to expand the supply of ship funds in 2011. In view of the varying market prospects within the different segments of the ship market, it would appear that a return to container ship funds offers increasingly better sales opportunities than can be found in the bulker and tanker segments. Nevertheless, bulker ships account for the largest share of the issuing houses' planned ship fund projects.

With regard to energy funds, the political decisions currently being taken in the core markets of Germany, Spain and France on a reduction in feed-in prices in the area of photovoltaics are expected to lead to a noticeable fall in supply. However, as a drop in solar module prices is also anticipated, this segment remains attractive overall for closed-end funds.

The closed-end fund sector can benefit in 2011 from further positive developments in the overall economy and the clear improvement in market sentiment that has been witnessed since the end of last year. However, the continuing need for restructuring with regard to existing ship funds and ongoing discussions about the future regulation of the market remain as negative factors. Overall, market experts predict that 2011 will see a further increase in the amount of equity capital placed.

Outlook for the HCI Group

Following extensive financial restructuring, which included a release from contingent liabilities and a considerable strengthening of its equity base, the HCI Group laid down solid foundations in 2010 that will enable the Company to concentrate once more on its sales activities with a new range of products in 2011. The Management Board assumes that a capital increase already announced will be carried out in 2011 by the Company's principal shareholders in the amount of at least EUR 11 million. This will

further strengthen the HCI Group. By focusing its strategy on investments in infrastructure in the asset classes Ship, Real Estate and Renewable Energy, the HCI Group aims to strengthen its position in the market. We are certain that these asset classes will benefit more than others from global economic trends. As the world's population continues to rise, we expect to see steady growth in the global economy and global trade over the medium and long term, increasing urbanisation in the world's metropolises and soaring demand for alternative forms of energy. Ships, Real Estate and Renewable Energy thus represent sustainable and attractive investments for our clients and we will continue to offer these investments using tailor-made product concepts that meet the different needs of investors.

At the same time, the active management of existing funds, especially ship funds, will continue to be of key importance in 2011. Container shipping markets already showed signs of recovery during 2010, and indeed sooner than expected. We also believe that this recovery will continue in 2011. However, as expected, it will take a certain amount of time before the liquidity situation for existing funds starts to ease. In this regard, the HCI Group will continue to have an important role to play in its trust management activities, namely to develop suitable restructuring concepts together with the executive shipowners and financing banks of the funds. Where necessary, the Company will endeavour to persuade investors to reinvest amounts previously paid out as distributions, or to increase capital, or persuade third party investors to provide financing. In doing so, it will be acting in the interests of both the investors and the HCI Group to prevent fund companies from becoming insolvent. HCI Treuhand has been newly aligned to deal with these tasks and capacities have been considerably increased in the areas of fund controlling, restructuring management and investor relations. Stringent early-warning, design and communications processes for restructuring measures have been implemented with the aim of developing and realising optimal solutions for all of the affected funds by means of customised restructuring concepts in the best interests of investors. This has enabled the HCI Group to safeguard liquidity for around 60 ship funds and therefore investors' chances of profiting from the resurgent markets. By doing so, the HCI Group has demonstrated its high level of expertise in this asset class. This provides a significant contribution towards strengthening the confidence of investors and also offers an opportunity to successfully place new investments in ship funds.

With regard to new business in 2011, the HCI Group's product range will focus on the asset classes Ship and Real Estate. In the Ship area, a revival in the demand for container ship funds is expected in particular, as long as they involve favourable purchase prices, sustainable deployment concepts and solid financing structures. Thanks to HCI's robust partnership with established and experienced shipowners, there are good prospects for designing attractive products that meet these requirements. HCI is thus planning to introduce a range of new ship funds here in 2011. The first container ship fund, the 3,100 TEU ship HCI JPO Leo, is expected to be marketed in April 2011. In addition to this, the HCI Group will also considerably expand its array of real estate products in 2011. The start of the second quarter will see the market launch of the new product HCI Berlin Airport Center and demand is expected to be high. The fund has an equity capital volume of around EUR 30 million. Further real estate fund projects are already in preparation for the subsequent quarters. New products in Renewable Energy are also planned for the second half of the year.

In anticipation of rising demand for closed-end ship funds and an expansion of the Company's product range, it is believed that the HCI Group will be able to significantly exceed the previous year's placement result for new business in 2011. Based on this prediction, we expect the HCI Group to break even in its consolidated net result after tax.

Overall, the course of business in 2011 and 2012 will largely be determined by how substantial and how fast the recovery in the demand for closed-end funds is. This will also depend in no small part on the extent to which the global economy can maintain its growth levels. Assuming that developments are positive overall, we believe that the HCI Group has a good chance of sustainably increasing its placement result in new business and improving its consolidated net result in the years ahead.

H. Other disclosures

I. Financial performance, cash flows and financial position of the parent company HCI Capital AG

The annual financial statements of HCI Capital AG are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG), unlike the consolidated financial statements, which are prepared in accordance with IFRS, as adopted by the European Union.

1. Financial performance

The following table includes the key financial performance figures of HCI Capital AG for the 2010 financial year in comparison with the 2009 financial year.

In EUR million	2010	2009
Other operating income	4.6	6.1
Personnel expenses	-2.1	-1.9
Other operating expenses	-7.5	-9.5
Investment income	-3.3	-7.0
Write-downs	-6.2	-22.7
Other financial result	1.0	0.4
Income taxes	-0.3	0.1
Other taxes	-1.4	0.0
Extraordinary result	9.1	0.0
Net loss for the year	-6.1	-34.5

Other operating income for the 2010 financial year mainly comprises income from the recharging of costs to affiliated companies of EUR 2.1 million (previous year: EUR 1.4 million), income from the reversal of impairments on investments of EUR 0.6 million (previous year: EUR 0.0 million) and income from the reversal of impairments on receivables of EUR 0.5 million (previous year: EUR 0.0 million).

The rise in **personnel expenses** of EUR 0.2 million is essentially due to the increase in salary expenses of EUR 0.1 million as a result of employing a new staff member in HCI Capital AG and the rise in bonus commitments of EUR 0.1 million.

Other operating expenses mainly comprise legal and consulting costs of EUR 4.0 million (previous year: EUR 3.2 million), expenses from exchange rate differences of EUR 0.4 million (previous year: EUR 0.4 million), financial statement and auditing costs of EUR 0.4 million (previous year: EUR 0.4 million) and expenses resulting from non-recurring effects of EUR 0.6 million (previous year: EUR 4.1 million).

Investment income was EUR 3.7 million higher than in the previous year at EUR -3.3 million and comprises income from profit transfer agreements of EUR 9.0 million (previous year: EUR 9.1 million) and expenses from loss transfers of EUR 14.3 million (previous year: EUR 17.7 million). In the 2010 financial year, the Company recognised gains and losses from control and profit transfer agreements with HCI Hanseatische Capitalberatungsgesellschaft mbH for EUR -14.3 million (previous year: EUR -17.6 million), HSC Hanseatische Sachwert Concept GmbH for EUR 0.8 million (previous year: EUR -1.0 million) and HCI Treuhand GmbH for EUR 8.2 million (previous year: EUR 8.1 million). It also earned income from investments amounting to EUR 2.1 million (previous year: EUR 1.6 million).

Write-downs relate mainly to impairments on the eFonds investment of EUR 2.7 million (previous year: EUR 2.4 million), impairments on investments in subsidiaries of EUR 0.1 million (previous year: EUR 3.1 million) and impairments on fund companies of EUR 0.3 million (previous year: EUR 0.0 million). Additional write-downs on current assets, over and above the usual write-downs, of EUR 2.9 million (pre-

vious year: EUR 9.5 million) were also recognised with respect to affiliated companies (EUR 2.0 million), receivables from ship ordering companies (EUR 0.6 million) and loans (EUR 0.1 million).

The **other financial result** includes interest income of EUR 2.4 million and interest expenses of EUR 1.4 million, derived mainly from receivables from and liabilities to Group companies as part of cash pooling. Interest expenses of EUR 1.0 million were recorded with regard to banks.

Extraordinary expenses relate to expenses from compensation payments and processing fees owed to banks as part of the release from contingent liabilities.

Extraordinary income is solely due to the income received from the derecognition of financial liabilities in the conversion of debt into equity as part of the non-cash capital increase.

Income taxes mainly consist of tax payments of EUR 0.4 million. There were also tax refunds of EUR 0.1 million.

Other taxes relate primarily to tax risk expenses arising from the audit of EUR 1.4 million.

2. Financial position and cash flows

The following table contains figures from the balance sheet of HCI Capital AG.

	31/12/2010		31/12/2009	
	In EUR million	in %	In EUR million	in %
Assets				
Investments	35.7	48.6	37.9	38.7
Receivables from related parties	26.2	35.6	30.2	30.8
Receivables and other assets	8.0	10.9	13.9	14.2
Securities	1.7	2.3	1.5	1.5
Cash and cash equivalents	1.9	2.6	14.5	14.8
Total assets	73.5	100.0	98.0	100.0
Equity and liabilities				
Equity	44.2	60.1	43.0	43.9
Provisions	4.5	6.1	31.8	32.5
Liabilities to banks	17.8	24.2	9.9	10.1
Trade payables	0.1	0.2	0.3	0.3
Liabilities to related parties	5.9	8.1	11.4	11.6
Other liabilities	1.0	1.3	1.6	1.6
Total equity and liabilities	73.5	100.0	98.0	100.0

The decrease in **investments** as of 31 December 2010 of EUR 2.2 million to EUR 35.7 million (previous year: EUR 37.9 million) is primarily due to the write-down on the eFonds investment of EUR 2.7 million and interests in partnerships of EUR 0.3 million. An impairment reversal of EUR 0.6 million was also made on interests in partnerships.

The reduction in **receivables from related parties** of EUR 4.0 million primarily results from offsetting the expenses from the loss transfer for HCI Hanseatische Capitalberatungsgesellschaft mbH amounting to EUR -14.3 million against the receivables due from this company. Receivables also increased due to the recharging of costs under a management contract with HCI Hanseatische Capitalberatungsgesellschaft mbH and internal group cash pooling.

Other assets include loan receivables of EUR 5.7 million (previous year: EUR 8.2 million). Other assets also include receivables arising from payment extension agreements of EUR 1.1 million (previous year: EUR 0.5 million) and tax receivables of EUR 0.5 million (previous year: EUR 2.9 million).

Securities include interests in HCI HAMMONIA SHIPPING AG for which write-up to the fair value in the amount of EUR 0.2 million (previous year: write-down of EUR 1.5 million) was recognised as of 31 December 2010.

Cash and cash equivalents fell by EUR 12.6 million from EUR 14.5 million as of 31 December 2009 to EUR 1.9 million as of 31 December 2010.

The increase in **equity** of EUR 1.2 million to EUR 44.2 million is mainly due to the capital increase by a contribution in-kind of EUR 7.3 million. This had been opposed by an annual net loss of EUR 6.1 million in 2010.

The decrease in **other provisions** is primarily the result of a provision for the impending claim under a guarantee for financing relating to the purchase of NY Credit Operating Partnership LP in the amount of EUR 26.2 million. This provision was recognised in the 2008 financial year and derecognised in 2010 when a bank deposited the associated receivable as part of the non-cash capital increase.

The rise in **liabilities to banks** of EUR 7.9 million, from EUR 9.9 million on 31 December 2009 to EUR 17.8 million on 31 December 2010, is mainly attributable to the compensation payment of EUR 12.5 million owed to the banks. The increase was offset by a reduction in liabilities from the conversion of debt to equity of EUR 4.4 million and by loan repayments of EUR 1.6 million.

II. Declaration on corporate governance pursuant to Section 289a of the German Commercial Code (HGB)

1. Declaration of compliance by the Management Board and Supervisory Board of HCI Capital AG with respect to the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and Supervisory Board of HCI Capital AG declare that since its last declaration of compliance on 29 January 2010 until 02 July 2010 the Company has complied with the recommendations of the Government Commission German Corporate Governance Code published by the German Ministry of Justice in the official section of the German electronic Federal Gazette in the version dated 18 June 2009, with the following deviations.

The Management Board and Supervisory Board of HCI Capital AG also declare that since 03 July 2010 the Company has complied with and will continue to comply with the recommendations of the Government Commission German Corporate Governance Code in the version dated 26 May 2010 (hereinafter "the Code") published by the German Ministry of Justice in the official section of the German electronic Federal Gazette on 02 July 2010, with the following deviations:

Pursuant to Section 3.8(3) of the Code, a reasonable deductible should be agreed when the Company takes out a directors' and officers' (D&O) insurance policy for the Supervisory Board.

A D&O insurance policy has been taken out for Supervisory Board members of HCI Capital AG that does not have any deductible. HCI Capital AG is of the opinion that agreement of a deductible does nothing to improve a sense of responsibility with regard to the way Supervisory Board members of HCI Capital AG approach their responsibilities and functions. The policy followed by HCI Capital AG meets international standards.

Pursuant to Section 5.1.2(1) sentence 2 of the Code, the Supervisory Board shall also respect diversity when appointing the Management Board and pursuant to Section 4.1.5 of the Code, the Management Board shall also respect diversity when filling management positions in the Company. In particular, it should be endeavoured to have adequate representation of women.

HCI Capital AG is of the opinion that diversity, which includes the consideration of women, is not a decisive criterion for membership of the Management Board or other management positions. The interests of the Company are much better served by management abilities, experience and expertise in the relevant areas of the business and responsibilities.

Pursuant to Section 5.1.2(2) sentence 3 of the Code, an age limit for Management Board members shall be specified.

HCI Capital AG has no intention of introducing a mandatory age limit for Management Board members, nor has it ever had such an intention. HCI Capital AG does not regard this limitation as reasonable, and as far as the Company is concerned, the decisive factors for membership of the Management Board are knowledge, ability and professional experience.

Pursuant to Section 5.4.1(2) of the Code, the Supervisory Board should stipulate concrete targets with regard to its own composition which take into consideration the international presence of the Company, potential conflicts of interest, a fixed age limit for Supervisory Board members and diversity, with due regard given to the Group-specific situation. These targets should provide for adequate representation of women. Pursuant to Section 5.4.1(3) of the Code, the targets stipulated should be taken into consideration when nominating persons to the Supervisory Board. These targets and the extent to which they have been met should be published in the corporate governance report.

The interests of the Company are also better served by the management abilities, experience and expertise of the Supervisory Board. In addition to these selection criteria, HCI Capital AG considers the aspects outlined in Section 5.4.1(2) of the Code with regard to the question of which Supervisory Board candidates are nominated at the Annual General Meeting to be worthy of consideration and the Supervisory Board will include them in its decision-making when nominations are being made, with due regard given to the Group-specific situation. At present, no concrete targets are set for the composition of the Supervisory Board in the future. Therefore, the recommendations on the subsequent measures associated with target setting in Section 5.4.1(3) of the Code cannot be taken into consideration.

Pursuant to Section 5.4.2 sentence 4 of the Code, Supervisory Board members should not perform any board functions at companies which are significant competitors of the Company.

Supervisory Board member Stefan Viering is Managing Director of a subsidiary of a competitor. HCI Capital AG is of the opinion that Mr Viering's expertise in the area of closed-end funds in particular contributes to the success of the Supervisory Board and that the Company benefits from this.

Pursuant to Section 5.4.6(2) sentence 1 of the Code, Supervisory Board members shall receive fixed as well as performance-related remuneration.

The articles of association of HCI Capital AG do not provide for performance-related remuneration for the Supervisory Board. HCI Capital AG is of the opinion that performance-related remuneration is not suitable for promoting the control function of the Supervisory Board.

Pursuant to Section 7.1.2 sentence 4 of the Code, interim reports shall be publicly accessible within 45 days of the end of the reporting period.

HCI Capital AG published its Semi-Annual Report 2010 on 18 August 2010 and therefore 4 days after the deadline recommended by the Code. This postponement of the planned publication date, which originally met the recommendations of the Code, occurred as negotiations with banks, which were of crucial importance to the financial report, were not completed until shortly after the 45-day deadline. This was an exceptional situation that resulted from the restructuring of the Company. HCI Capital AG has always complied with publication deadlines recommended by the Code – with two exceptions in 2009 for the same reason – and intends to comply with such deadlines in the future.

Management Board and Supervisory Board of HCI Capital AG

Hamburg, 24 January 2011

For the Management Board:

Dr Ralf Friedrichs
(Chairman of the Management Board)

For the Supervisory Board:

Dr John Benjamin Schroeder
(Chairman of the Supervisory Board)

2. Cooperation between Management Board and Supervisory Board

Management Board

The management and control structure of HCI Capital AG has dual corporate governance in line with German company law requirements. The three Management Board members run the Company independently with the aim of creating sustainable increases in the value of the Company. The Management Board normally meets at scheduled board meetings every two weeks and there is continuous close contact outside regular meetings.

The full Management Board makes decisions about all matters where the law, the articles of association or the rules of the Management Board require that a decision be made by the full Management Board. Individual Management Board members have responsibility for managing resolutions in the areas of the business for which they are responsible. The Management Board may also entrust individual Management Board members with resolutions and implementation of measures which fall within the responsibility of the Management Board. Measures and transactions in a business area that is extremely important to the Company or which carry an extreme economic risk require the prior approval of the Management Board. Transactions which require the approval of the Supervisory Board over and above statutory requirements are included within the rules of the Management Board.

The Chairman of the Management Board is responsible for coordinating all business areas of the Management Board. The Chairman shall seek to ensure that the management of all business areas are working together to achieve the goals set by the resolutions of the Management Board. The Chairman of the Management Board represents the Management Board and the Company in public, particularly with regard to public authorities, associations, commercial organisations and public organisations. The Chairman is responsible for managing communications with the Supervisory Board and its members. The Chairman of the Management Board regularly updates the Chairman of the Supervisory Board about the economic position of the Company. The Chairman of the Management Board shall immediately inform the Chairman of the Supervisory Board about other important events that could have a significant effect on the position of the Company.

Supervisory Board

The Supervisory Board of HCI Capital AG exercises the monitoring and control functions. It has six members. The Supervisory Board is responsible for the adoption and approval of the consolidated financial statements and annual financial statements of HCI Capital AG and works closely with the auditors in this respect. Supervisory Board members do not have any business or personal relationships with companies that have a conflict of interest, which would mean that the member would not be completely independent. As a Supervisory Board member and a major shareholder of HCI Capital AG, Jochen Döhle is involved (as shipowner or shipbroker) with part of the shipping operations of the HCI Group via his company. As yet there have been no conflicts of interest.

The Supervisory Board has an audit committee, a human resources committee and an investment committee.

The audit committee prepares decisions for the Supervisory Board regarding approval of the annual financial statements and the consolidated financial statements. In this respect, it is responsible for the pre-review of the annual financial statements, the consolidated financial statements, the consolidated management report and the proposed allocation of profits. On behalf of the Supervisory Board, the audit committee determines agreements with the auditors (with regard to audit engagement, determination of audit focus areas and fee agreements). It determines suitable measures to ensure and monitor the independence of the auditors. The audit committee also provides support to the Supervisory Board in monitoring management, and concentrates in particular on issues of risk management and the accounting-based internal control system (ICS). In this regard, it may also take advantage of the special rights of inspection and audit granted to the Supervisory Board in accordance with Section 111(2) of the German Stock Corporation Act (AktG). In place of the Supervisory Board, the audit committee decides about approval of specified transactions that require the approval of the Supervisory Board pursuant to the rules of the Management Board. The members of the audit committee are: Udo Bandow, Karl Gernandt and Alexander Stuhlmann.

The human resources committee prepares decisions for the Supervisory Board regarding human resources. In place of the Supervisory Board, it makes decisions about the conclusion, amendment and termination of employ-

ment contracts with Management Board members; may represent the Supervisory Board against Management Board members in accordance with Section 112 of the German Stock Corporation Act (AktG); approves transactions over a value of EUR 50,000 between the Company or an affiliated company pursuant to Section 15 AktG and a Management Board member or persons or companies related to the Management Board member pursuant to Section 138(1) of the German Insolvency Code (InsO); approves other transactions by a Management Board member pursuant to Section 88 AktG; approves granting of loans to the types of persons specified under Sections 89 and 115 AktG; approves contracts with Supervisory Board members pursuant to Section 114 AktG; and approves legal representation for the Company in legal disputes about challenges and actions to set aside (Section 246(2) sentence 2 and Section 249(1) sentence 1 AktG). The members of the human resources committee are: Dr John Benjamin Schroeder, Udo Bandow and Jochen Döhle.

The investment committee approves specified transactions that require the approval of the full Supervisory Board pursuant to the rules of the Management Board or the terms of any resolution. The members of the investment committee are: Dr John Benjamin Schroeder, Jochen Döhle and Stefan Viering.

Cooperation between Management Board and Supervisory Board

The Management Board works closely with the Supervisory Board for the good of the Company. The Management Board determines the strategic direction of the Company with the Supervisory Board and regularly discusses the progress of strategic implementation with the Supervisory Board.

Regular contact between the Management Board and the Supervisory Board plays an integral part in effective cooperation in the interest of the Company. At the four scheduled meetings of the Supervisory Board, the Management Board reports on the business policies it intends to implement and other fundamental issues facing the Company, such as its financial performance, cash flows and financial position, risk situation, risk management and risk controlling. The Management Board also reports at least once per year on fundamental issues of corporate planning, particularly financial and human resources planning. Any conflicts

of interest that may arise are immediately notified to the Supervisory Board by the Management Board members. No conflicts of interest with individual Management Board members arose during this financial year.

The Chairman of the Supervisory Board is in regular contact with the Management Board, in particular with the Chairman of the Management Board, and they discuss and monitor strategy, business development and risk management of the HCI Group. The Chairman of the Supervisory Board is informed immediately by the Chairman of the Management Board of any important events that are of significance for an assessment of the Company's position and development and for its management. Where necessary, the Chairman of the Supervisory Board will inform the Supervisory Board immediately and may call an extraordinary meeting of the Supervisory Board if it is required.

Details of the main issues discussed between the Management Board and Supervisory Board in the 2010 financial year are discussed in the Supervisory Board Report.

3. Information about Company management

The HCI Group does not have any special guidelines governing company management over and above statutory requirements.

4. Corporate governance report

The German Corporate Governance Code (the "Code") comprises numerous rules and guidelines for the management and monitoring of publicly listed companies in Germany. HCI Capital AG follows most of the standards set out in the Code and meets all of the requirements of the Code except for a few company-specific deviations. In the opinion of the Management Board and Supervisory Board, good corporate governance advances value-based management. The Code merely sets up a structure that needs to be put into practice by those implementing the Code. Members of the Management Board and Supervisory Board of HCI Capital AG are required to work together in an atmosphere of trust and efficiency. The management's decisions are guided by the objective of increasing the value of the Company. Transparent and comprehensive communication with shareholders and other stakeholders is a natural part of what we do.

Transparent and active communication

The Company provides comprehensive and timely reports to all target groups. Important information is also released to the general public at the same time. HCI Capital AG also maintains close and open dialogue with capital markets and the general public. For us, this is an integral part of successful corporate management.

Communications from HCI Capital AG are made via a number of different channels. In its quarterly, half-yearly and annual reports, the Company reports extensively on business development and the earnings, financial and assets position of the Company, and gives a comprehensive report on the risks, opportunities and outlook of the HCI Group. Publication of the financial reports is accompanied by press releases and press conferences where necessary. The financial report data is prepared for the financial analysts and then presented in a telephone conference on the day of publication. The Company also publishes many press releases about current developments in the HCI Group. Representatives of the company hold many press conferences over the course of the year and are open to questions about the Company at any time assisted by the press office. All shareholders may talk directly with management at the Annual General Meeting. The investor relations work carried out by the Company includes regular presentations at capital market and investor conferences where there is demand, and there is also direct contact with analysts, private investors and institutional investors.

Corporate structure

Management and control of the HCI Group is undertaken by the Management Board and, at an operating level, by the managing directors of subsidiaries.

Opportunity and risk management

Systematic opportunity and risk management is an indispensable element of good corporate governance. Seizing opportunities and avoiding risk are of critical importance for the continuation of the Company. The continual development of this system is the responsibility of the Management Board. More detailed information can be found in the annual report in section F. Report on risks and opportunities.

Accounting

The HCI Group's accounts are prepared in accordance with the principles laid down by the International Financial Re-

porting Standards (IFRS) as adopted by the EU. KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, was selected as auditor by the Annual General Meeting. The Supervisory Board has agreed with the auditors that the auditors will immediately inform the Supervisory Board of any significant findings or events that arise during the auditing process.

Directors' dealings

An up-to-date list of securities transactions by the Management Board and Supervisory Board pursuant to Section 15a of the German Securities Trading Act (WpHG) are published on the Company's website under www.hci-capital.de ➔ Investor Relations ➔ Corporate Governance ➔ Director's dealings.

Securities holdings

No Management Board member directly or indirectly held more than 1 % of the Company's issued shares as at 31 December 2010. The members of the Supervisory Board directly and indirectly hold 19.58 % of HCI Capital AG's issued shares.

III. Remuneration report and remuneration system for the Management Board and Supervisory Board

The Supervisory Board is responsible for determining the remuneration of the Management Board members and it reviews remuneration levels on a regular basis. Internal variables that affect remuneration levels are the size of the Company and its economic and financial situation. Areas of responsibility and performance of the various Management Board members are also taken into account. From an external point of view, remuneration levels are similar to those offered by comparable companies. This allows HCI Capital AG to operate a remuneration system that offers sufficient incentives to attract highly qualified managers.

Supervisory Board remuneration is specified in article 11(4) of the articles of association.

Pursuant to Section 315(2) No. 4 of the German Commercial Code (HGB), the details of the remuneration system for the total remuneration paid to the Management Board and Supervisory Board of HCI Capital AG as specified by Section 314(1) No. 6 HGB are outlined below. The remuneration report follows the stipulations of the German Disclosure of Management Board Remuneration Act (VorstOG) and

the recommendations of the German Corporate Governance Code. It also contains individualised breakdowns of the remuneration paid to Management Board members and Supervisory Board members.

Management Board remuneration comprises a fixed non-performance-related salary and variable performance-related components. The fixed salary is determined by the duties and areas of responsibilities of each Management Board member. The variable remuneration component (bonus) is calculated on the basis of the IFRS-based earnings before taxes (EBT) shown in the consolidated financial statements. Management Board members receive a percentage of any positive EBT result. There is also contractual agreement for a minimum bonus in place with Dr Ralf Friedrichs for the first two years of his contract (1 June 2008 to 31 May 2010). A bonus has also been agreed with Dr Moosmayer, based on a positive EBT. The bonus increases on a cumulative basis with each EBT threshold reached. However, only 40% of Dr Moosmayer's bonus will be paid when the annual report is published. The remaining 60% is due after a period of two years. In both of these years, the required EBT threshold must be reached on an averaged basis. The system will be used on a rolling basis, i.e. newly applied each year. This may result in Dr Moosmayer being entitled to bonus payments even after he leaves the Management Board if the thresholds in question are reached.

An absolute bonus limit (cap) has also been set for Dr Pres and Dr Moosmayer, but no such agreement is in place for Dr Friedrichs.

Due to the current difficult economic climate, two of the Management Board members again agreed to forgo part of their contractually agreed fixed salary amounting to a total of EUR 187.5 thousand in the 2010 financial year. The following arrangements were agreed with Management Board members in relation to these amounts forgone. If there should be entitlement to bonus payments as a result of positive earnings before taxes (EBT), as from the financial year 2010, Dr Friedrichs will receive a higher performance-related bonus than originally agreed until such time as the difference between the minimum bonus originally agreed and the lower bonus actually paid in the 2009 and 2010 financial years as a result of forgoing the salary – plus an additional 10% – is offset. There is an agreement with Dr Moosmayer whereby the amount forgone in the 2009 financial year plus an additional 10% will be paid to him in three equal amounts during the years 2010 to 2012, provided that EBT exceeds specified thresholds. Following a positive EBT of EUR 4,442 thousand, amounts forgone in

2009 of EUR 188 thousand were paid to Dr Moosmayer for the 2010 financial year. If these thresholds are not met in 2010 and/or 2011, payment of the remaining amount forgone plus an additional sum will be made in 2012 and 2013, provided that EBT reaches the specified thresholds. An agreement has been made with Dr Pres that bonuses from 2010 will no longer be calculated as variable percentages based on EBT falling within specified target ranges, but instead on the basis of a fixed percentage based on EBT for the relevant financial year, regardless of whether other conditions are met.

A company car is provided to each Management Board member as an additional benefit. They also receive an amount to be used to pay insurance premiums and they may subscribe for products of HCI Capital AG at special employee rates.

The Management Board contracts of Dr Friedrichs, Dr Moosmayer and Dr Pres do not include any additional benefits upon premature termination of their appointment, but the appointment of Dr Ralf Friedrichs is limited to 5 years (to 31 May 2013), Dr Andreas Pres is limited to three years (until 31 August 2011) and Dr Oliver Moosmayer is also limited to three years (until 30 September 2013). Dr Friedrichs has a right to premature termination of contract if the two-brand strategy of the principal shareholder MPC Capital AG is not sustained.

There are no pension commitments. If a serving Management Board member should die, surviving dependents are paid the deceased's remuneration for the month of death and three further months. Over the past year, total remuneration for the Management Board of HCI Capital AG amounted to EUR 1.9 million (previous year: EUR 1.9 million).

Management Board members receive remuneration as shown in the following individualised and categorised table:

	2010	2009	2010	2009	2010	2009
	Non-performance-related	Non-performance-related	Performance-related	Performance-related	Total	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Dr Ralf Friedrichs	884	881	0	0	884	881
Dr Oliver Moosmayer	362	377	90	0	452	377
Dr Andreas Pres	520	611	90	0	610	611
	1,766	1,869	180	0	1,946	1,869

Supervisory Board remuneration comprises a fixed annual component, a meeting attendance fee and reimbursement of expenses. There is no performance-related component.

Total remuneration for the Supervisory Board in the 2010 financial year amounted to EUR 322 thousand (previous year: EUR 312 thousand).

Supervisory Board members receive an annual payment of EUR 36 thousand. The Chairman receives double this amount; the Deputy Chairman receives one-and-a-half times this amount. The attendance fee for participating in a Supervisory Board meeting is EUR 1 thousand.

The Supervisory Board members received the following individual remuneration:

EUR '000	Fixed Supervisory Board remuneration		Meeting attendance fee		Total	
	2010	2009	2010	2009	2010	2009
Supervisory Board						
Udo Bandow	54	54	9	8	63	62
Karl Gernandt	36	36	9	5	45	41
Alexander Stuhlmann	36	36	8	8	44	44
Dr John Benjamin Schröder	72	72	9	8	81	80
Jochen Döhle	36	36	8	7	44	43
Stefan Viering	36	36	9	6	45	42
Total	270	270	52	42	322	312

No company loans were made to Management Board members or Supervisory Board members.

IV. Closing declaration of the Management Board pursuant to Section 312(3) of the German Stock Corporation Act (AktG)

In accordance with Section 312 of the German Stock Corporation Act (AktG), the Management Board of HCI Capital AG has prepared a dependency report covering all relations with affiliated companies in the 2010 financial year.

The report contains the following closing declaration of the Management Board: "HCI Capital AG, Hamburg, received appropriate compensation for the legal transactions listed in the report on relations with affiliated companies under the circumstances known to the Management Board at the time such legal transactions were undertaken. No measures were taken or omitted at the instance or in the interest of the controlling company or one of its affiliated companies."

V. Reporting pursuant to Sections 289(4) and 315(4) of the German Commercial Code (HGB)

The German Act implementing Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids (Takeover Directive Implementing Act) extended the reporting obligations in the management reports of companies whose securities are admitted to trading on a regulated market in a member state of the European Union.

- (1) The Company's subscribed capital amounts to EUR 29,354,116.00, divided into 29,354,116 no-par-value bearer shares. All shares in the Company are ordinary shares and no provision has been made for any other class of shares. From the date of issue, each share entitles the holder to vote and receive a dividend. Each share gives one vote at the Annual General Meeting.
- (2) The Management Board is not aware of any restrictions affecting the voting rights or transfer of shares, including any such restrictions resulting from agreements between shareholders.
- (3) Direct or indirect investments in the subscribed capital of HCI Capital AG that exceed 10% of voting rights were held as of 31 December 2010 by MPC Capital AG, Hamburg, with a stake of 33.36%, the Döhle Group, Hamburg, with a stake of 17.96% and HSH Nordbank, Hamburg, with a stake of 15.51%.
- (4) There are no shares with special control rights.
- (5) The voting rights of employees with a share in the capital are not monitored.
- (6) Management Board members are appointed and dismissed pursuant to Section 84f of the German Stock Corporation Act (AktG). In accordance with this, the Supervisory Board is responsible for appointment and dismissal of a Management Board member. The Supervisory Board decides on the basis of a simple majority of votes. Changes to the articles of association are made by the Annual General Meeting (Sections 133 and 179 AktG). In article 16(3) of the articles of association, the Annual General Meeting has made use of the option provided in Section 179(1) sentence 2 AktG to transfer authority to the Supervisory Board to make any changes that only affect the wording of the articles of association. Resolutions adopted by the Annual Gen-

eral Meeting to revise the articles of association pursuant to article 16(1) of the articles of association are generally adopted by simple majority vote and, where a capital majority is required, with a simple capital majority, unless otherwise stipulated by law or in the articles of association.

- (7) The Management Board may only issue new shares if the issue has been approved by resolution of the Annual General Meeting. The Management Board is authorised by article 4(3) of the articles of association and with the approval of the Supervisory Board to increase the subscribed capital in one or more tranches by 29 August 2015 by up to EUR 12,000,000.00 by issuing shares for cash and/or contribution in kind. The shareholders must be granted subscription rights. The Management Board may, with the approval of the Supervisory Board, exclude the shareholders' subscription rights on one or more occasions if certain conditions are met. There are no provisions in the articles of association regarding share buybacks. In addition, the Management Board has been authorised to acquire and use treasury shares in accordance with Section 71(1) No. 8 of the German Stock Corporation Act (AktG) with a pro rata amount of up to 10% of the subscribed capital at the time the resolution was passed by the Annual General Meeting. It has also been authorised to exclude subscription rights until 29 August 2015. Treasury shares are acquired at the discretion of the Management Board. The Company may not use the authorisation for the purpose of trading in treasury shares. The authorisation can be used in full or in partial amounts, on one or several occasions, by the Company and its subsidiaries or by third parties for the account of the Company and its subsidiaries. The Management Board is also authorised, with the approval of the Supervisory Board, to use the Company's treasury shares acquired by means of this authorisation or a previous one as a (partial) consideration for business combinations or to acquire companies, investments in companies, sections of companies or other assets.
- (8) There are no significant agreements with the Company regarding a change of control after a takeover bid.
- (9) The Company has not made any compensation agreements with Management Board members or employees if there is a takeover bid.



A large concrete dam with a body of water in the foreground and a rocky embankment.

A solid construction can withstand great pressure.

Architectural structures must be able to withstand the forces of nature – companies have to cope successfully with fluctuations on the markets and changes in their environment. Just as the solid construction of a building provides stability, the balance sheet of a company provides strong support in volatile markets.

Consolidated financial statements

Consolidated statement of operations

EUR '000	Note	01/01/2010 – 31/12/2010	01/01/2009 – 31/12/2009 (restated)
Revenues	(21)	36,771	45,509
Other operating income	(22)	3,670	4,671
Change in inventories	(23)	-53	-1,730
Cost of purchased services	(24)	-5,695	-13,525
Personnel expenses	(25)	-20,490	-21,563
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(26)	-907	-1,832
Other operating expenses	(27)	-23,024	-20,858
Results of associated companies and joint ventures accounted for using the equity method	(28)	7,948	-14,945
Earnings before interest and taxes (EBIT)		-1,780	-24,273
Interest income	(29)	1,199	1,519
Interest expenses	(29)	-3,556	-2,490
Other financial result	(29)	8,579	-26,058
Earnings before taxes (EBT)		4,442	-51,302
Income taxes	(30)	567	-4,521
Consolidated net result for the period		5,009	-55,823
Consolidated net result for the period attributable to the shareholders of the parent company		5,009	-55,823
Earnings per share (basic) in EUR	(31)	0.19	-2.33
Earnings per share (diluted) in EUR	(31)	0.19	-2.33

Consolidated statement of comprehensive loss

EUR '000	Note	01/01/2010 – 31/12/2010	01/01/2009 – 31/12/2009
Consolidated net result for the period		5,009	-55,823
Gains and losses recognised directly in equity for associated companies and joint ventures		495	300
Changes in fair value of available for sale financial instruments		394	0
Foreign currency translation adjustment		11	960
Other comprehensive income		900	1,260
Total comprehensive result	(15)	5,909	-54,563
Total comprehensive result for the period attributable to the shareholders of the parent company		5,909	-54,563

Consolidated balance sheet

ASSETS EUR '000	Note	31/12/2010	31/12/2009
Non-current assets		53,282	47,650
Intangible assets	(6)	1,382	1,849
Property, plant and equipment	(7)	1,059	1,286
Investments in associated companies and interests in joint ventures accounted for using the equity method	(8)	28,322	20,781
Other investments	(9)	14,938	14,185
Other financial assets	(13)	6,735	9,342
Deferred taxes	(30)	846	207
Current assets		52,928	64,799
Work in progress and finished services	(10)	615	622
Trade receivables	(11)	13,434	14,276
Receivables from related parties	(12)	24	2,714
Income tax receivables		851	5,375
Other assets	(13)	17,986	16,443
Other financial assets		17,459	15,623
Other miscellaneous assets		527	820
Securities		1,753	1,530
Cash and cash equivalents		18,265	23,334
Assets held for sale	(14)	0	505
Total assets		106,210	112,449

EQUITY AND LIABILITIES EUR '000	Note	31/12/2010	31/12/2009
Equity	(15)	46,142	33,084
Subscribed capital		29,354	24,000
Capital reserve		77,738	75,943
Additional paid-in capital		-46,930	-51,939
Accumulated other equity		512	-388
Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions		-14,532	-14,532
Non-current provisions and liabilities		18,824	8,128
Pension provisions	(16)	30	27
Debts	(18)	3,784	0
Liabilities due to related parties	(19)	3,075	4,375
Other miscellaneous liabilities	(20)	8,460	0
Deferred taxes	(30)	3,475	3,726
Current provisions and liabilities		41,244	71,237
Other provisions	(17)	3,948	2,081
Debts	(18)	1,553	35,597
Trade payables		6,927	7,619
Liabilities due to related parties	(19)	3,034	3,683
Income tax payables		13,258	15,928
Other current liabilities	(20)	12,524	6,329
Other financial liabilities		11,788	5,217
Other miscellaneous liabilities		736	1,112
Total equity and liabilities		106,210	112,449

Consolidated statement of cash flows

EUR '000

	01/01/2010 – 31/12/2010	01/01/2009 – 31/12/2009
Consolidated net result for the period	5,009	-55,823
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	907	1,832
Impairment on loans, interests and other financial receivables	3,720	19,188
Impairment on work in progress and finished services	0	2,317
Impairment on assets held for sale	0	3,488
Gains(-)/Losses(+) from associated companies and joint ventures	-7,948	14,945
Gains(-)/Losses(+) from the disposal of intangible assets and property, plant, equipment and securities	-2,107	66
Increase in pension provisions	3	5
Elimination of income taxes	-567	4,521
Elimination of net interest result and net investment result	4,562	1,916
Other non-cash income and expenses	-8,486	993
Decrease/Increase in working capital	-947	962
Decrease/Increase in inventories	7	-587
Increase/Decrease in trade receivables	-2,623	10,785
Decrease/Increase in other assets	3,081	-210
Increase in current provisions	1,760	274
Decrease in trade payables	-692	-839
Increase in receivables from and payables to related parties	2,031	-1,842
Decrease in other liabilities	-4,511	-6,856
Other movements in operating activities	0	237
Income taxes paid	-3,379	-1,564
Income taxes received	5,214	9,738
Interest paid	-599	-1,258
Interest received	372	1,053
Distributions received	198	40
Cash flows from operating activities	-4,048	2,419
Proceeds from disposals of intangible assets, property, plant and equipment as well as assets held for sale	11	3
Proceeds from the disposal of associated companies	245	0
Proceeds from disposals of other investments and securities	2,758	714
Payments for intangible assets and property, plant and equipment	-224	-510
Payments for investments in associated companies and interest in joint ventures	-462	-3,678
Payments for investments, securities and non-current loans to related parties	-1,661	-3,152
Cash flows from investing activities	667	-6,623
Proceeds from the transfer of future earnings for management services	0	6,000
Payments for transaction costs related to capital increase	-482	0
Proceeds from additions to debts	29	34
Repayment of debts	-1,740	-7,605
Cash flow from financing activities	-2,193	-1,571
Net Changes in cash and cash equivalents	-5,574	-5,775
Changes in cash and cash equivalents due to foreign exchange rate changes	505	-195
Cash and cash equivalents at beginning of period	23,334	29,304
Cash and cash equivalents at end of period	18,265	23,334

Development of consolidated equity

EUR '000	Subscribed capital	Capital reserve	Additional paid-in capital	Accumulated other equity			Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions	Consolidated equity
				Gains and losses recognised directly in equity from associated companies	Foreign currency translation adjustment	Changes in fair value of available for sale financial instruments		
Balance as at 31 Dec 2009	24,000	75,943	3,884	-333	-1,315	0	-14,532	87,647
Total comprehensive result			-55,823	300	960			-54,563
Balance as at 31 Dec 2009	24,000	75,943	-51,939	-33	-355	0	-14,532	33,084
Balance as at 31 Dec 2010	24,000	75,943	-51,939	-33	-355	0	-14,532	33,084
Capital increase by contribution in-kind	5,354	1,795						7,149
Total comprehensive result			5,009	495	11	394		5,909
Balance as at 31 Dec 2010	29,354	77,738	-46,930	462	-344	394	-14,532	46,142

Segment reporting

EUR '000	Design & Sales		After Sales Services		Asset Management	
	2010	2009	2010	2009	2010	2009 (restated)
Revenues	9,256	18,209	21,843	21,391	5,672	5,909
Change in inventories	-53	-1,735				
Cost of purchased services	-5,695	-13,525				
Gross Margin	3,508	2,949	21,843	21,391	5,672	5,909
Other operating income	715	370	1,432	1,491	779	3,416
Personnel expenses	-7,078	-9,380	-6,572	-5,563	-1,703	-1,736
Depreciation, amortisation and impairment	-15	-858	-28	-161	-353	-357
Other operating expenses	-7,987	-7,610	-6,441	-6,351	-1,409	-1,182
Results of associated companies and joint ventures accounted for using the equity method	-2,748	-2,351			10,696	-12,594
Earnings before interest and taxes (EBIT)	-13,605	-16,880	10,234	10,807	13,682	-6,544
Segment assets	10,722	16,490	25,102	27,566	30,802	19,450

Operating Segment Total		Holding/Other		Consolidation		HCI Group	
2010	2009 (restated)	2010	2009 (restated)	2010	2009	2010	2009 (restated)
36,771	45,509					36,771	45,509
-53	-1,735					-53	-1,735
-5,695	-13,525					-5,695	-13,525
31,023	30,249					31,023	30,249
2,926	5,277	4,509	2,943	-3,765	-3,549	3,670	4,671
-15,353	-16,679	-5,137	-4,884			-20,490	-21,563
-396	-1,376	-511	-456			-907	-1,832
-15,837	-15,143	-10,952	-9,259	3,765	3,549	-23,024	-20,853
7,948	-14,945					7,948	-14,945
10,311	-12,617	-12,091	-11,656			-1,780	-24,273
66,625	63,506					66,625	63,506

Consolidated statement of changes in non-current assets – Development of intangible assets

2010		Historical cost		
EUR '000	01/01/2010	Additions	Disposals	31/12/2010
Acquired intangible assets	25,390	101	-1	25,490
Goodwill	2,264	0	0	2,264
Total	27,654	101	-1	27,754

2009		Historical cost		
EUR '000	01/01/2009	Additions	Disposals	31/12/2009
Acquired intangible assets	25,323	67	0	25,390
Goodwill	2,264	0	0	2,264
Total	27,587	67	0	27,654

Consolidated statement of changes in non-current assets – Development of property, plant and equipment

2010		Historical cost		
EUR '000	01/01/2010	Additions	Disposals	31/12/2010
Land, land rights and buildings	1,266	0	-355	911
Other equipment, furniture and fixtures	4,208	123	-86	4,245
Total	5,474	123	-441	5,156

2009		Historical cost		
EUR '000	01/01/2009	Additions	Disposals	31/12/2009
Land, land rights and buildings	1,260	16	-10	1,266
Other equipment, furniture and fixtures	3,988	427	-207	4,208
Total	5,248	443	-217	5,474

The development of intangible assets and the development of property, plant and equipment form part of the notes to the consolidated financial statements.

Accumulated amortisation/impairment					Carrying amount	
01/01/2010	Amortisation	Impairment	Disposals	31/12/2010	31/12/2010	01/01/2010
-24,416	-568	0	1	-24,983	507	974
-1,389	0	0	0	-1,389	875	875
-25,805	-568	0	1	-26,372	1,382	1,849

Accumulated amortisation/impairment					Carrying amount	
01/01/2009	Amortisation	Impairment	Disposals	31/12/2009	31/12/2009	01/01/2009
-23,771	-645	0	0	-24,416	974	1,552
-799	0	-590	0	-1,389	875	1,465
-24,570	-645	-590	0	-25,805	1,849	3,017

Accumulated depreciation/impairment				Carrying amount	
01/01/2010	Depreciation	Disposals	31/12/2010	31/12/2010	01/01/2010
-1,228	-6	355	-879	32	38
-2,959	-333	75	-3,217	1,028	1,249
-4,187	-339	430	-4,096	1,060	1,287

Accumulated depreciation/impairment				Carrying amount	
01/01/2009	Depreciation	Disposals	31/12/2009	31/12/2009	01/01/2009
-953	-281	6	-1,228	38	307
-2,785	-316	142	-2,959	1,249	1,203
-3,738	-597	148	-4,187	1,287	1,510





Standards are increasing.

In architecture: higher, wider and more attractive.
In accounting: more extensive, more detailed
and more forward-looking.

Notes to the consolidated financial statements of HCI Capital AG for the 2010 financial year

General information

HCI Capital AG, with its registered office at Burchardstraße 8, 20095 Hamburg, Federal Republic of Germany, is listed in the Register of Companies (Handelsregister) of Hamburg District Court (Amtsgericht Hamburg, HRB 93324).

The Company's subscribed capital amounts to EUR 29,354,116 and is divided into 29,354,116 no-par-value bearer shares. Since its initial public offering (IPO) in October 2005 and the related admission to trading on the regulated market, the Company has been listed in the Prime Standard segment of the Frankfurt Stock Exchange and on the Hamburg Stock Exchange. As of 31 December 2010, 9,791,182 shares (33.36%) were held by MPC Münchmeyer Petersen Capital AG (hereinafter "MPC"), 5,273,396 shares (17.96%) were held by Mr Jochen Döhle, Germany, and by companies in which he holds a controlling interest or exercises significant influence, and 4,553,072 shares were held by HSH Nordbank AG (15.51%). The remaining shares are in free float.

HCI Capital AG and its subsidiaries (hereinafter referred to as "the HCI Group") constitute a service group that operates mainly in Germany. The Group's business activities consist primarily of the design and initiation of closed-end funds in the main product segments Transport and Logistics, Real Estate, Life Insurance, Energy and Commodities, as well as the subsequent raising of funds from institutional and private investors. The Group also operates as the fiduciary manager of equity capital placed (After Sales Services) and in the management of fund assets (Asset Management).

(1) Basis of presentation

The consolidated financial statements of the HCI Group to 31 December 2010 were prepared in accordance with International Financial Reporting Standards (IFRS) as promulgated and issued by the International Accounting Standards Board (IASB) and as adopted in the European Union pursuant to the provisions stipulated in Regulation (EC) Nr. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002, on the application of International Accounting Standards in conjunction with Section 315a(1) of the German Commercial Code (HGB). All IFRSs that have

been adopted in the European Union and are mandatory for the 2010 financial year have been applied.

All IFRS requirements were met in full, and present a true and fair view of the financial performance, cash flows and financial position of the HCI Group.

In line with the option contained within IAS 1, the Company recognises income and expenses affecting profit and loss in the statement of operations, whilst the reconciliation between net result for the period and comprehensive result is recognised in the statement of comprehensive income due to the income and expenses recognised directly in equity.

Individual items in the statement of operations and the balance sheet have been combined to improve clarity of presentation. These items are detailed in the Notes. The statement of operations was prepared using the nature of expense method.

The consolidated financial statements were prepared under the assumption of the Company's ability to continue as a going concern.

The consolidated financial statements are generally prepared using amortised cost for the accounting of assets and liabilities. This does not include available-for-sale financial assets and derivative financial instruments, both of which are recognised at the fair value on the balance sheet date.

The consolidated financial statements were prepared in euros. Unless otherwise indicated, all amounts are stated in EUR thousand (EUR '000).

The consolidated financial statements and the management report for HCI Capital AG and the Group are published in the German Electronic Federal Gazette (elektronischer Bundesanzeiger).

(2) Non-cash capital increase and release from contingent liabilities

On 18 May 2010, the conditions precedent stipulated in both the agreement dated 11 February 2010 – concern-

ing the moratorium and intended release from contingent liabilities – and its supplements came into effect. This meant that the option granted to the HCI Group's financing banks also came into force, entailing the conversion of all their claims arising from loan receivables into equity by issuing up to 6,000,000 shares. Insofar as the banks have not exercised this option, HCI Capital AG has the right to convert the respective loans into long-term financing at adjusted conditions. The option granted to the banks to convert the above-mentioned claims into equity and/or the possibility of altering the loan conditions is classified as a material modification to the contractual conditions. Pursuant to IAS 39.40, this resulted in the derecognition (EUR 34,873 thousand) and recognition of a new financial liability. There was a corresponding rerecognition of the loans at fair value as of 18 May 2010 (EUR 11,384 thousand). At the time of preparation of the Semi-Annual Report, HCI Capital AG already expected the loans issued by the banks which are involved in the conversion to be transformed into equity. As a result, the value of the shares available for the capital increase was taken into account when calculating the fair value of these new loans. The resulting difference of EUR 23,489 thousand was recognised as gain in the other financial result.

As per IAS 32 and 39, the banks' conversion option was classified as a debt instrument as the conversion ratios had not as yet been defined. It was recognised as an expense in the amount of EUR 987 thousand on 18 May 2010. This option was revalued on 30 June 2010, prompting the Company to record a gain of EUR 204 thousand. When the option was revalued again on the conversion date, the Company recognised a further change in value of EUR 783 thousand through profit or loss.

On 10 August 2010, the Management Board of HCI Capital AG decided – with the approval of the Supervisory Board – to increase the Company's subscribed capital from EUR 24,000,000 to EUR 29,354,116 from authorised capital, excluding shareholders' subscription rights, by issuing 5,354,116 new no-par-value bearer shares. As expected, HSH Nordbank AG and a trustee for a second bank subscribed for the new shares. These shares are entitled to dividends as of 1 January 2010. In return, the banks made a contribution in kind consisting of existing receivables due from the HCI Group. On the date of the conversion, the loans revalued as per IAS 39.40 were recognised directly in equity at their carrying value of EUR 7,476 thousand.

As anticipated, Bankhaus Wölbern & Co. chose not to utilise the above-mentioned option of converting claims into equity so as to bring about a long-term financing arrangement at adjusted conditions. As the conditions of the new financing agreement have not yet been negotiated, the revaluation of the loan required under IAS 39.40 on 18 May 2010 assumed that the fair value of the new liabilities would correspond to the nominal value of the original loan liabilities. The carrying value of this non-converted loan including interest was EUR 3,784 thousand (31 December 2009: EUR 4,932 thousand). These financial liabilities were reported as a non-current financial liability on 31 December 2010 based on the conditions of the moratorium and intended release from contingent liabilities explained above.

Transaction costs of EUR 481 thousand were directly attributable to the capital increase. These were recognised as a deduction from equity as per IAS 32.37. Income taxes amounting to EUR 154 thousand were associated with the transaction costs. These were also recognised directly in equity.

With the passing of 17 August 2010, the contingent creditor banks released the HCI Group from a significant portion of its contingent liabilities previously covered by the moratorium until 30 September 2013. This means that the HCI Group has been released in full from these contingent liabilities, which consist of guarantees, acquisition commitments, placement guarantees and similar commitments. Service charges of EUR 2,625 thousand are payable to the banks for this release from contingent liabilities. This amount was recognised as an expense in full under the other operating expenses reported as of 30 June 2010. As consideration for the release from contingent liabilities granted by the banks, the HCI Group pledged to pay compensation of EUR 12,500 thousand to the banks involved. This compensation payment becomes payable when the HCI Group meets or exceeds specified earnings and liquidity thresholds. As the HCI Group already anticipated that these restructuring measures would be implemented when preparing its report for the period to 30 June 2010, the compensation payment was recognised as an expense under other financial result. Taking the expected due date of the payments into account, they were reported at their present value of EUR 8,643 thousand. As of 31 December 2010, the present value of the compensation payment was EUR 8,460 thousand.

(3) Consolidation

(a) Principles of consolidation

The consolidated financial statements of the HCI Group include all significant subsidiaries in Germany and abroad whose financial and operating policies HCI Capital AG is able to directly or indirectly control.

Companies that were founded by the HCI Group, and which, by their designation as closed-end funds, are intended to raise funds from limited liability partners, are not included in the IFRS consolidated financial statements until the date of such fundraising, irrespective of the voting majorities attributable to the HCI Group during this period. This is because the activities of the companies in this period are already characterised by the business activities of a closed-end fund and the HCI Group does not retain the majority of risks and rewards for these special purpose entities. If the fund companies do not raise funds from investors during the specified period, and the HCI Group then actively determines the operating policies of the companies due to the voting rights attributable to the HCI Group, and thus also bears the associated risks and rewards, the companies are included in the consolidated financial statements of HCI Capital AG by way of full consolidation.

Companies acquired from third parties are consolidated at the date of acquisition using the acquisition method. Under the acquisition method, the cost of acquisition of the purchased interests is offset against the proportional fair value of the assets acquired and liabilities assumed attributable to the subsidiary at the date of acquisition. Ancillary acquisition costs are recognised as an expense. Any resulting positive difference is capitalised as goodwill. With regard to the measurement of interests held by non-controlling shareholders, the option to recognise goodwill, which became available with the introduction of IAS 27 (rev. 2008), has not been used to date. Negative differences arising from the consolidation at the time of acquisition are immediately recognised in profit or loss after the carrying amounts have been reviewed once again. The date of acquisition is the date on which control of the net assets and financial and operating policies of the company acquired is transferred to the Group.

Any hidden reserves or liabilities identified upon fair value measurement of the assets and liabilities as part of the initial consolidation are carried, amortised, depreciated, written off or reversed in the subsequent reporting periods based

on the development of the corresponding assets and liabilities. Goodwill is tested for impairment in the subsequent periods at least once a year and, if there is any impairment, is written down to the lower recoverable amount.

Successive share acquisitions at subsidiaries, where control over the respective company is already attributable to the HCI Group before the purchase, are recognised as transactions between shareholders. Any resulting difference between the purchase price and the share in equity previously attributable to the minority shareholder is recognised directly in consolidated equity under "Net cost in excess of net assets acquired on the acquisition of companies under common control and on successive share acquisitions". Neither hidden reserves and liabilities nor goodwill are recognised in the context of such transactions.

Expenses and income as well as receivables and liabilities arising between consolidated companies are eliminated. Any material intercompany profits and losses are eliminated.

Companies which the HCI Group operates jointly with other partners, and associated companies on whose financial and operating policies the Group exerts a significant influence but does not have control, are accounted for in the consolidated financial statements under the equity method. Potential voting rights held by HCI or the other shareholders in the associated companies and joint ventures are included in the assessment of significant influence if the underlying options and agreements can be exercised at any time. Special purpose entities that are founded by the HCI Group together with partners regarding commitment of assets for closed-end funds are also accounted for in the consolidated financial statements under the equity method. The principles of full consolidation apply to the determination of goodwill and the proportional fair value of assets and liabilities. Inclusion under the equity method is made on the basis of the IFRS financial statements of these companies. Losses from associated companies and joint ventures exceeding the carrying amount of the investment or other non-current receivables related to the financing of these companies are not recognised unless there is an obligation to fund such losses. Elimination of intercompany profits or losses is not necessary due to immateriality. Where interests were acquired in associated companies or joint ventures that the HCI Group intended to resell, the equity method is not used in accordance with IFRS 5.

The financial statements of HCI Capital AG and its consolidated subsidiaries, associated companies and joint ven-

tures have been prepared in accordance with uniform accounting policies. The financial statements of consolidated subsidiaries are prepared as of the balance sheet date of HCI Capital AG.

(b) Basis of consolidation

The companies included in the consolidated financial statements of the HCI Group can be classified as follows:

	31/12/2010	31/12/2009
Fully consolidated companies		
Germany	27	28
Abroad	4	5
Associated companies accounted for under the equity method		
Germany	3	3
Abroad	--	--
Joint ventures accounted for under the equity method (all Germany)	6	12

The individual companies included in the consolidated financial statements are set out in the list of shareholdings in Note (37).

There was a change made to fully consolidated companies in the 2010 financial year resulting from the merger of two sales companies in Germany into a newly established sales company. In addition to this, a foreign subsidiary was liquidated in 2010.

(c) Important changes in associated companies and joint ventures

By way of a share purchase agreement dated 24 January 2008, HCI Capital AG acquired 426,700 bearer shares with transfer restrictions in eFonds Solutions AG (formerly Capita Vis Invest AG) for a purchase price of EUR 6,025 thousand, thus giving it a stake of 25.1 % in the company. Pursuant to the shareholder agreement dated 5 November 2007, the HCI Group contributed additional payments of EUR 148 thousand in the 2008 financial year. When the subscribed capital of eFonds Solutions AG was increased in the 2008 financial year, on the basis of its shareholding HCI Capital AG subscribed for 502,000 registered shares with transfer restrictions for an issue price of EUR 502 thousand.

The Annual General Meeting of eFonds Solutions AG on 24 June 2009 resolved to increase the company's capital with contributions of EUR 1,500 thousand. As some shareholders failed to exercise subscription rights during the capital increase and these interests were subscribed

by HCI Capital AG, HCI Capital AG's stake in the company increased from 25.1 % to 27.98 % in 2009. The Annual General Meeting of eFonds Solutions AG on 26 November 2010 resolved to increase the company's capital further with contributions of EUR 150 thousand. HCI Capital AG's stake amounted to 29.19 % after the capital increase was carried out. The business activities of eFonds Solutions AG in brokering financial products should support the sales activities of the HCI Group. The interests in eFonds Solutions AG and its subsidiaries are accounted for in the consolidated financial statements of HCI Capital AG under the equity method.

In addition, 6 (previous year: 12) ship ordering companies are accounted for in the consolidated financial statements under the equity method. The companies are one-ship companies in which the HCI Group holds a 50 % stake. In the 2010 financial year, one joint venture (previous year: 7 associated companies and joint ventures) was consolidated for the first time. For changes in the group of consolidated companies, please see part (c) of this Note and the transactions detailed in Note (8).

(d) Translation of foreign currency financial statements

The assets and liabilities of subsidiaries whose reporting currency is not the euro are converted at the applicable exchange rate on the balance sheet date. Items in the statement of operations are translated at the exchange rate for the relevant year. Equity components of subsidiaries are

translated at the relevant historical rate at the time they originated. Exchange differences arising from the translation are recognised directly in consolidated equity as a foreign currency adjustment item.

The Swiss subsidiary of HCI Capital AG, HCI Swiss AG, which was previously responsible for sales support of the funds set up by the HCI Group, especially in southern Germany, and which is to be liquidated, invoiced most of its services in euros, with the result that the euro was set as the functional currency for HCI Swiss AG. Therefore, in accordance with IAS 21, all transactions invoiced in the local currency (Swiss franc) or other currencies are translated at the applicable exchange rate at the time of the transaction. Monetary assets and liabilities are adjusted to the prevailing exchange rate on the balance sheet date.

The functional currency of the ship ordering companies accounted for under the equity method is the US dollar, since their business activities are primarily conducted in that currency. Therefore, in accordance with IAS 21, all transactions invoiced in the local currency (euro) or other currencies are translated at the applicable exchange rate at the time of the transaction. Monetary assets and liabilities are adjusted to the prevailing exchange rate on the balance sheet date.

The exchange rates for the translation of significant foreign currency financial statements showed the following movements in relation to the euro:

Foreign currency for EUR 1	Average exchange rate		Closing exchange rate	
	2010	2009	31/12/2010	31/12/2009
US dollar	1.3268	1.3933	1.338	1.4406

(4) Accounting policies

(a) Recognition of income and expenses

Revenues are recognised at the time a service is provided if the amount of revenue can be reliably determined and the Group is likely to benefit economically from it.

On 1 January 2009, the HCI Group changed the timing of its recognition of design and sales revenues. Until 31 December 2008, design and sales revenues were recognised when the investor signed the fund subscription and the statutory or, if longer, contractual cancellation period had expired. They are now recognised when the subscription application is accepted by HCI, taking into account anticipated cancellation quotas within the statutory or, if longer, contractual cancellation period. Cancellation quotas are calculated per product category on the basis of historical values over a period of up to five years, taking into account margin developments or other special factors in the relevant product categories. Any restatements resulting from this change in accounting policy in 2009 were made in the current period. No retrospective restatement was made in accordance with IAS 8 for reasons of immateriality.

For fund concepts that provide for a winding-up of the fund if a certain equity capital amount is not reached, with the result that payment claims no longer apply and amounts al-

ready paid must be returned, revenues are not recognised – in accordance with IAS 18 – until the agreed minimum capital amount is placed.

Commissions paid to sales partners with respect to services for finding limited liability fund partners were recognised as cost of purchased services at the time the revenues were recognised. As a result of the existing allocation of material risk and rewards from the sale of funds to the HCI Group, sales revenues and sales commissions are reported gross in the consolidated financial statements.

Trust management and service fees are generated throughout the full period of the relevant service. One-off fees payable by the limited liability partners or the funds at the time the relevant trust or service agreements are concluded are recognised in profit or loss at that time at fair value, provided the HCI Group has rendered an identifiable service and direct costs can be allocated to the service.

Capitalised finished services, consisting of costs incurred during the preparation stage of the prospectus, are recognised as expenses in line with the progress of placement. The progress of placement is determined on the basis of the ratio between capital raised as of the balance sheet date and the expected total capital which is intended to be raised.

Other operating expenses are recognised in profit or loss when the service is utilised or at the time it arises. Valuation allowances for receivables and financial receivables are recognised in other operating expenses or in the other financial result, provided that there is a concrete default risk based on information about individual debtors.

Interest is recognised as an income or expense in the period when it arises. The Group does not incur any interest expenses arising from the acquisition and production of specified assets qualified pursuant to IAS 23. Receivables which the HCI Group has extended on an interest-free basis and which are not expected to default are discounted based on the expected payment term. Income or expenses that arise from discounting and accruing future interest amounts is recognised in current interest income or expenses.

Income or expenses from profit/loss transfer agreements are recognised at the end of the financial year at the amount based on the result determined by accounting principles under German commercial law. Dividends are recognised at the date of dividend payout, with the distribution period normally corresponding to the period in which the shareholder's legal right to receive payment is established.

(b) Intangible assets

Purchased intangible assets are recognised at cost.

Purchased intangible assets with a definite useful life are amortised over their expected economic useful life on a straight-line basis from the time they are ready for use as follows:

	Useful life in years
Trust and service agreements	1 – 12
Sales partner base	10
Software	3 – 10

The HCI Group does not have any intangible assets with indefinite useful lives, except for goodwill. The carrying value of goodwill is subject to an impairment test at least once per year.

The Group has no internally generated intangible assets.

(c) Property, plant and equipment

Property, plant and equipment is recognised at cost and depreciated on a straight-line basis over the expected useful life of the asset. Gains or losses from the disposal of intangible assets and property, plant and equipment are recognised in other operating income or expenses.

Depreciation is based on the following useful lives throughout the Group:

	Useful life in years
Buildings	40
Leasehold improvements	Rental term, max. 5 – 15
Other operating and office equipment	3 – 14

(d) Impairment of intangible assets and property, plant and equipment

HCI Capital AG tests intangible assets and property, plant and equipment for impairment and recognises impairments where necessary.

Goodwill is allocated for impairment testing purposes to the same reporting units that are used for the allocation of goodwill in the Group's internal reporting system. The HCI Group has changed its internal reporting system to take account of the introduction of IFRS 8. As a result, goodwill is no longer part of the asset total used for internal reporting purposes, with the result that, pursuant to IAS 36, the impairment test for goodwill is carried out at segment level from the 2009 financial year onwards. Cash flows from reporting segments are discounted with an average cost of capital, based on comparable companies. Impairments are recognised if the capital value of cash flows is less than the carrying value of intangible assets and property, plant and equipment and the carrying value of the net working capital of the reporting unit, including the goodwill allocated.

Impairments are recognised for other intangible assets and property, plant and equipment if – as a result of certain events or developments – the carrying value of the assets exceeds the fair value less costs to sell or the discounted cash flow from continuing use. The cash flows are also discounted with an average cost of capital based on comparable companies. If the recoverable amount cannot be determined for individual assets, the cash flows for the next higher group of assets for which such cash flows can be determined are used.

Impairments are reversed if the grounds for the recognition of the impairment cease to exist in subsequent periods. The reversal of impairments may not be made to a greater level than the amount prior to the impairment. There is no reversal of impairment for goodwill.

Impairment tests are carried out at the end of a financial year. The discount rate after taxes applied to the cash flows of the reporting units in the 2010 financial year to determine the value in use amounts to 8.25% (previous year: 9.25%) for the After Sales Services and Asset Management segments.

The calculation of net cash flows, for which the expected amount of capital placed is relevant in particular, is based on planning in the individual reporting units. Expected growth for the periods after the detailed planning phase of five (previous year: five) years is taken into account by a discount of 0.5% (previous year: 0.5%) to the rate.

(e) Impairment of interests in associated companies and joint ventures accounted for under the equity method

The HCI Group carries out impairment tests on interests in associated companies and joint ventures accounted for under the equity method whenever there is an indication pursuant to IAS 39 that there may be such an impairment. Impairment tests are carried out pursuant to IAS 36, whereby the carrying value of the interests calculated under the equity method is tested as an individual asset pursuant to IAS 36.

Impairments are recognised for these interests if the carrying value of the interests no longer exceeds the fair value less costs to sell or the discounted cash flow from continuing use. The cash flows are discounted with an average cost of capital based on comparable companies.

Impairments are reversed if the grounds for the recognition of the impairment cease to exist in subsequent periods. The reversal of impairments may not be made to a greater level than the amount prior to the impairment.

Due to market developments, impairment tests were carried out as of 31 December 2010 for interests in eFonds Solutions AG and HAMMONIA Reederei GmbH & Co. KG accounted for under the equity method and interests in ship ordering companies accounted for under the equity method. In addition, an impairment test pursuant to IAS 36 was carried out with respect to HAMMONIA Reederei

GmbH & Co. KG and eFonds Solutions AG in the context of the interim consolidated financial statements to 30 June 2010.

The interest rate after tax used to discount the cash flows of the reporting units in the 2010 financial year and determine the value in use is 12.25% for eFonds Solutions AG (previous year: 13.25%). An interest rate after tax of 8.25% (previous year: 8.61%) was used for the business activities of HAMMONIA Reederei GmbH & Co. KG carried out in euros. Impairment tests on ship ordering companies used an interest rate after tax of 11.00% and 11.74% (previous year: 11.74%). The calculation of net cash flows, for which in particular the expected amount of capital placed and the forecast charter proceeds are relevant, is based on planning in the respective companies' reporting units. Expected growth for the periods after the detailed planning phase of three years for eFonds Solutions AG and five years for HAMMONIA Reederei GmbH & Co. KG is taken into account with a discount of 1.0% and 0.5% respectively to the rate.

(f) Financial instruments

Financial assets are generally recognised by the HCI Group upon delivery, i.e. on the settlement date.

The HCI Group's financial instruments include cash and cash equivalents, receivables, available-for-sale financial assets, financial liabilities and loans, and derivative financial instruments in the form of interest rate swaps and forward exchange contracts.

Financial assets are initially recognised at fair value plus directly attributable transaction costs, provided the financial assets are not allocated to the category "at fair value through profit and loss". The HCI Group does not hold any non-derivative financial assets that fall into this category. Financial assets are measured subsequently either at fair value or amortised cost using the effective interest method depending on the classification of individual financial instruments in accordance with IAS 39.

Financial liabilities are measured at the time of initial recognition at fair value less transaction costs and subsequently measured at amortised cost or at fair value for financial liabilities in the category "at fair value through profit and loss".

Financial assets are derecognised if either the rights to cash flows generated from the assets have expired or almost all risks have been transferred to third parties in such a way that the criteria for derecognition are met.

Financial liabilities are derecognised if obligations are extinguished, cancelled or have expired. Financial liabilities are also derecognised if the change in material conditions causes a material modification in the cash flows related to repayment or interest. When such changes become effective, a new financial liability is recognised at fair value based on the changed contractual conditions. The difference between the carrying value of the liability to be derecognised and the fair value of the liability to be newly recognised is reported under other financial result.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank deposits.

(ii) Receivables and other financial assets

Receivables and other non-derivative financial assets allocated to the category "loans and receivables" are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method.

Impairment of receivables and other non-derivative financial assets is usually carried out using valuation allowance accounts. Valuation allowances are created when there is objective evidence of a default risk with respect to the financial asset. The amount of the valuation allowance is governed by experience and individual risk assessments.

(iii) Available-for-sale financial assets

Available-for-sale financial assets comprise interests in subsidiaries, associated companies and joint ventures that are not consolidated due to their insignificance, securities and other non-derivative financial instruments that cannot be allocated to either cash and cash equivalents or the category "loans and receivables".

Interests in subsidiaries, associated companies and joint ventures that are not consolidated due to their immateriality, and fund shares held by the HCI Group, are classified for measurement purposes pursuant to IAS 39 in the category "available-for-sale financial assets". Other investments and securities are also allocated to the category "available-for-sale financial assets" pursuant to IAS 39. Available-for-sale financial assets are recognised as of the balance sheet date at their fair value or, if this cannot be determined or cannot reliably be determined, at their cost. Where the fair values of fund shares held by the HCI Group cannot be derived from price quotations in secondary markets or suit-

able valuation methods due to a lack of trading volume, these fund shares are recognised at cost.

Changes in fair value are recognised directly in equity. If there has been a substantial and sustained loss in fair value, the impairment is recognised in profit or loss. If the circumstances leading to an impairment no longer apply in subsequent periods, any reversal of impairments for financial assets with liability features is also recognised in profit or loss, as are impairments in previous periods. Reversals of impairments for equity instruments are recognised directly in equity.

Impairments for financial instruments recognised at cost are recognised in profit or loss. No reversals of impairments for such financial instruments are made.

(iv) Financial liabilities

Financial liabilities are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest method.

(v) Derivative financial instruments

The derivatives used by the HCI Group are forward contracts used to hedge currency and interest rate risks. HCI has also granted the other shareholders of HAMMONIA Reederei GmbH & Co. KG an option to acquire 50% of the interests held by HCI in this company. To a large extent, this option cannot be exercised as of the balance sheet date. Derivative financial instruments are reported at fair value. Recognition of changes in fair value for derivative financial instruments depends upon whether these instruments are used as hedging instruments and the requirements for hedge accounting are met in accordance with IAS 39.

If the requirements are not met despite an existing economic hedging relationship, the changes in fair value of the derivative financial instruments are recognised immediately in profit or loss.

The effective portion of a change in the fair value of a derivative financial instrument, which was designed as a hedging instrument and which meets the requirements for hedge accounting for the purpose of hedging cash flows (cash flow hedge), is recognised immediately in accumulated other equity, taking into account the related tax effect. The ineffective portion is recognised in the statement of operations. The effective portion is only recognised in profit or loss if the underlying transaction is recognised in profit or loss.

(vi) Fair values of financial instruments

The fair values of financial instruments are determined on the basis of relevant market values or valuation methods. For cash and cash equivalents and other current non-derivative financial instruments, the fair values are the carrying values on the relevant balance sheet dates.

The fair values of non-current receivables and other assets as well as non-current provisions and liabilities are calculated on the basis of expected cash flows using reference interest rates valid on the balance sheet date. The fair values of derivative financial instruments are determined on the basis of the existing reference interest rates valid on the balance sheet date.

(g) Work in progress and finished services

Work in progress and finished services include services arising in connection with the preparation of the prospectus as part of the fund design and development stages. Capitalised work in progress and finished services are recognised at production cost, including all individual costs and overheads attributable to the provision of the service. Costs that must be capitalised include personnel costs and overheads arising since the start of the preparation of the prospectus and allocable external costs, particularly consultancy costs for fund design and costs for expert valuations as part of prospectus preparation. Capitalisation ends when the fund is ready to be marketed.

Work in progress and finished services as of the balance sheet date are measured at production cost or net realisable value, whichever is lower. The net realisable value is the expected realisable sales revenues less costs incurred up to the time of placement.

If the reasons leading to the impairment of work in progress and finished services no longer apply, an impairment reversal is made.

(h) Assets held for sale

Assets are recognised as held for sale if it is highly probable that they will be sold in the next 12 months. A classification pursuant to IFRS 5 is only made if the assets can be sold and marketing of the assets has begun. The assets are usually measured at amortised cost or fair value less costs to sell, whichever is lower as of the balance sheet date.

(i) Pension provisions

Provisions for pension obligations are calculated using the projected unit credit method pursuant to IAS 19. The pension obligations are measured based on pension reports. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate used is based on high-quality corporate bonds which correspond to the underlying pension obligations with regard to currency and maturity.

If the actuarial gains and losses resulting from changes in the actuarial assumptions exceed 10% of the pension obligations at the beginning of the financial year, the amount over the 10% limit is recognised in profit or loss over the expected remaining working lives of the eligible employees (corridor approach).

Service costs and realised actuarial gains and losses are recognised under personnel expenses. The interest component of the pension expenses is recognised as a component of interest expense.

(j) Other provisions

Other provisions include all identifiable legal and constructive obligations of the Group to third parties, provided that the settlement of such obligations is probable and the amount can be reliably determined. Provisions are reported at the expected settlement amount pursuant to IAS 37. Non-current provisions are measured at their settlement amount discounted on the balance sheet date, based on appropriate market interest rates.

(k) Financial guarantees

In the course of its business, the HCI Group has given guarantees and acquisition commitments for the financing of funds and ordering companies, by which the HCI Group is obliged to compensate creditors for any default on receivables arising from the financing. These obligations are classified as financial guarantees as defined in IAS 39.

The HCI Group utilises the option provided by IAS 39 with respect to recognition of these financial guarantees and treats the financial guarantees as insurance contracts as defined in IFRS 4. IFRS 4 does not contain explicit rules for the recognition and measurement of insurance contracts, with the result that previous accounting policies must be used for such agreements pursuant to the regulations con-

tained in IFRS 4. The HCl Group applied IAS 37 to such agreements in its IFRS consolidated financial statements before the application of IFRS 4 became mandatory in the 2005 financial year.

Accordingly, financial guarantees are recognised by the HCl Group pursuant to IAS 37. A provision is recognised if a claim against the HCl Group from the financial guarantees is probable and the settlement amount can be reliably determined.

(l) Income taxes

Current taxes are recognised as an expense for the amount owed at the time they arise.

Deferred taxes are recognised to take account of future tax effects resulting from temporary differences between the tax base of assets and liabilities and their related carrying amounts in the IFRS financial statements, as well as on loss carry forwards. Deferred taxes are measured on the basis of tax laws in force at the end of the relevant financial year as applicable to the financial years in which the differences are offset or the loss carry forwards will probably be utilised. Deferred tax assets on temporary differences or tax loss carry forwards are only recognised to the extent that they are likely to be realised.

Deferred taxes are recognised for temporary differences resulting from the fair value measurement of assets and liabilities from business combinations. Deferred taxes are only recognised for temporary differences in goodwill which arise during subsequent measurement if the goodwill is tax deductible.

Deferred tax assets and liabilities are only offset where they relate to income taxes levied by the same tax authority and the current taxes can be offset against each other.

(m) Transactions in foreign currencies

Purchases and sales in foreign currencies are translated at the daily rates applicable at the time of the transaction. Assets and liabilities in foreign currencies are translated into the functional currency at the exchange rates applicable on the balance sheet date. Any foreign currency gains or losses resulting from these translations are recognised in profit and loss.

(n) Use of estimates

The preparation of IFRS consolidated financial statements requires the use of estimates and assumptions that can influence the recognition of assets and liabilities, the disclosure of contingent liabilities as of the balance sheet date, and the recognition of income and expenses. Measurement of assets and liabilities was primarily based on the following significant estimates and assumptions:

- Recoverability of other investments, particularly interests and silent partnerships in, and loans to, fund companies in the shipping business (31 December 2010: EUR 14,938 thousand; 31 December 2009: EUR 14,185 thousand)
- Valuation allowances for trade receivables (31 December 2010: EUR 13,434 thousand; 31 December 2009: EUR 14,276 thousand) and for other financial assets (31 December 2010: EUR 24,194 thousand; 31 December 2009: EUR 24,965 thousand)
- Recoverability of goodwill (31 December 2010: EUR 875 thousand; 31 December 2009: EUR 875 thousand)
- Recoverability of the interest in eFonds Solutions AG accounted for under the equity method (31 December 2010: EUR 1,351 thousand; 31 December 2009: EUR 3,809 thousand) and HAMMONIA Reederei GmbH & Co KG (31 December 2010: EUR 26,120 thousand; 31 December 2009: EUR 15,153 thousand)
- Recoverability of deferred tax assets (31 December 2010: EUR 9,016 thousand; 31 December 2009: EUR 6,451 thousand)
- Fair value of the option granted to the other shareholders of HAMMONIA Reederei GmbH & Co. KG to acquire 50% of the interests held by HCl in this company (31 December 2010: EUR 6,623 thousand)
- Assessment of the risk of contingent liabilities being utilised under Sections 171, 172(IV) of the German Commercial Code (HGB) (31 December 2010: provision of EUR 340 thousand, 31 December 2009: EUR 0 thousand).

The recoverability of the interests in fund companies, which are recognised in other investments and classified as available-for-sale financial instruments pursuant to IAS 39 and in the absence of fair values are measured at cost, as well as the recoverability of the silent partnerships and other investments in fund companies, which are classified as financial assets in the "loans and receivables" category, mainly depend on the future earnings power of the assets in these fund companies. As a significant portion of these fund companies are in the shipping sector, their earning power is dependent upon future realisable charter rates and expected revenues from the sale or scrapping of ships.

The recoverability of the interests in eFonds Solutions AG accounted for under the equity method is mainly affected by the volume of equity capital placed by the eFonds Group and resulting gross profit, which is the difference between sales revenues and sales commission payable to sales partners. Provided that the cost structure of the eFonds Group had remained constant as of 31 December 2010, a reduction in gross profit of 2% over time would have resulted in an impairment increase of EUR 190 thousand.

The recoverability of the interests in HAMMONIA Reederei GmbH & Co. KG accounted for under the equity method is mainly dependent on the level of revenues generated by the company – which in turn depend on the charter revenues from its ships – and on the distributions from investments in shipping companies – which in turn also depend on charter revenues. Provided that the cost structure had remained constant as of 31 December 2010, a reduction in management revenues or charter revenues of 10% over time would have resulted in a decrease in the carrying value from EUR 26,120 thousand to EUR 17,440 thousand. The fair value of the option to acquire interests in HAMMONIA Reederei GmbH & Co. KG is determined by calculating the value of the company using the DCF method which, as already explained, depends on the amount of the charter revenues.

Actual amounts may deviate from the amounts estimated or assumed.

(o) Restatement of comparative information

In view of the changes in internal reporting and performance measurement within the individual product segments, the HCI Group recognised fees from Secondary Life Insurance Market funds under revenues in 2010 instead of under the

other financial result. These fees are earned through Asset Management in this area but are received as part of provisions in the bylaws in the form of advance distributions. The comparative information for 2009, when these fees were recognised under the other financial result in the amount of EUR 2,923 thousand, has been restated accordingly. This caused revenues to increase from EUR 42,586 thousand to EUR 45,509 thousand, EBIT to rise from EUR -27,196 thousand to EUR -24,273 thousand and the other financial result to fall from EUR -23,135 thousand to EUR -26,058 thousand in 2009.

(5) New accounting regulations issued by the IASB

Pursuant to the provisions stipulated in Regulation (EC) No. 1606/2002 in conjunction with Section 315a(1) of the German Commercial Code (HGB), the basis of IFRS accounting of the HCI Group is the accounting standards of the IASB as adopted by the European Commission within the framework of the endorsement procedure of the European Union. The newly issued IFRSs and amendments to existing IFRSs made by the IASB in the 2008 and 2009 financial years are not subject to mandatory application in the HCI Group until the corresponding resolution has been passed by the Commission under the endorsement procedure.

The following standards and interpretations were mandatory for the first time in the 2010 financial year:

- IFRIC 12 "Service Concession Arrangements" was published in November 2006 and is mandatory for financial years beginning on or after 29 March 2009. The interpretation governs recognition of obligations and rights assumed as part of service concessions.
- IFRIC 15 "Agreements for Construction of Real Estate" was published in July 2008 and includes special regulations for real estate construction agreements with respect to the application of IAS 11 "Construction Contracts" and IAS 18 "Revenues". The interpretation is mandatory for financial years beginning on or after 1 January 2010.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" was published in July 2008. IFRIC 16 includes specific rules governing hedging and identification of foreign currency risks. The interpretation is mandatory for financial years commencing after 30 June 2009 at the latest.

- IFRIC 17 "Distribution of Non-cash Assets to Owners", published in November 2008, includes rules governing the measurement of non-cash distributions to shareholders. The interpretation is mandatory for financial years commencing after 31 October 2009.
- IFRIC 18 "Transfers of Assets from Customers" covers how transfers of assets from customers should be recognised at the receiving company. IFRIC 18 is mandatory for financial years commencing after 31 October 2009.
- The revision of IFRS 3 "Business Combinations", published in January 2008, includes significant changes to the application of the acquisition method with regard to business combinations, particularly the recognition of minority shareholders, the presentation of successive acquisitions of companies and the treatment of contingent purchase price components and transaction costs. The revised standard is mandatory for financial years beginning on or after 1 July 2009.
- The amendments to IAS 27 "Consolidated and Separate Financial Statements", also published in January 2008, affect the presentation of transactions with investments in subsidiaries where the parent company retains control, and transactions with investments in subsidiaries where the parent company loses control. The revised standard is mandatory for financial years beginning on or after 1 July 2009.
- The amendment to IAS 39 "Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement" covers additions to IAS 39 with regard to the presentation of hedging transactions. The amendment is mandatory for financial years beginning on or after 1 July 2009.
- The amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions" address the mandatory treatment of share-based payment transactions by the Group parent company or another Group company. The amendments to IFRS 2 are mandatory for financial years beginning on or after 1 January 2010.

The application of these standards had no impact on the financial performance, cash flows and financial position of the HCl Group.

The following standards and interpretations have already been endorsed by the EU but are not applicable until a later date:

- The amendment to IAS 32 "Classification of Rights Issue" governs the classification of subscription rights, options and option certificates on the purchase of a fixed number of treasury shares for a fixed amount in any currency. The amendment is mandatory for financial years commencing after 31 January 2010 at the latest.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", published in November 2009, governs the recognition of repayments of liabilities by issuing equity instruments as part of the renegotiation of lending conditions. IFRIC 19 is mandatory for financial years beginning on or after 1 July 2010.
- The IASB issued an amendment to IAS 24 "Related Party Disclosures" in November 2009. The amendment includes a simplification of the definition of related parties. It also significantly reduces obligations on companies that are controlled, jointly controlled or significantly influenced by a government to disclose transactions with related parties in that government. The amendments are mandatory for financial years beginning on or after 1 January 2011.
- In November 2009 the IASB published amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement" with regard to voluntary prepayments for minimum funding contributions. The amendments are mandatory for financial years beginning on or after 1 February 2011. However, application prior to this date is permitted.
- Amendments to various standards were made as part of the IASB's second project to improve International Financial Reporting Standards (Annual Improvements Project) which was published in April 2009. Unless otherwise stated in the respective amendments, all the amendments are mandatory for financial years beginning on or after 1 January 2010.

The HCl Group applies these rules when they become mandatory. The HCl Group's current assumption is that application of these standards will have no material impact on the presentation of its financial performance, cash flows and financial position.

The effects of the amendments to IAS 27 and IFRS 3 on the Group's financial performance, cash flows and financial position will depend in particular on the business combinations or disposals of interests in companies that the HCL Group makes after the date of application of these two standards.

The standards and interpretations published by the IASB and IFRIC whose application in IFRS consolidated financial statements pursuant to Section 315a of the German Commercial Code (HGB) requires adoption by the EU are as follows:

- In November 2009 the IASB published IFRS 9 "Financial Instruments". IFRS 9, which covers the recognition and measurement of financial assets and financial liabilities, is the first of three stages in a project to replace IAS 39. IFRS 9 replaces existing categories of financial assets with two categories, whereby the assets are measured either at fair value or at amortised cost. Measurement at amortised cost requires that the company's business model allows for financial assets to be held to generate contractual cash flows from interest and repayments and for cash flows to have fixed payment terms. IFRIC 9 is mandatory for financial years beginning on or after 1 January 2013.
- Amendments to IFRS 7 "Financial Instruments Disclosures" were approved on 7 October 2010 with a view to improving disclosures on the transfer of financial assets. The amendments should enable users of financial reports to obtain a better insight into transactions for the purpose of transferring assets including an insight into possible effects of the risks remaining with the transferring company. The amendments will also require that additional disclosures be made if a disproportionately large amount of transfers occur towards the end of a reporting period.
- The IASB published an amendment to IAS 12 "Income Taxes" in December 2010. The amendment helps to answer the question of whether the carrying value of an asset is recovered through use or through sale. This is due to the disputable assumption that the carrying value is usually recovered through sale.

- In December 2010 an amendment was also made to IFRS 1 "First-time Adoption of International Financial Reporting Standards" which explains the procedure for presenting IFRS-compliant financial statements in the event that a company is temporarily unable to adhere to the IFRS regulations because its functional currency was subject to severe hyperinflation.

Subject to adoption by the EU, the first-time application of these standards and interpretations will be at the time they become mandatory. The HCL Group's current assumption is that application of these standards will have no material impact on the presentation of its financial performance, cash flows and financial position.

Notes to the consolidated balance sheet

(6) Intangible assets

The development of the HCL Group's intangible asset items is shown in the statement of changes to non-current assets.

Goodwill as of 31 December 2010 was allocated as follows: EUR 809 thousand (previous year: EUR 809 thousand) to the After Sales Services segment and EUR 66 thousand (previous year: EUR 66 thousand) to the Asset Management segment.

(7) Property, plant and equipment

Please refer to the HCL Group's statement of changes to non-current assets for details on the development of property, plant and equipment.

(8) Interests in companies accounted for under the equity method and other investments

The following is a summary of associated companies and joint ventures accounted for under the equity method in the consolidated financial statements of the HCL Group. The figures do not refer to the interests held by the HCL Group but show the assets, liabilities, income and expenses included in the financial statements of the associated companies and joint ventures.

The following table shows aggregated figures for the associated companies accounted for under the equity method:

EUR '000	31/12/2010	31/12/2009
Non-current assets	72,119	57,886
Current assets	42,281	48,115
Total assets	114,400	106,001
Non-current liabilities	12,508	16,689
Current liabilities	9,721	6,126
Total liabilities	22,229	22,815
Equity	92,171	83,186
Revenues	39,839	45,332
Earnings	2,024	-6,589

The following table shows aggregated figures for the joint ventures accounted for under the equity method:

EUR '000	31/12/2010	31/12/2009
Non-current assets	204,394	275,624
Current assets	2,256	1,599
Total assets	206,650	277,223
Non-current liabilities	200,787	275,836
Current liabilities	6,220	4,589
Total liabilities	207,007	280,425
Equity	-357	-3,202
Revenues	11,703	4,341
Earnings	-2,766	-8,931

The pro rata accumulated losses of associated companies and joint ventures accounted for under the equity method, which are no longer recognised in profit or loss due to the carrying amount recognised for such interests being EUR 0 and there being no obligation to assume such losses amounted to EUR 2,507 thousand (previous year: EUR 2,745 thousand).

Impairments of EUR 1,682 thousand (previous year: EUR 9,358 thousand) and impairment reversals of EUR 6,344 thousand were recognised for interests in associated companies and joint ventures accounted for under the equity method in the 2010 financial year. Please see Note (28).

Due to the intention to sell the interests in ship-ordering companies accounted for under the equity method up to 31 March 2010, these interests were reclassified as assets held for sale pursuant to IFRS 5. The interests were measured at fair value less costs to sell, resulting in total impairment of EUR 826 thousand (previous year: EUR 3,178 thousand). The interests were disposed of in the third quarter, when they were sold at their carrying value of EUR 163 thousand.

(9) Other investments

Interests in subsidiaries not consolidated and financial instruments included in other investments in the category

“available-for-sale” are measured at fair value as of the balance sheet date or, if this cannot be reliably determined due to the absence of an active market or using other measurement methods, at cost as follows:

EUR '000	31/12/2010	31/12/2009
Fair value	--	468
At cost	14,938	13,717
Available-for-sale financial instruments	14,938	14,185

For available-for-sale financial instruments where the fair value cannot be determined and thus are measured at cost, no impairments were made in the 2010 financial year (previous year: EUR 3,818 thousand). These relate in particular to interests in shipping companies and reflect the reduced earnings prospects of these companies due to negative market developments.

fair value may be reliably determined on the basis of corresponding transactions in secondary markets. No impairments (previous year: EUR 329 thousand) were recognised for interests in closed-end funds in the 2010 financial year.

The investments in the category “available-for-sale” recognised at fair value comprise marketable interests in investment funds and interests in closed-end funds for which the

(10) Work in progress and finished services

Work in progress and finished services can be broken down as follows:

EUR '000	31/12/2010	31/12/2009
Work in progress	0	51
Finished services	615	571
Work in progress and finished services	615	622

Valuation allowances of EUR 135 thousand (previous year: EUR 2,317 thousand) were recognised for work in progress and finished services in the 2010 financial year.

(11) Trade receivables

Trade receivables are comprised as follows:

EUR '000	31/12/2010	31/12/2009
Gross trade receivables	15,351	15,243
Valuation allowances	-1,917	-967
Trade receivables	13,434	14,276

Trade receivables have remaining terms to maturity of up to one year.

The gross trade receivables shown include discounting.

Please refer to Note (36)(b)(ii) for details on changes to valuation allowances.

(12) Receivables from related parties

Receivables from related parties are comprised as follows:

EUR '000	31/12/2010	31/12/2009
Receivables from unconsolidated subsidiaries	4	655
Receivables from associated companies accounted for under the equity method	0	34
Receivables from other joint ventures	20	2,025
Receivables from related parties	24	2,714

Receivables from other joint ventures mainly comprise receivables from other fund companies. Valuation allowances for identifiable default risks were not necessary in 2010 (previous year: EUR 3,305 thousand).

Receivables from related parties have remaining terms to maturity of up to one year.

Please refer to Note (38) for further details about related parties.

(13) Other assets

Other assets are broken down as follows:

EUR '000	31/12/2010	31/12/2009
Receivables from former affiliated companies	11,454	11,454
Receivables from funds	7,517	9,839
Receivables from loans	1,180	1,664
Claims from pledged assets	1,115	480
Rental deposits	265	263
Creditors with debit balances	209	309
Receivables from employees	4	47
Miscellaneous	2,450	909
Other financial assets	24,194	24,965
Deferred items	487	433
Receivables from other taxes	39	348
Advance payments	1	39
Other miscellaneous assets	527	820
Other assets	24,721	25,785

The receivables from former affiliated companies relate to HCI Holding GmbH, the former parent company of the HCI Group or its legal successor. The claims result from the tax-entity relationships of HCI Hanseatische Capitalberatungsgesellschaft mbH with HCI Holding GmbH in 2002 and 2003. For these receivables a guarantee in the amount of EUR 11,500 thousand was given by HCI SICAR A.G. and Christ Capital GmbH on 11 August 2005 to secure these claims. Directly enforceable bank guarantees totalling EUR 11,500 thousand were provided on 1 February and 5

February 2007. Ms Ursula Roessel, the sole shareholder of HST Invest AG (formerly HCI SICAR A.G.), and HCI Capital AG concluded an indemnification agreement on 5 June 2007 by which Ms Roessel assumes the portion of the obligation attributable to HCI SICAR A.G.

The receivables from funds as of 31 December 2010 include EUR 5,656 thousand (previous year: EUR 8,209 thousand) in loans paid out to fund companies, including accrued interest. In some cases the loans have final re-

payments connected to the sale of the investment assets held by the fund companies. Interest amounts to between 4.0 % p.a. and 7.5 % p.a. Receivables from funds also include claims from advance distributions of dividends from secondary life insurance market funds amounting to EUR 1,608 thousand (previous year: EUR 939 thousand).

The claims from pledged assets relate to a pledged amount of EUR 1,115 thousand deposited with a bank.

Valuation allowances for other identifiable default risks amounting to EUR 1,620 thousand (previous year: EUR 6,114 thousand) were recognised as of 31 December 2010.

Please refer to Note (36)(b)(ii) for details on changes to valuation allowances.

Other financial assets have the following remaining terms to maturity:

EUR '000	Remaining term to maturity of up to one year	Remaining term to maturity of one to five years	Remaining term to maturity of more than five years
31 December 2010	17,459	6,709	26
31 December 2009	15,623	9,323	19

(14) Assets held for sale

Due to the intention to sell the interests in BH & HCI Overschiestraat Holding B.V. and BH & HCI Real Estate Holding B.V. previously accounted for under the equity method, and in BH & HCI Tupolevlaan Building B.V. previously reported under other investments, these interests were reclassified as assets held for sale in accordance with IFRS 5 as of 30 June 2009. The interests were measured at fair value less costs to sell, resulting in an impairment of EUR 3,228 thousand in 2009. The EUR 79 thousand pro rata share of the companies' results generated until reclassification in accordance with IFRS 5 was recognised under results of associated companies and joint ventures. The HCI Group sold its interests in BH & HCI Overschiestraat Holding B.V. and BH & HCI Real Estate Holding B.V. for EUR 90 thousand with an agreement dated 18 February 2010. Up until then, these interests had been recognised as assets held for sale as per IFRS 5. As part of this sale, the bank guarantee for EUR 12.5 million, which was issued by the bank financing the assets in both companies, was returned.

Due to the intention to sell the interests in HELLESPONT HAMMONIA GmbH & Co. KG and its general partner company, they had been recognised as assets held for sale as of 31 December 2009 in accordance with IFRS 5 in the amount of EUR 425 thousand. In 2010 these interests were exchanged for interests in ship fund companies at a selling price of EUR 400 thousand. The resulting loss of EUR 25 thousand is recognised in the other financial result.

There were no assets intended for sale in accordance with IFRS 5 as of 31 December 2010 (previous year: EUR 505 thousand).

(15) Equity

Changes to equity components are shown in the statement outlining the development of consolidated equity.

(a) Subscribed capital and additional paid-in capital

As of 31 December 2010, the subscribed capital of HCI Capital AG amounted to EUR 29,354 thousand (previous year: EUR 24,000 thousand). The Company's subscribed capital is divided into 29,354,116 no-par-value bearer shares with a computed share in subscribed capital of EUR 1 per share.

On 10 August 2010, the Management Board of HCI Capital AG decided – with the approval of the Supervisory Board – to increase the Company's subscribed capital from EUR 24,000,000 to EUR 29,354,116 from authorised capital, excluding shareholders' subscription rights, by issuing 5,354,116 new no-par-value bearer shares. The capital increase was carried out as a contribution in-kind and is based on certain banks forgoing their loan receivables from the HCI Group with a carrying value of EUR 7,476 thousand. The result was an increase in additional paid-in capital of EUR 2,116 thousand less the costs of the capital

increase of EUR 481 thousand plus a tax effect of EUR 154 thousand. The capital increase was recorded on 13 August 2010 along with the relevant change to the Company's articles of association. Authorised capital, which amounted to EUR 646 thousand following the capital increase, expired on 20 August 2010.

By way of a resolution dated 30 August 2010, the Annual General Meeting authorised the Management Board – with the approval of the Supervisory Board – to increase the Company's subscribed capital in one or more tranches until 29 August 2015 by up to EUR 12,000,000 by issuing new no-par-value bearer shares for cash and/or contribution in kind. If the subscribed capital is increased by means of cash contributions, the shareholders must be granted subscription rights. Under Section 186(5) of the German Stock Corporation Act (AktG), the new shares may also be acquired by a bank on the condition that they are offered to the shareholders for subscription. However, the Management Board may, with the approval of the Supervisory Board, exclude the shareholders' subscription rights on one or more occasions if certain conditions are met.

In addition, the Management Board has been authorised to acquire and use treasury shares in accordance with Section 71(1) No. 8 of the German Stock Corporation Act (AktG) with a pro rata amount of up to 10% of the subscribed capital at the time the resolution was passed by the Annual General Meeting. It has also been authorised to exclude subscription rights until 29 August 2015. Treasury shares are acquired at the discretion of the Management Board. The Company may not use the authorisation for the purpose of trading in treasury shares. The authorisation can be used in full or in partial amounts, on one or several occasions, by the Company and its subsidiaries or by third parties for the account of the Company and its subsidiaries. The Management Board is also authorised, with the approval of the Supervisory Board, to use the Company's treasury shares acquired by means of this authorisation or a previous one as a (partial) consideration for business combinations or to acquire companies, investments in companies, sections of companies or other assets.

On 31 December 2010, the additional paid-in capital of HCI Capital AG amounted to EUR 77,738 thousand (previous year: EUR 76,016 thousand). It comprised the premium from the initial public offering (IPO) in 2005 of EUR 78,000 thousand less IPO costs of EUR 1,984 thousand and the increase from the non-cash capital increase in August 2010 of EUR 2,116 thousand less the transaction costs directly attributable to the capital increase of EUR

481 thousand and income taxes related to the transaction costs of EUR 154 thousand. A capital transaction with an associated company in 2008 resulted in a pro rata reduction of EUR 73 thousand. In accordance with German stock corporation law, the existing additional paid-in capital of EUR 79,942 thousand in the commercial financial statements of HCI Capital AG and the subscribed capital of EUR 29,354 thousand are not available for distribution.

(b) Retained earnings

Retained earnings include earnings generated in previous periods and in the current period by the companies included in the consolidated financial statements that have not been distributed.

In the 2008 financial year, HCI Capital AG made distributions to shareholders amounting to EUR 16,800 thousand from net retained earnings for the 2007 financial year, determined in accordance with German commercial law. The dividend was paid on 11 May 2008 and amounted to EUR 0.70 per share. Pursuant to the German Stock Corporation Act (AktG), the dividend payable to shareholders is based on the net retained earnings reported in the annual financial statements of HCI Capital AG on the reporting date in accordance with German commercial law.

No distribution was made for the 2010 financial year due to the net loss of EUR -65,103 thousand at HCI Capital AG as of 31 December 2010.

(c) Accumulated other equity

Accumulated other equity consists of changes in the fair value of available-for-sale financial instruments and translation adjustments for financial statements denominated in a foreign currency. It also includes pro rata income and expenses recognised directly in equity from associated companies and joint ventures accounted for under the equity method.

The changes in the fair value of available-for-sale financial instruments include the impairment reversals for interests in HCI HAMMONIA Shipping AG of EUR 393 thousand. The translation adjustments for financial statements denominated in a foreign currency increased by EUR 11 thousand to EUR -344 thousand in 2010.

No income and expenses previously recognised in accumulated other equity were reclassified in the statement of operations in the 2010 and 2009 financial years.

(d) Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions

The adjustment includes differences arising from acquisitions between 2002 and 2005:

	EUR '000
Acquisition of companies under common control	-11,045
Successive share acquisitions with existing possibility of control	-3,487
Balance as of 31 December 2010 and 31 December 2009	-14,532

(16) Pension obligations

Pension provisions are created for obligations from pension benefits earned by active employees of the HCI Group and their surviving dependents. The Company maintains both defined contribution and defined benefit plans. There are also defined contribution pension obligations which are financed by the employees concerned as part of deferred compensation schemes.

Defined benefit pension obligations are based on individual commitments with fixed one-off payments and are completely funded by provisions. The calculation of pension provisions for defined benefit plans is carried out in accordance with IAS 19 on the basis of actuarial assumptions. The following parameters were applied in these financial years:

	2010	2009
Discount rate	4.65 %	4.70 %
Salary increase	n/a	n/a
Pension increase	n/a	n/a

The HCI Group companies used the mortality tables Richttafeln 2005 published by Dr Klaus Heubeck for the calculation of life expectancy.

Expenses for defined benefit plans incurred in 2010 amounting to EUR 3 thousand (previous year: EUR 5 thousand) were comprised as follows:

EUR '000	2010	2009
Service costs	2	4
Personnel expenses	2	4
Interest expense	1	1
Pension expense	3	5

The defined benefit obligations changed as follows:

EUR '000	2010	2009
Defined benefit obligation as of 1 January	27	22
Service costs	2	4
Interest expense	1	1
Unrecognised actuarial gains	--	--
Defined benefit obligation as of 31 December	30	27

The amount of provisions is as follows:

EUR '000	31/12/2010	31/12/2009
Defined benefit obligation	30	27
Unrecognised actuarial gains	--	--
Provision	30	27

(17) Other provisions

Other provisions are comprised as follows:

EUR '000	Balance 01/01/2010	Additions	Utilisation	Balance 31/12/2010
Interest rate risk from tax-entity relationships	2,081	408	-	2,489
Miscellaneous other provisions	-	1,459	-	1,459
Other provisions	2,081	1,867	-	3,948

A provision in the amount of EUR 2,489 thousand made as of 31 December 2010 for existing interest rate risks from obligations resulting from tax-entity relationships with HCI Hanseatische Capitalberatungsgesellschaft mbH in the 2002 and 2003 financial years.

Other provisions of EUR 1,119 thousand relate to provisions for compensation obligations to investors in a fund and EUR 340 thousand for a probable obligation to repay previously received dividends under Sections 171, 172(IV) of the German Commercial Code (HGB) (cf. Note (39)).

(18) Financial liabilities

Financial liabilities include amounts owed to banks by the HCI Group. The terms and conditions of the principal amounts owed to banks are as follows:

Loans	2010 EUR '000	2009 EUR '000	Loan currency	Interest rate in %	Final due date
Bankhaus Wölbern & Co.	3,784	4,932	USD	EURIBOR + 1.85% ¹⁾	¹⁾
Commerzbank AG	375	4,528	EUR	0%	2011
HSH Nordbank AG	29	25,657	EUR	0%	2011
HSH Nordbank AG	1,115	480	EUR	0%	2011

1) Please refer to the details provided in this Note and Note (2) on the way in which financial liabilities are reported.

In order to finance the contributions needed for the construction phase interim loan for nine ships, the HCI Group took out a credit line for USD 9,000 thousand with Bankhaus Wölbern & Co. in the 2008 financial year. The credit line was fully utilised by 31 December 2008; two repayments each of USD 1,000 thousand were made in 2009 in connection with the delivery date of the ships. A payment of USD 2,250 thousand was made to Bankhaus Wölbern & Co. in February 2010 on the basis of agreements with the shipowner.

Bankhaus Wölbern & Co. utilised the option granted to the HCI Group's financing banks of converting all claims arising from loan receivables into equity so as to bring about a

long-term financing arrangement by changing the lending terms and conditions. As the conditions of the new financing agreement have not yet been negotiated, the revaluation of the loan required under IAS 39.40 on 18 May 2010 initially assumed that the fair value of the new liabilities would correspond to the nominal value of the original loan liabilities.

These financial liabilities were reported as non-current financial liabilities on 30 September 2010. Please refer to Note (2).

Financial liabilities as of 31 December 2010 have the following remaining terms to maturity:

EUR '000	Remaining term to maturity of up to one year	Remaining term to maturity of one to five years	Remaining term to maturity of more than five years
31 December 2010	1,553	--	3,784
31 December 2009	35,597	--	--

(19) Liabilities to related parties

Liabilities to related parties are comprised as follows:

EUR '000	31/12/2010	31/12/2009
Liabilities to unconsolidated subsidiaries	957	1,737
Liabilities to associated companies accounted for under the equity method	4,375	5,675
Liabilities to HCI Group executive bodies	777	646
Liabilities to related parties	6,109	8,058

Liabilities to related parties amounting to EUR 3,034 thousand (31 December 2009: EUR 3,683 thousand) have a remaining term of up to one year.

Please refer to Note (38) for further details about related parties.

(20) OTHER LIABILITIES

Other liabilities are broken down as follows:

EUR '000	31/12/2010	31/12/2009
Loss assumption obligations to banks as part of the release from contingent liabilities	8,460	--
Derivatives measured at fair value	6,623	801
Liabilities to employees	2,136	1,893
Liabilities from loss assumptions pursuant to shareholder agreements	1,269	1,452
Liabilities to funds	482	505
Debtors with credit balances	302	--
Miscellaneous	976	566
Other financial liabilities	20,248	5,217
Liabilities from other taxes and other obligations to the tax office	637	1,066
Deferred items	88	26
Liabilities from social security contributions	11	20
Other miscellaneous liabilities	736	1,112
Other liabilities	20,984	6,329

As consideration for the release from contingent liabilities granted by the contingent creditor banks on 17 August 2010, the HCI Group pledged to pay compensation of EUR 12,500 thousand to the banks involved as part of the agreement reached concerning the moratorium and intended release from contingent liabilities. This compensation payment becomes payable when the HCI Group meets or exceeds specified earnings and liquidity thresholds. The compensation payment was recognised as an

expense under other financial result. Taking the expected due date of the payments into account, they were reported at their current value. This obligation was recognised as of 31 December 2010 in the amount of EUR 8,460 thousand.

In June 2010 an agreement between the HCI Group and the other shareholders of HAMMONIA Reederei GmbH & Co. KG was entered into whereby the other shareholders of HAMMONIA Reederei can acquire 50% of the interests

held by the HCI Group in HAMMONIA Reederei within a specified period at an agreed fixed purchase price (including interest of 8% p.a.) (shareholders' call option). The fair value of the investment in HAMMONIA Reederei was higher than its carrying value as of the reporting date of 31 December 2010. The result of this is a call option with a negative value of EUR 6,623 thousand.

Liabilities from loss assumptions pursuant to shareholder agreements as of 31 December 2010 relate to obligations of the HCI Group to ordering companies.

Other liabilities also include employees' outstanding wages and salaries, bonuses, and holiday entitlements not used.

Please refer to Note (36)(a)(ii) for other derivatives measured at fair value.

Other financial liabilities of EUR 11,788 thousand and other miscellaneous liabilities of EUR 736 thousand have remaining terms to maturity of up to one year.

Notes to the consolidated statement of operations

(21) Revenues

Revenues can be broken down as follows:

EUR '000	2010	2009
Transport and Logistics	7,142	12,057
Real Estate	1,069	489
Energy and Commodities	899	4,276
Secondary Life Insurance Market	62	1,314
Other	84	--
Design and Sales	9,256	18,136
Transport and Logistics	17,354	17,042
Real Estate	2,618	2,387
Energy and Commodities	213	213
Secondary Life Insurance Market	1,305	1,354
Other	352	395
After Sales Services	21,843	21,391
Asset Management	5,297	5,909
Other remuneration	375	73
Total revenues	36,771	45,509

The Transport and Logistics product segment consists of the asset classes Ship and Aircraft, while the Energy and Commodities product segment includes the HCI Deepsea Oil Explorer fund and is being expanded to include the HCI Energy Solar funds.

The revenues from Asset Management include fees received by the HCI Group as part of provisions in the bylaws in the form of advance distribution from Secondary Life Insurance Market funds. The corresponding revenues for

2010 amount to EUR 2,644 thousand. In conjunction with the amended presentation, the previous year's figure was restated accordingly by EUR 2,923 thousand as per IAS 1 and IAS 8 to ensure that the financial statements can be compared. Please refer to Note (4)(o).

The advance distribution were recognised under other financial result in 2009 and are reported under revenues for the first time in 2010. As a result, revenues for 2009 have been restated by EUR 2,923 thousand.

(22) Other operating income

Other operating income is comprised as follows:

EUR '000	2010	2009
Gain from the derecognition of liabilities	1,082	182
Gain from recharges of costs	779	679
Gain from receivables previously written off	675	103
Gain from other services to related parties	255	159
Gain from the brokerage of ships	--	3,000
Miscellaneous operating income	879	548
Other operating income	3,670	4,671

(23) Changes in inventories

Due to the difficult market environment for placing closed-end funds, write-downs totalling EUR 135 thousand (previous year: EUR 2,317 thousand) were made on work in progress and finished services in connection with the design of closed-end fund models.

(24) Cost of purchased services

The cost of purchased services mainly comprises commission payments for fund sales and prospectus costs.

(25) Personnel expenses

Personnel expenses were made up as follows:

EUR '000	2010	2009
Wages and salaries	17,801	18,785
Social security contributions	2,285	2,351
Other social security costs	404	427
Personnel expenses	20,490	21,563

The Group had an average of 261 employees in 2010 (2009: 296 employees).

Employer contributions to statutory pension schemes are included in social security contributions.

Personnel expenses include severance payments of EUR 205 thousand (previous year: EUR 947 thousand) and current obligations to pay salaries until the expiry of employment contracts amounting to EUR 334 thousand (previous year: EUR 699 thousand) for employees whose employment contracts were terminated in 2010 and 2009.

(26) Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

Depreciation, amortisation and impairment is as follows:

EUR '000	2010	2009
Amortisation of intangible assets	568	645
Impairment of intangible assets	--	590
Depreciation of property, plant and equipment	339	597
Depreciation, amortisation and impairment	907	1,832

Write-downs on investments are included in the financial result.

No impairments were necessary in 2010. Impairments of intangible assets in the 2009 financial year were recognised for goodwill in the Design and Sales segment due

to unexpected earnings developments in the Private Equity product segment of EUR 590 thousand.

(27) Other operating expenses

Other operating expenses are comprised as follows:

EUR '000	2010	2009
Legal, audit and consulting costs	6,902	5,875
Rent and lease expenses	2,986	3,280
Service charges for the moratorium	2,625	--
Bad debts	1,845	1,512
Expenses from legal disputes	1,619	192
General business costs	1,489	1,651
Postage, telecommunications and IT expenses	1,455	1,629
Advertising costs	971	1,410
Travel, entertainment and representation costs	515	825
Supervisory Board remuneration and attendance fees	322	312
Human resource procurement	161	101
Training costs	98	129
Expenses from reimbursement of a fund company	--	704
Expenses from onerous contracts	--	500
Miscellaneous expenses	2,036	2,738
Other operating expenses	23,024	20,858

Other operating expenses include expenses for service charges payable to banks as a result of the release from contingent liabilities for projects totalling EUR 2,625 thousand.

The rent and lease expenses relate to rental contracts or leases of real estate, motor vehicles and office equipment

that are classified as operating leases. Please refer to Note (39) for details of the obligations arising from the rental contract for the HCI Group offices. The rental contract runs until 31 December 2014, with an option to extend for 5 years.

(28) Results of associated companies and joint ventures accounted for under the equity method

The results are as follows:

EUR '000	2010	2009
HAMMONIA Reederei GmbH & Co. KG	10,472	-8,779
Ship ordering companies	224	-3,712
eFonds Solutions AG	-2,748	-2,351
HELLESPONT HAMMONIA GmbH & Co. KG	--	-182
BH & HCI Overschiestraat Holding B.V.	--	-7
BH & HCI Real Estate Holding B.V.	--	86
Results of companies accounted for under the equity method	7,948	-14,945

The results of associated companies and joint ventures accounted for under the equity method include impairment reversal of EUR 6,344 thousand for interests in HAMMONIA Reederei GmbH & Co. KG. These reversals, which were determined using an impairment test pursuant to IAS 36 based on a DCF model and the company's planning data, were recognised in order to correct impairments made the previous year amounting to EUR 6,344 thousand as a result of improved market prospects.

The results of associated companies and joint ventures accounted for under the equity method also include EUR 1,682 thousand (previous year: EUR 9,358 thousand) in impairments which were made following impairment tests as a result of difficult market conditions.

In the impairment tests carried out in accordance with IAS 36, recoverable amounts were established on the basis of a DCF model taking the companies' planning data into account. The impairments include an amount of EUR 1,682 thousand (previous year: EUR 1,645 thousand) for interests in eFonds Solutions AG.

The Annual General Meeting of eFonds Solutions AG on 26 November 2010 resolved to further increase the company's capital with contributions of EUR 150 thousand. The HCI Group exercised its subscription rights as part of this capital increase. HCI Capital AG's stake amounted to 29.19% after the capital increase was carried out. HCI Capital AG recorded a negative pro rata result of EUR 1,065 thousand from eFonds Solutions AG in 2010 in addition to the impairments outlined above.

(29) Other financial result

The other financial result is comprised as follows:

EUR '000	2010	2009
Interest income from receivables	794	817
Interest income from bank deposits	62	241
Other interest income	343	461
Interest income	1,199	1,519
Interest expenses from the discounting of receivables	-1,745	-233
Interest expenses for liabilities to banks	-945	-1,722
Interest expenses for other financial liabilities	-209	-10
Interest expenses for liabilities to other investments	-23	-23
Interest expenses for pension provisions	-1	-1
Other interest expenses	-633	-501
Interest and similar expenses	-3,556	-2,490
Gains from the derecognition of financial liabilities pursuant to IAS 39	23,489	651
Gains from other investments	2,376	--
Foreign exchange result	332	-1,292
Investment income from funds	265	244
Other investment income	-388	--
Losses from the disposal of assets held for sale pursuant to IFRS 5	-665	--
Valuation allowances for loans and financial receivables	-2,076	-12,230
Measurement of call option	-6,623	--
Expenses for loss assumption obligations to banks	-8,460	--
Impairment of available-for-sale assets pursuant to IAS 39	--	-5,469
Impairment of assets held for sale pursuant to IFRS 5	--	-3,489
Losses from compensation payments arising from the winding-up of fund companies	--	-1,741
Valuation allowances for rights of recourse to funds	--	-1,281
Miscellaneous financial result	329	-1,451
Other financial result	8,579	-26,058
Financial result	6,222	-27,029

Gains from the derecognition of financial liabilities pursuant to IAS 39 relate solely to income from the revaluation of financial liabilities in connection with the conversion of debt into equity as part of the release from contingent liabilities. Due to significant modifications to the contractual conditions for financial liabilities, the respective items were derecognised (EUR 34,873 thousand) and re-entered at fair value (EUR 11,384 thousand) pursuant to IAS 39.40. The resulting difference of EUR 23,489 thousand was recognised as earnings in the other financial result.

Other financial result includes expenses from compensation obligations to banks relating to the release from contingent liabilities. These amount to EUR 8,460 thousand, based on the present value of the expected payments. Following the full release from contingent liabilities in August 2010, the banks became entitled to compensation of EUR 12,500 thousand. However, this only becomes payable when the agreed release from contingent liabilities has been fully completed and the HCI Group has met and/or exceeded specified earnings and liquidity thresholds. The

compensation obligation is measured as of 31 December 2010 at the discounted amount of the expected future payment.

In June 2010 an agreement between the HCI Group and the shareholders of HAMMONIA Reederei GmbH & Co. KG was entered into whereby the other shareholders of HAMMONIA Reederei GmbH & Co. KG can acquire 50% of the interests held by the HCI Group in HAMMONIA Reederei GmbH & Co. KG within a specified period at an agreed fixed purchase price (shareholders' call option). The fair value of the interests in HAMMONIA Reederei GmbH & Co. KG was higher than its carrying value as of the reporting date of 31 December 2010. The result of this is an option with a negative value of EUR 6,623 thousand. This amount was recognised in profit and loss in 2010 as an expense under other financial result.

The gains from other investments primarily relate to revenues from the sale of "Marship Investments Ltd." amounting to EUR 1,640 thousand.

The valuation allowances for loans and financial receivables essentially relate to expenses from write-downs on interest receivables of EUR 811 thousand and write-downs on a receivable from a fund company of EUR 320 thousand.

The impairments on assets held for sale under IFRS in 2009 mainly comprise interests in BH & HCI Overschiestraat

Holding B.V. and BH & HCI Real Estate Holding B.V., which until then had been accounted for under the equity method, and interests in BH & HCI Tupolevlaan Building B.V., which until then had been reported under other investments. The interests were measured at fair value less costs to sell, resulting in an impairment of EUR 3,228 thousand in 2009. The interests were sold in February 2010. The disposal of the interests generated revenues of EUR 90 thousand.

Other financial result includes a gain of EUR 500 thousand from a loan receivable from the limited liability partner of a shipping company which had been written off in full in 2009. The loan of EUR 5,000 thousand was granted in 2006 and written off in full as of 31 December 2009 when the debtor was not able to pay in 2009. In 2010 an agreement was reached whereby the debtor made a loan repayment of EUR 500 thousand and the loan was then waived. Advance distributions were reported under revenues for the first time in 2010 (see Note (21)).

(30) Income taxes

The income taxes paid or owed in the individual countries as well as deferred taxes are recognised as income taxes. Income taxes comprise trade taxes, corporation taxes, the solidarity surcharge and the relevant foreign income taxes. Income tax expenses can be broken down by origin as follows:

EUR '000	2010	2009
Current tax income/expense in Germany	80	240
Current tax income/expense abroad	89	121
Current tax income/expense	169	361
Deferred tax income/expense arising from temporary differences in Germany	-1,663	-2,524
Deferred tax income/expense arising from temporary differences abroad	0	-125
Deferred tax income/expense arising from temporary differences	-1,663	-2,649
Deferred tax income/expense arising from tax loss carry forwards in Germany	927	6,809
Deferred tax income/expense arising from tax loss carry forwards abroad	0	0
Deferred tax income/expense arising from tax loss carry forwards	927	6,809
Income tax income/expense	-567	4,521

The notional income tax expense that would have resulted from the application of the tax rate of 32.28% (previous year: 32.28%) for the Group parent company HCI Capital

AG on the earnings before tax in accordance with IFRS can be reconciled with income taxes as reported in the statement of operations:

EUR '000	2010	2009
IFRS net result before income taxes	4,442	-51,302
Group tax rate in %	32.28%	32.28%
Expected tax income/expense	1,434	-16,560
Differences in tax rates	-1,834	2,162
Changes in tax rates	0	-75
Permanent differences	2,757	7,960
Changes in the recognition of deferred taxes	4,221	10,343
Current and deferred income taxes for previous years	263	289
Non-deductible business expenditure	1,260	946
Tax-free income	-8,571	-405
Additions and deductions for trade tax	-39	-418
Other effects	-58	279
Tax income/expense as reported in the statement of operations	-567	4,521

German-based companies in the legal form of a corporation are subject to corporation tax of 15% (previous year: 15%) plus a solidarity surcharge of 5.5% (previous year: 5.5%) on corporation tax owed. In addition, these companies – as well as subsidiaries in the legal form of partnerships – are subject to trade tax, the amount of which is determined based upon different assessment rates prevailing in the individual municipalities.

Corporation and trade tax loss carry forwards are subject to certain restrictions as from the 2004 assessment period. There is no restriction on positive taxable income of up to EUR 1,000 thousand, but amounts in excess of this can only be reduced by up to a maximum of 60% of an existing loss carry forward.

The effects of different tax rates for partnerships and for taxes in Germany and abroad for the controlling Group company are shown in the reconciliation as changes in tax rates.

The permanent differences in the 2010 financial year result principally from a call option granted to the co-shareholders of HAMMONIA Reederei GmbH & Co. KG that are not recognised for tax purposes in Germany. In 2009 this item mainly comprised effects of various valuation allowances

and impairments of investments and loans that were not taken into account for tax purposes in Germany.

Adjustments to the recognition of deferred taxes refer to an amount of EUR 4,265 thousand (EUR 10,247 thousand) resulting from non-recognition of deferred taxes on loss carry forwards. In the previous year these adjustments were broken down as EUR 8,135 thousand for changed planning scenarios and EUR 2,112 thousand for loss carry forwards which could not be used due to changes in the tax group.

The effects from tax-free income in 2010 mainly relate to non-taxable restructuring profits arising from the conversion of loan and guarantee receivables. These profits were classified as a contribution for tax purposes.

Income taxes for previous years comprise EUR -107 thousand (previous year: EUR 32 thousand) for current taxes and EUR 370 thousand (previous year: EUR 0 thousand) for deferred taxes for previous years.

Trade tax reductions mainly result from the elimination of earnings due to the HCI Group from funds in the legal form of partnerships.

Deferred tax assets and liabilities are as follows:

EUR '000	31/12/2010		31/12/2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	134	195	168	174
Property, plant and equipment	2	--	--	1
Investments	62	612	62	654
Work in progress and finished services	--	7	--	86
Receivables and other assets	39	10,826	388	554
Pension provisions	--	1	--	1
Financial liabilities	--	--	--	--
Trade payables and provisions	3,978	--	119	8,390
Other liabilities	104	4	90	110
Temporary differences	4,319	11,645	827	9,970
Loss carry forwards	4,697	--	5,624	--
Total	9,016	11,645	6,451	9,970
Offsetting	-8,170	-8,170	-6,244	-6,244
Carrying amount	846	3,475	207	3,726

Deferred tax assets on temporary differences and tax loss carry forwards are recognised to the extent that their recoverability is probable in the near future. In the 2010 and 2009 financial years, no deferred tax assets were recognised for tax loss carry forwards for corporation tax purposes in the amounts of EUR 38,352 thousand and EUR 21,452 thousand respectively, and for trade tax purposes in the amounts of EUR 77,771 thousand and EUR 62,178 thousand respectively, since it is not considered probable that sufficient taxable earnings will be generated in the near future for these amounts.

The ability to carry forward tax losses in Germany is not currently subject to any legal restrictions.

No deferred tax liabilities were recognised for temporary differences arising from interests in affiliated companies amounting to EUR 0 thousand (previous year: EUR 369 thousand) since the Company does not expect the differences to be reversed in the near future.

Current and deferred taxes for transactions relating to the capital increase amounted to EUR 154 thousand (previous year: EUR 0 thousand).

(31) Earnings per share

Basic earnings per share were calculated as follows:

		01/01--31/12/2010	01/01--31/12/2009
Group share of the net result for the period	EUR '000	5,009	-55,823
Weighted average number of shares issued	In thousands	26,098	24,000
Earnings per share for the reporting period	EUR	0.19	-2.33

The diluted earnings per share for the 2010 financial year are calculated as follows:

		01/01/–31/12/2010	01/01/–31/12/2009
Group share of the net result for the period	EUR '000	5,009	-55,823
Change in interest expense and change in value of the banks' call option	EUR '000	121	--
Group share of the net result for the period (diluted)	EUR '000	5,130	--
Weighted average number of shares issued	In thousands	27,330	24,000
Earnings per share for the reporting period	EUR	0.19	-2.33

There were no dilutive instruments in 2009, meaning that diluted and basic earnings per share were the same.

Notes to the consolidated statement of cash flows

(32) Composition of cash and cash equivalents

Cash and cash equivalents, as reported in the statement of cash flows, correspond to the same item in the balance sheet and mainly comprise bank balances.

(33) Other non-cash transactions

On 18 May 2010, the conditions precedent stipulated in both the agreement dated 11 February 2010 – concerning the moratorium and intended release from contingent liabilities – and its supplements came into effect. This meant that the option granted to the HCI Group's financing banks also came into force, entailing the conversion of all their claims arising from loan receivables into equity by issuing up to 6,000,000 shares. The option granted to the banks to convert the above-mentioned claims into equity and/or the possibility of altering the loan conditions resulted in the derecognition (EUR 34,873 thousand) and recognition of a new financial liability at fair value on 18 May 2010 (EUR 11,384 thousand) pursuant to IAS 39.40. At the time of preparation of the Semi-Annual Report, HCI Capital AG already expected the loans issued by the banks which are involved in the conversion to be transformed into equity. As a result, the value of the shares available for the capital increase was taken into account when calculating the fair value of these new loans. The resulting difference of EUR 23,489 thousand was recognised as gain in the other financial result.

As consideration for the release from contingent liabilities granted by the banks on 17 August 2010, the HCI Group

pledged to pay compensation of EUR 12,500 thousand to the banks involved. This compensation payment becomes payable when the HCI Group meets or exceeds specified earnings and liquidity thresholds. As the HCI Group already anticipated that these restructuring measures would be implemented when preparing its report for the period to 30 June 2010, the compensation payment was recognised as an expense under other financial result. Taking the expected due date of the payments into account, they were reported at their present value of EUR 8,643 thousand. As of 31 December 2010, the present value of the compensation payment was EUR 8,460 thousand.

In June 2010 an agreement between the HCI Group and the shareholders of HAMMONIA Reederei GmbH & Co. KG was entered into whereby the other shareholders of HAMMONIA Reederei can acquire 50% of the interests held by the HCI Group in HAMMONIA Reederei within a specified period at an agreed fixed purchase price (shareholders' call option). As the fair value of the investment in HAMMONIA Reederei was higher than the strike price of the option as of the reporting date of 31 December 2010, the call option has a negative fair value of EUR 6,623 thousand.

By contract dated 27 August 2009, the HCI Group transferred the contract for the provision of services, controlling and management services with HCI HAMMONIA SHIPPING AG to HAMMONIA Reederei GmbH & Co. KG. At the same time, the HCI Group undertook to provide the services due from HAMMONIA Reederei GmbH & Co. KG to HCI HAMMONIA SHIPPING AG. As consideration for the transfer of this contract, the HCI Group received a purchase price of EUR 6,000 thousand plus statutory sales tax. The amounts are gradually recognised through profit or loss as services are provided. EUR 1,300 thousand (previous year: EUR 325 thousand) was earned and recognised in profit and loss in 2010 as a result of this situation.

Notes on segment reporting

(34) Basis of presentation

The HCI Group applied IFRS 8 "Operating Segments" for the first time in the 2009 financial year. In accordance with IFRS 8, which is based on the management approach, segment reporting consists of a presentation of reportable operating segments that correspond to the areas of a company for which the Group's chief operating decision maker regularly assesses earnings performance and allocates resources on the basis of available financial information. In line with the internal management system used by HCI Capital AG's Management Board to manage the HCI Group's various segments, the areas Design and Sales, After Sales Services and Asset Management have been defined as operating segments.

Segment data was prepared on the basis of financial information used in internal management and corresponds to the accounting policies used for the consolidated financial statements.

Reportable operating segments as per IFRS 8 are as follows:

- Design and Sales – This segment contains the HCI Group's activities in relation to the identification of suitable investments, product design and product sales.
- After Sales Services – This segment consists mainly of assisting investors with all company law and regulatory matters relating to their fund commitments and the trust management of the capital they have invested.
- Asset Management – The management of investment assets held by funds initiated by the HCI Group in the Ship, Real Estate and Life Insurance Fund sectors and charter operations with third parties are assigned to the Asset Management segment.

In addition, there is a Holding/Other area that includes items not directly attributable to segments as well as holding functions.

(35) Segment presentation

Segment data is collected on the basis of the accounting policies applied to the consolidated financial statements.

External revenues represent revenues from the design, initiation and sale of investments, the provision of trust management and other services and revenues from asset management. The earnings measure for segment results is earnings before interest and taxes (EBIT), which is the net result for the period before interest, other financial result and income taxes. It is used in internal IFRS-based controlling as a parameter for segment controlling. The revenue and cost categories used in internal reporting are the same as those presented in the consolidated statement of operations.

The segment assets held by the operating segments include the assets that are relevant for operating activities in the relevant segment. They consist of inventories, trade receivables, loans granted and loans to sales partners, funds and ordering companies along with the HCI Group's interests in funds or ordering companies and in associated companies and joint ventures accounted for under the equity method. Goodwill stated at EUR 875 thousand as of 31 December 2010 (previous year: EUR 875 thousand) is not allocated to segment assets.

The segment assets of the Design and Sales segment include interests in associated companies and joint ventures accounted for under the equity method of EUR 1,351 thousand (previous year: EUR 3,809 thousand). The segment assets of the Asset Management segment include interests of EUR 26,971 thousand (previous year: EUR 16,972 thousand).

Internal reporting does not include segment liabilities. Therefore they are not stated in segment reporting in accordance with IFRS 8.

Segment assets are reconciled with the Group's total assets as follows:

EUR '000	31/12/2010	31/12/2009
Segment assets	66,625	63,506
Cash and cash equivalents	18,265	23,334
Other assets and receivables	15,964	19,841
Deferred taxes	846	207
Intangible assets	1,382	1,849
Securities	1,753	1,530
Property, plant and equipment	1,059	1,286
Assets held for sale	--	505
Other investments	316	391
Group assets	106,210	112,449

The geographic division of revenues according to the location of the Group company provides the following information:

EUR '000	2010	2009
Germany	35,324	44,009
Abroad	1,447	1,500

No division of segment assets has been made due to the insignificant figures from other countries.

Other disclosures

(36) Financial instruments and management of financial risk

(a) Financial instruments

(i) Disclosures on financial instruments

The carrying values of financial assets, classified according to measurement category pursuant to IAS 39, are as follows:

EUR '000	Loans and receivables		Available-for-sale assets	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Securities and other investments	--	0	16,691	15,715
Trade receivables	13,434	14,276	--	--
Receivables from related parties	24	2,714	--	--
Other financial assets	24,191	24,918	--	--
Cash and cash equivalents	18,265	23,334	--	--

The following table shows how the carrying values of financial liabilities are allocated to measurement categories pursuant to IAS 39:

EUR '000	Fair value through profit or loss		Financial liabilities at amortised cost	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Financial liabilities	--	--	5,337	35,597
Trade payables	--	--	6,927	7,619
Liabilities to related parties	--	--	1,734	2,383
Other financial liabilities	6,623	801	11,489	2,523

The receivables from, and liabilities to, employees shown under other financial assets and other financial liabilities are not included in the classes or categories of financial instruments.

The carrying values reported in the relevant IAS 39 categories can be reconciled with the classes of financial instruments on the basis of their individual characteristics:

EUR '000	Financial assets			
	Loans and receivables		Available for sale	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Securities and other investments	--	0	16,691	15,715
Trade receivables	13,434	16,301	--	--
Loans granted	6,618	9,873	--	--
Cash and cash equivalents	18,265	23,334	--	--
Other financial receivables	17,597	15,734	--	--

EUR '000	Financial assets			
	Fair value through profit or loss		At amortised cost	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Loans	--	--	5,541	35,597
Trade payables	--	--	6,927	7,619
Derivatives	6,623	801	--	--
Other financial liabilities	--	--	13,019	4,362

The following table shows a comparison between the fair values and the carrying values of the financial assets and liabilities measured at cost or amortised cost on the balance sheet date.

TEUR	31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at cost or amortised cost				
Trade receivables	13,434	13,434	16,301	16,301
Loans granted	6,618	6,718	9,873	11,022
Other financial receivables	17,597	17,597	15,734	15,734
Financial liabilities measured at cost or amortised cost				
Loans	5,541	5,541	35,597	35,597
Trade payables	6,927	6,927	7,619	7,618
Other financial liabilities	13,019	13,019	4,362	4,362

The financial assets and liabilities measured at fair value are allocated to the IFRS 7 fair value hierarchy levels as of 31 December 2010 as follows:

Fair value measurement as of 31/12/2010				
EUR '000	Total	Level 1	Level 2	Level 3
Financial assets				
Other investments	--	--	--	--
Securities	1,753	1,753	--	--
Financial liabilities				
Other financial liabilities	6,623	--	--	6,623

The allocations as of 31 December 2009 were as follows:

Fair value measurement as of 31/12/2009				
EUR '000	Total	Level 1	Level 2	Level 3
Financial assets				
Other investments	468	--	468	--
Securities	1,530	1,530	--	--
Financial liabilities				
Other financial liabilities	801	--	801	--

Level 1 fair values result from price quotations on active markets, level 2 fair values are derived from observable parameters for comparable assets and liabilities, and level 3 values are calculated on the basis of company data.

The following net results for the various categories of financial instruments (income +, expenses -) are included in the statement of operations:

EUR '000	2010			2009		
	From subsequent measurement			From derecognition	Net result	Net result
	At fair value	Currency translation	Valuation allowances			
Loans and receivables	-100	-875	1,230	--	255	-15,517
Available-for-sale financial assets	--	--	--	-1,500	-1,500	-6,521
Financial liabilities at fair value through profit or loss	-6,623	--	--	--	-6,623	-1,281
Financial liabilities measured at amortised cost	--	450	12	23,489	-23,951	88
Total	-6,723	-425	1,242	-24,989	-16,083	-23,231

Interest from financial instruments is recognised in net interest income. The other components of the net result are reported under the other financial result. This excludes valuation allowances for trade receivables allocated to the measurement category "loans and receivables", which are recognised under other operating expenses.

Expenses arising from loans and receivables measured at fair value relate solely to the earnings effect from the measurement of current loans.

Currency translation expenses for 2010 in the category "loans and receivables" mainly comprise exchange rate losses from trade receivables converted into US dollars (EUR -378 thousand) and cash and cash equivalents (EUR -453 thousand). These were counteracted by exchange rate gains on receivables from related parties (EUR 43 thousand). EUR 875 thousand of the net result for loans and receivables in 2010 is due to currency translation losses.

The loss from the derecognition of available-for-sale financial assets of EUR 1,500 thousand is solely due to the disposal of investments.

The net result for financial liabilities measured at fair value through profit or loss is due to the call option relating to 50% of the interests held by the HCI Group in HAMMONIA Reederei GmbH & Co. KG.

The net result for financial liabilities measured at amortised cost mainly comprises earnings of EUR 23,489 thousand from the derecognition and rerecognition of loans in relation to the conversion option granted to the lenders, and exchange rate gains of EUR 450 thousand from the measurement of trade payables, liabilities to banks and other financial liabilities.

(ii) Disclosures on derivative financial instruments

On 17 and 20 October 2008, HCI Capital AG took out two non-interest bearing promissory note loans at a nominal amount of EUR 20,000 thousand and a rate of 43.88% and EUR 10,000 thousand and 42.83% respectively. The loans run from 30 June 2009 to 15 December 2025 and from 30 September 2009 to 15 December 2025 respectively. The promissory note loans were taken out in connection with the design of a fund product.

The fund company concluded an agreement with HCI Capital AG in 2008 with respect to the transfer of all risks and rewards from the promissory note loans, with the result that the HCI Group has a corresponding claim against the fund company.

A partial amount of EUR 10,000 thousand from the EUR 20,000 thousand loan was transferred to the fund company in the 2009 financial year. The remaining amount was extended with regard to the value date from 30 June 2009 to 31 March 2010. The promissory note loan had a negative fair value of EUR 801 thousand as of 31 December 2009. The second promissory note loan was cancelled in exchange for an obligation of EUR 480 thousand. The promissory note loan in existence as of 31 December 2009 was cancelled in 2010 in exchange for an obligation of EUR 635 thousand.

In June 2010 an agreement between the HCI Group and the other shareholders of HAMMONIA Reederei GmbH & Co. KG was entered into whereby the other shareholders of HAMMONIA Reederei GmbH & Co. KG can acquire 50% of the interests held by the HCI Group in HAMMONIA Reederei GmbH & Co. KG within a period of four years at an agreed fixed purchase price (shareholders' call option). The number of the shareholders' option rights is based on the interests held by each of them in HAMMONIA Reederei GmbH & Co. KG. The options can be exercised within four years, although some of the options cannot be exercised until 1 January 2012. The strike price is EUR 7.8 million plus the standard market interest rate.

As the fair value of the investment in HAMMONIA Reederei GmbH & Co. KG was higher than the strike price of the option as of the reporting date of 31 December 2010, the option has a negative fair value of EUR 6,623 thousand.

(b) Management of financial risk

The HCI Group introduced centralised interest and currency management in the 2008 financial year. The objective of this centralised interest and currency management is to assume an advisory role for the companies of the HCI Group and its investment companies within the framework of hedging the interest and currency risks described below, and to report to the Management Board of HCI Capital AG concerning its activities.

(i) Market risks**Currency risk**

The HCI Group is exposed to currency risks from exchange rate fluctuations in connection with the design and sale of funds in foreign currencies, and from other foreign currency transactions. The currency risks mentioned arise in particular with respect to the exchange rate between the US dollar and the euro; risks in connection with other currencies are only slight.

The HCI Group's US dollar transactions in 2010 mainly comprised trust management fees in the After Sales Services segment, management fees in the Asset Management segment and an existing loan with the bank Wölbren. The HCI Group is also subject to currency risk from the refinancing of US dollar loans, interim financing loans to shipping companies, and loans to related parties.

Currency risks arise from future exchange rate losses due to any adverse development in the US dollar exchange rate. No hedging transactions have been made to limit these risks since the dates of future cash flows denominated in foreign currencies are not certain.

The sensitivity analyses described below were carried out in order to determine the effects of exchange rate fluctuations deemed possible as of the balance sheet date. The analyses show the effect of a 10% fluctuation in exchange rates on the financial result of the HCI Group, based on the financial assets and liabilities that are exposed to currency risks as of the balance sheet date.

Transactions in GBP and CHF were considered immaterial as of the balance sheet date and therefore were not subject to a sensitivity analysis.

The following table shows the transaction-related USD net exposure to foreign currency risks as of 31 December 2010:

EUR '000	Carrying value	Change in currency position	
		in the event of deprecia- tion of 10%	in the event of apprecia- tion of 10%
Cash and cash equivalents	6,167	5,607	6,853
Trade receivables	1,384	1,258	1,538
Other financial assets	43	39	48
Trade payables	-53	-48	-58
Financial liabilities	-3,784	-3,440	-4,204
Other financial liabilities	--	--	--
Total exposure to currency risks in USD, translated into EUR thousand	3,759	3,417	4,177

The other financial result for the financial year would have been EUR 342 thousand lower (EUR 417 thousand higher) if the exchange rate of the US dollar on the reporting date had increased (decreased) by 10%.

Interest rate risk

Risks from interest rate changes for the HCI Group generally arise in connection with loans granted as well as loans taken out for refinancing purposes. The HCI Group does not have any interest rate hedges, as the risks arising in connection with refinancing with mismatched interest rates and maturities are not considered to be significant.

Based on the financial assets and liabilities as of the balance sheet date, the exposure to interest rate risks is as follows:

An increase of 100 basis points in the interest rate level would result in a EUR 38 thousand increase in interest expenses for a non-current liability of the HCI Group.

Any other financial liabilities are not exposed to material interest rate risks as a result of their short-term maturity. An increase of 100 basis points in the interest rate level would result in a EUR 57 thousand increase in interest income for other non-current financial assets with variable interest rates.

Based on the underlying assumptions, this results in an exposure to risk from changes in interest rates in the amount of EUR 19 thousand (previous year: EUR 274 thousand).

(ii) Credit risk

The HCI Group is exposed to the risk that business partners, mainly real estate and ship funds, may not be able to fulfil their obligations to the Group. These obligations mainly exist in the settlement of receivables from brokerage services as well as from trust management and other services.

The maximum exposure to default risk corresponds to the nominal amounts reported in the various categories of financial assets.

Identifiable default risks, which exist in particular for trade receivables, are accounted for by valuation allowances.

Valuation allowances for trade receivables changed as follows:

EUR '000	2010	2009
Balance as of 1 January	967	363
Additions	1,917	967
Utilisation	--	363
Amounts released	967	--
Balance as of 31 December	1,917	967

Valuation allowances for related parties changed as follows:

EUR '000	2010	2009
Balance as of 1 January	3,305	169
Additions	--	3,305
Utilisation	3,305	169
Amounts released	--	--
Stand am 31. Dezember	--	3,305

Valuation allowances for other financial assets changed as follows:

EUR '000	2010	2009
Balance as of 1 January	6,114	406
Additions	1,620	6,114
Utilisation	3,804	406
Amounts released	500	--
Balance as of 31 December	3,430	6,114

Financial assets which were not impaired as of the balance sheet date – but were overdue – can be broken down as follows:

				Of which not impaired as of the balance sheet date and overdue within the following time bands					
EUR '000	Carrying value	Of which extended as of the balance sheet date	Of which neither impaired nor overdue as of the balance sheet date	Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
Trade receivables									
31 Dec 10	13,434	2,127	7,798	177	61	62	992	310	723
31 Dec 09	16,301	--	9,114	734	532	1,089	1,102	868	14
Loans granted									
31 Dec 10	6,618	--	1,117	122	--	--	--	164	5,174
31 Dec 09	9,873	--	1,303	139	1	--	--	27	19
Other financial receivables									
31 Dec 10	17,597	89	15,951	12	8	--	--	--	1,465
31 Dec 09	15,734	--	14,080	5	--	--	297	76	1

The extended trade receivables primarily relate to trust receivables from fund companies. If the performance of individual fund companies in the current market environment is below the level forecast, HCl in some cases extends the trust management and service fees as part of the restructuring. The extended receivables are estimated with regard to their recoverability and discounted over the expected period of extension.

As of the balance sheet date, there were no indications suggesting a default of the creditors with regard to their payment obligations from trade receivables, loans granted, and other financial receivables that are neither impaired nor overdue.

(iii) Liquidity risk

In order to ensure that the HCl Group has sufficient liquidity, its cash requirements are monitored and managed continuously. The Group either holds sufficient cash and cash equivalents to meet its obligations for a particular period or maintains credit facilities and overdrafts which are drawn on if required.

The following table shows the contractually agreed undiscounted interest and principal payments of non-derivative

financial liabilities as well as of derivative financial instruments with negative fair values:

EUR '000	Carrying value 31/12/ 2010	Cash flows 2011			Cash flows 2012			Cash flows 2013			Cash flows 2014 and later			
		Inter- est	Prin- cipal	Total	Inter- est	Prin- cipal	Total	Inter- est	Prin- cipal	Total	Inter- est	Prin- cipal	Total	
Non-derivative financial liabilities														
Loans	5,337	--	1,553	1,553	--	--	--	--	--	--	-- ¹⁾	3,784	3,784	
Loss assump- tion obligation	8,460	--	--	--	--	--	--	--	327	327	--	12,173	12,173	
Derivative financial liabilities														
Derivatives	6,623	--	6,623	--	--	--	--	--	--	--	--	--	--	
Financial liabilities	11,960	--	8,176	8,176	--	--	--	--	327	327	--	15,957	15,957	

1) As the conditions of the loan with the Wölbern bank have not yet been finalised, no interest payments have been included (cf. Note (2)).

The table includes all instruments held by the Company as of 31 December 2010 and for which payments had already been contractually agreed. Foreign currency amounts were translated at the spot exchange rate prevailing on the balance sheet date. Variable interest payments from the financial instruments were calculated on the basis of the final fixed interest rates before 31 December 2010. Financial liabilities that may be repaid at any time are always allocated to the earliest time band.

The long-term loan is held with the Wölbern bank. The original conditions were cancelled as part of the conversion into a long-term loan and are currently being renegotiated (cf. Note (2)).

Trade payables of EUR 6,927 thousand and other financial liabilities of EUR 11,788 thousand are due in 2011.

(iv) Capital management

The management of capital at the HCI Group is primarily geared towards maintaining an adequate equity base. The Management Board reviews net indebtedness regularly. The following table shows the equity, equity ratio and net financial indebtedness.

	31/12/2010	31/12/2009
Equity in EUR thousand	46,142	33,084
Equity ratio in %	43.4	29.4
Net financial assets (previous year: indebtedness) in EUR thousand	14,681	-10,733

Net financial assets are calculated as the difference between financial liabilities and cash, cash equivalents and securities. Net financial indebtedness fell by EUR 25,414 in 2010 and thus became net financial assets. This was mainly due to the participating banks' conversion of loans as part of the non-cash capital increase in August 2010.

HCI Capital AG is not subject to capital requirements under its articles of association. In particular, the Company does not have any obligations to dispose of or otherwise issue shares in connection with existing share-based payment programmes or convertible bonds. Please refer to Note (15)(a) for disclosures on authorised capital.

(37) Material subsidiaries and joint ventures

As of 31 December 2010, the Company had the following material subsidiaries and joint ventures:

Subsidiaries	Group share	Segment
HCI Hanseatische Capitalberatungsgesellschaft mbH, Hamburg	100%	Design and Sales
HSC Hanseatische Sachwert Concept GmbH, Hamburg	100%	Design and Sales
HSC Hanseatische Management GmbH, Hamburg	100%	Asset Management
HCI Fonds Geschäftsführungsgesellschaft mbH, Hamburg	100%	Asset Management
HPI Hanseatic Properties International GmbH, Bremen	100%	Asset Management
HCI Treuhand GmbH, Bremen	100%	After Sales Services
MK Management GmbH, Hamburg	100%	Asset Management
HCI Hanseatische Schiffsconsult GmbH, Hamburg	100%	Design and Sales
HCI Real Estate Asset Management GmbH, Bremen	100%	After Sales Services
HCI Immobilien Consult GmbH, Hamburg	100%	Design and Sales
Hanseatische Immobilien Management GmbH, Bremen	100%	Asset Management
HCI Hanseatische Capitalberatungsgesellschaft für Beteiligungen GmbH, Hamburg	100%	Design and Sales
HCI Hanseatische Beteiligungstreuhand GmbH, Bremen	100%	After Sales Services
HCI Hanseatic Properties International GmbH, Bremen	100%	Asset Management
HCI Vastgoed Management B.V., Amsterdam	100%	Asset Management
HSC Geschäftsführungsgesellschaft mbH, Oststeinbek	100%	Asset Management
HSC Fonds Verwaltungsgesellschaft mbH, Hamburg	100%	Asset Management
HSC Invest UK Limited, London	100%	Asset Management
HSC Aufbauplan Management GmbH, Hamburg	100%	Asset Management
NAUTICA GmbH & Co. KG, Hamburg	100%	Asset Management
NAUTICA Beteiligungs GmbH, Hamburg	100%	Asset Management
HCI Asset GmbH, Hamburg	100%	Holding/Other
Hanseatische Immobilien Management Niederlande GmbH, Bremen	100%	Asset Management
HCI U.S.A. Management Services Company LLC, Wilmington	100%	Asset Management
HCI Institutional Funds GmbH, Hamburg	100%	Asset Management
Hanseatische Immobilienbeteiligungsgesellschaft mbH, Hamburg	100%	Asset Management
HCI Real Estate Finance I GmbH & Co. KG, Hamburg	100%	Holding/Other
HCI Real Estate Finance I Verwaltungsgesellschaft mbH, Hamburg	100%	Holding/Other
Joint ventures		
6 ordering companies (limited liability partnerships)	50%	Asset Management
Associated companies		
HAMMONIA Reederei GmbH & Co. KG, Hamburg	32%	Asset Management
eFonds Solutions AG (vormals eFonds Holding AG), Hamburg	29.19%	Design and Sales
HCI Teilankaufskonzept GmbH & Co. KG, Hamburg	30.55%	Asset Management

Use is made of the exempting provisions in accordance with Section 264(3) of the German Commercial Code (HGB) for HCI Hanseatische Capitalberatungsgesellschaft mbH, HCI Real Estate Asset Management GmbH, HCI Hanseatische Beteiligungstreuhand GmbH, HCI Immobilien Consult GmbH, HSC Aufbauplan Management GmbH, HSC Fonds Verwaltungsgesellschaft mbH, HCI Hanseatische Schiffsconsult GmbH, HSC Hanseatische Sachwert Concept GmbH, HCI Asset GmbH, NAUTICA GmbH & Co. KG, HCI Real Estate Finance I GmbH & Co. KG and HCI Treuhand GmbH.

The list of shareholdings of HCI Capital AG and of the Group is published in the German Electronic Federal Gazette pursuant to Sections 287 and 313 of the German Commercial Code (HGB).

(38) Related party disclosures and transactions

In accordance with IAS 24, related parties of the HCI Group are persons and entities that control the Group, or have a significant influence over the Group, or are controlled by the Group, or are subject to significant influence by the Group.

Due to the voting rights in HCI Capital AG attributable to MPC Münchmeyer Petersen Capital AG since 30 April 2008, MPC and the companies controlled or significantly influenced by it are defined as related parties.

Mr. Jochen Döhle, Germany, and companies controlled or significantly influenced by him or his family, have also been classified as related parties since 24 April 2008.

HSH Nordbank AG has been classified as a related party since 19 August 2010 due to the voting rights acquired.

In addition, the members of the Management Board and the Supervisory Board of HCI Capital AG and the subsidiaries, associated companies and joint ventures of the HCI Group are regarded as related parties.

In addition to the business relationships with the subsidiaries included in the consolidated financial statements by way of full consolidation, the following business relationships existed with related parties.

(a) Relationships with MPC Münchmeyer Petersen Capital AG

MPC Münchmeyer Petersen Capital AG was commissioned to raise the capital necessary to finance a mobile semi-submersible floating platform. MPC Münchmeyer Petersen Capital AG and the HCI Group set up a joint venture in order to place the necessary equity capital. Upon conclusion of the cooperation agreement, it was agreed that the HCI Group would pay 2.0% of the capital raised by the HCI Group or by its affiliated companies to MPC Münchmeyer Petersen Capital AG as consideration for the opportunity to participate in the project.

HCI Capital AG has issued a placing commitment worth USD 16,950 thousand to MPC Münchmeyer Petersen Capital AG in connection with a fund. Fulfilling this commitment is associated with a number of conditions which are not currently met (see Note (45)).

The two existing principal shareholders, MPC Capital AG and the Döhle Group, have pledged to support the capital increase if certain conditions are met. The parties are liaising closely to ensure that these conditions are fulfilled.

(b) Relationships to Jochen Döhle and companies controlled or significantly influenced by him or his family

There were no significant service relationships. For service relationships with HAMMONIA Reederei GmbH & Co. KG, please refer to (e) below. The Döhle Group owns 47% of the interests covered by the option outlined under (e) below.

(c) Relationships to HSH Nordbank AG

In order to refinance the purchase of an interest in NY Credit Operating Partnership LP, the HCI Group took out a loan for USD 52,500 thousand. On 18 May 2010, the conditions precedent stipulated in both the agreement dated 11 February 2010 – concerning the moratorium and intended release from contingent liabilities – and its supplements came into effect. This meant that the option granted to the HCI Group's financing banks also came into force, entailing the conversion of all their claims arising from loan receivables into equity by issuing up to 6,000,000 shares. On 10 August 2010 it was announced that HSH Nordbank AG would participate in the non-cash capital increase by converting the loan receivables. Please refer to Note (2).

As consideration for the release from contingent liabilities granted by the banks, the HCI Group also pledged to pay compensation of EUR 12,500 thousand to the banks involved as part of the agreement reached on 11 February 2010 concerning the moratorium and intended release from contingent liabilities. Around 45 % of this amount will be paid to HSH Nordbank AG as the main financing bank. This compensation payment becomes payable when the HCI Group meets or exceeds specified earnings and liquidity thresholds. Service charges of EUR 2,625 thousand are payable to the banks for this release from contingent liabilities. This amount has already been recognised as an expense in full under the other operating expenses. The service charges of around 45 % due to HSH Nordbank AG as per the agreement were fully paid in 2010.

On 17 and 20 October 2008, HCI Capital AG took out two non-interest bearing promissory note loans at a nominal amount of EUR 20,000 thousand and EUR 10,000 thousand respectively. The loans run from 30 June 2009 to 15 December 2025 and from 30 September 2009 to 15 December 2025 respectively. The promissory note loans were taken out in connection with the design of a fund product. The fund company concluded an agreement with HCI Capital AG in 2008 with respect to the transfer of all risks and rewards from the promissory note loans, with the result that there was a corresponding claim against the fund company. A partial amount of EUR 10,000 thousand from the EUR 20,000 thousand loan was transferred to the fund company in the 2009 financial year. The remaining amount was extended with regard to the value date from 30 June

2009 to 31 March 2010. The promissory note loan had a negative fair value of EUR 801 thousand as of 31 December 2009. The second promissory note loan was cancelled in 2009 in exchange for an obligation to HSH Nordbank AG of EUR 480 thousand. The promissory note loan in existence as of 31 December 2009 was cancelled in 2010 in exchange for an obligation of EUR 635 thousand. The overall result is that HCI Capital AG holds a liability to HSH Nordbank AG of EUR 1,115 thousand.

HSH Nordbank AG's receivable has been extended without any time limit. The HCI Group has deposited collateral for this receivable in the same amount in an account with HSH Nordbank AG. The account has been pledged at HSH Nordbank AG (see Note (36)(a)(ii)).

There were no other significant service relationships between HSH Nordbank AG and HCI Capital AG.

(d) Relationships to unconsolidated affiliated companies

There were no significant service relationships to the unconsolidated affiliated companies.

(e) Relationships to associated companies and joint ventures

The following business relationships existed in the 2010 and 2009 financial years with companies in which the HCI Group exercises joint control, or has significant influence, together with other partners:

Balance sheet (in EUR '000)

	31/12/2010	31/12/2009
Receivables from associated companies and joint ventures	20	2,714
Liabilities to associated companies and joint ventures	5,332	7,412

Statement of operations (in EUR '000)

	2010	2009
Cost of purchased services	300	1,161
Results of associated companies and joint ventures	7,948	-14,945
Interest income	--	--

In the 2010 financial year there were service relationships with eFonds Solutions AG in connection with the sale of fund products which resulted in EUR 300 thousand in commission expenses for the HCI Group.

In the 2010 financial year there were no other significant trade relationships between associated companies and joint ventures and the HCI Group.

By contract dated 27 August 2009, the HCI Group transferred the contract for the provision of services, controlling and management services with HCI HAMMONIA SHIPPING AG to HAMMONIA Reederei GmbH & Co. KG. At the same time, the HCI Group undertook to provide the services due from HAMMONIA Reederei GmbH & Co. KG to HCI HAMMONIA SHIPPING AG. As consideration for the transfer of this contract, the HCI Group received a purchase price of EUR 6,000 thousand plus statutory sales tax in 2009. The

amounts are gradually recognised through profit or loss as services are provided. A total of EUR 1,300 thousand (previous year: EUR 325 thousand) was earned and recognised in profit and loss in 2010 as a result of this situation.

In June 2010 an agreement between the HCI Group and the other shareholders of HAMMONIA Reederei GmbH & Co. KG was entered into whereby the other shareholders of HAMMONIA Reederei GmbH & Co. KG can acquire 50 % of the interests held by the HCI Group in HAMMONIA Reederei GmbH & Co. KG within a specified period at an agreed fixed purchase price (shareholders' call option). The fair value of the investment in HAMMONIA Reederei GmbH & Co. KG was higher than its carrying value as of the reporting date of 31 December 2010. The result of this is an option with a negative value of EUR 6,623 thousand.

(f) Relationships to related persons

Balance sheet (in EUR '000)

Liabilities to HCI Group executive bodies

31/12/2010

777

31/12/2009

646

Statement of operations (in EUR '000)

Revenues

--

2

Personnel expenses

1,946

1,869

Other operating expenses

322

312

In the 2010 financial year, remuneration of the members of the Management Board was as follows:

EUR '000	Non-performance-related remuneration	Performance-related remuneration	Total
Dr Ralf Friedrichs	884	--	884
Dr Andreas Pres	520	90	610
Dr Oliver Moosmayer	362	90	452
Total	1,766	180	1,946

In the 2009 financial year, remuneration of the members of the Management Board was as follows:

EUR '000	Non-performance-related remuneration	Performance-related remuneration	Total
Dr Ralf Friedrichs	881	--	881
Dr Andreas Pres	611	--	611
Dr Oliver Moosmayer	377	--	377
Total	1,869	--	1,869

Bonuses are based on the HCI Group's IFRS earnings before tax. Only contractually fixed minimum bonuses were payable in the 2010 and 2009 financial years.

Over the past year, total remuneration for the Management Board of HCI Capital AG amounted to EUR 1,946 thousand (previous year: EUR 1,869 thousand).

Non-performance-related remuneration in the 2009 financial year included a sum of EUR 50 thousand paid both to Dr Oliver Moosmayer and to Dr Andreas Pres to build up a private retirement pension in lieu of any pension claims against HCI Capital AG.

In the 2010 financial year, Dr Oliver Moosmayer subscribed to fund shares in the amount of EUR 30 thousand (previous year EUR 15 thousand). This earned the HCI Group

sales commission of EUR 3 thousand (previous year: EUR 1 thousand). In addition, Dr Andreas Pres subscribed to fund shares in the amount of EUR 30 thousand in 2010. This earned the HCI Group sales commission of EUR 3 thousand.

Remuneration of the Supervisory Board amounted to EUR 270 thousand in the 2010 financial year (previous year: EUR 270 thousand). There were also expenses for meeting attendance fees in the amount of EUR 52 thousand (previous year: EUR 42 thousand).

(39) Contingencies and other financial commitments

As of 31 December 2010, the Company had the following contingencies and other financial commitments:

	31/12/2010			31/12/2009		
	EUR '000	EUR '000	USD '000	EUR '000	EUR '000	USD '000
Guarantees and other commitments	30,076	23,026	9,434	1,121,524	314,047	1,158,268
Placement and equity capital guarantees	12,668	--	16,950	496,931	224,220	392,051
of which for funds not yet in distribution	--	--	--	206,419	40,100	239,101
Acquisition commitments	--	--	--	35,719	6,580	44,450
Future payments under operating leases	6,230	6,230	--	5,890	5,890	--

The business model of the HCI Group, which comprises the design, initiation and sale of closed-end funds, is dependent upon securing the availability of the investment assets held in the closed-end funds. This product availability must be secured long-term, and the HCI Group has regularly given large guarantees and acquisition commitments to secure investments or construction phase loans for ships, and placement guarantees for the funds to be raised.

With the passing of 17 August 2010, the contingent creditor banks released the HCI Group from a significant portion of its contingent liabilities previously covered by the moratorium until 30 September 2013. This means that the HCI Group has been released in full from these contingent liabilities, which consist of guarantees, acquisition commitments, placement guarantees and similar commitments (see Note (2)).

The remaining financial guarantees that the HCI Group recognised in exercising its option under IFRS 4 – particularly relating to guarantees and acquisition commitments in the shipping sector and other areas – will not result in any liabilities or expenses. Since the HCI Group received no premium for undertaking these commitments, no assets or earnings were recognised. With respect to the financial guarantees, the HCI Group is exposed to a risk of having to reimburse the financing bank for all or part of the losses arising from the loan granted to the debtor if the debtor defaults. In order to minimise such risks, the HCI Group is conducting negotiations with its contractual partners.

Individual companies in the HCI Group are listed in the Register of Companies (Handelsregister) as limited liability trustees for existing funds on behalf of investors and with the relevant liability contributions of these investors. In line with the intended distribution of liquidity surpluses not covered by profits to investors, a number of funds may be liable in accordance with Sections 171 and 172(IV) of the German Commercial Code (HGB). This means that distributions which lead to a failure to meet the liability contributions might have to be paid back to the relevant fund companies. Any indemnifying compensation claims by the limited liability trustee against investors would have to be dealt with individually. The amount resulting from this situation is estimated at EUR 21 to 40 million. In the case of payment, refund claims could be lodged against investors in the same amount.

In connection with the prospectuses it produces for investment offers, the HCI Group is exposed to an underlying risk of investors lodging claims for damages based on incomplete, incorrect or unclear prospectus details. Evidence of such failings must be produced by the investor. Provisions are set aside when necessary for any such claims which are lodged. The HCI Group has taken appropriate steps to protect itself from and/or reduce the risk posed by such claims.

Instead of issuing placement guarantees, the HCI Group has committed itself to winding up the investment concept for individual closed-end funds in the capital-raising stage if the issuing capital falls short of projections. This means that if the planned issuing capital is not raised, the fund company in question must refund the paid-in contributions plus a premium. However, it would be impossible to reclaim the commission paid to sales partners during the capital-raising stage, so this would have to be borne by the HCI Group. This would be disadvantageous for the HCI Group. In addition to this, the HCI Group has pledged to extend sales commission for individual closed-end funds in the capital-raising stage until this phase has been completed. If the planned issuing capital were not raised, no commission would be payable. The HCI Group would still incur the costs of implementing the concept, winding up the project and in certain cases for loss compensation.

The HCI Group has also provided fund companies that have invested in US life insurance policies with credit lines (or liquidity pledges) totalling EUR 7,366 thousand and USD 4,010 thousand, which run until 30 June 2012. As of 31 December 2010, these lines had not been used. In view of the funds' current performance, the fund companies are unlikely to make use of these liquidity commitments.

The HCI Group issued guarantees for real estate funds it brokered in the amount of EUR 8,900 thousand in the 2008 financial year. Under these guarantees, in the event of a sale of real estate held by the funds and subsequent liquidation of the fund, the purchaser will be compensated for any difference between 90% of the amount invested and the liquidity surplus actually distributed, if lower. On the basis of current performance data reported by the real estate funds, the HCI Group believes that it is unlikely to be called upon to honour these guarantees.

All future payment obligations from rental and lease agreements are for operating leases and are comprised as follows:

EUR '000	Remaining term to maturity of up to one year	Remaining term to maturity of one to five years	Remaining term to maturity of more than five years
31 December 2010	2,070	4,160	--
31 December 2009	1,740	4,150	--

(40) Declaration of compliance with the german corporate governance code

The Management Board and Supervisory Board of HCI Capital AG declare that the Company has complied with and will continue to comply with the recommendations of the Government Commission German Corporate Governance Code in the version dated 26 May 2010 published by the German Ministry of Justice in the official section of the German Electronic Federal Gazette, with a small number of exceptions. The declaration stipulated in accordance with Section 161 of the German Stock Corporation Act (AktG) was made by the Management Board and Supervisory

Board and is permanently available to shareholders on the HCI Capital AG website under www.hci.de.

(41) Mandatory disclosures of transactions in securities or investments pursuant to sections 15a and 21 et seq. of the german securities trading act (WpHG)

HCI Capital AG received further notifications with regard to the mandatory disclosure of investments pursuant to Section 21 WpHG in the 2010 financial year. Current notifications are as follows:

Shareholder	Date	Type of change	New share in voting rights
HSH Nordbank, Hamburg	19/08/2010	Exceeding thresholds of 3%, 5%, 10%, 15%	now 15.51%
Döhle Group, Hamburg	20/08/2010	Undercutting threshold of 20%	now 17.96%
MPC Münchmeyer Petersen Capital AG, Hamburg	16/04/2010	Exceeding thresholds of 20%, 25%, 30%	33.36% (40.8% prior to capital increase)

(42) Supervisory board and management board

Due to resignations, some new members were elected to the Supervisory Board of HCI Capital AG at the Annual General Meeting on 31 August 2009. The Supervisory Board now consists of the following members:

Supervisory Board member	Membership of other statutory supervisory boards	Membership of comparable supervisory committees in Germany and abroad
Dr John Benjamin Schroeder Chairman		<ul style="list-style-type: none"> ▪ Mitaki Project GmbH, Hamburg (Member of the Advisory Board) ▪ CCC Machinery GmbH, Hamburg (Member of the Advisory Board) ▪ Euro Vital Pharma GmbH & Co. KG, Hamburg (Member of the Advisory Board)
Udo Bandow Deputy Chairman Banker, Hamburg	<ul style="list-style-type: none"> ▪ Aramea Asset Management AG, Hamburg (Chairman of the Supervisory Board) ▪ Donner & Reuschel AG, Hamburg and Munich (Deputy Chairman of the Supervisory Board) ▪ HANSAINVEST Hanseatische Investment-Gesellschaft mbH, Hamburg (Honorary Member of the Supervisory Board) ▪ Fondsbörse Deutschland Beteiligungsmakler AG, Hamburg (Honorary Chairman of the Supervisory Board) 	<ul style="list-style-type: none"> ▪ Deutsche Schiffsbank AG, Bremen/Hamburg (Deputy Chairman of the Administrative Board) ▪ VHV Versicherungen, Hanover (Member of the Advisory Board until 1 November 2010) ▪ Hanseatische Wertpapierbörse Hamburg, Hamburg (Honorary President) ▪ Kurt und Karin Barnekow Stiftung, Hamburg (Deputy Chairman of the Management Board) ▪ Friedrich und Louise Homann-Stiftung, Hamburg (Deputy Chairman of the Advisory Board) ▪ Uwe Seeler-Stiftung, Hamburg (Deputy Chairman of the Management Board)
Jochen Thomas Döhle Businessman in the shipping industry, Hamburg	<ul style="list-style-type: none"> ▪ Eurogate Geschäftsführungs-GmbH & Co. KGaA, Hamburg (Member of the Supervisory Board) ▪ Eurokai KGaA, Hamburg (Member of the Supervisory Board) ▪ Splosna Plovba, Portoroz, Slovenia (Member of the Supervisory Board since 21 June 2010) ▪ ICL – Independent Container Lines, Richmond, USA (Member of the Supervisory Board) 	<ul style="list-style-type: none"> ▪ Waltershof-Peute Hafen Betriebs G.m.b.H., Hamburg (Member of the Administrative Board) ▪ Deutsche Schiffsbank AG, Bremen (Administrative Board) ▪ Eckelmann KFWA GmbH & Co. KG, Hamburg (Administrative Board) ▪ J.J. Sietas Schiffswerft GmbH & Co., Hamburg-Cranz (Administrative Board)
Stefan Viering Businessman, Barsbüttel	<ul style="list-style-type: none"> ▪ Nimos Immobilienprojekt AG, Vienna, Austria (Chairman of the Supervisory Board) 	
Karl Gernandt Businessman, Hamburg	<ul style="list-style-type: none"> ▪ KLU, Kühne Logistics University, Hamburg (Chairman of the Supervisory Board) ▪ Holcim (Deutschland) AG, Hamburg (Member of the Supervisory Board) ▪ Hapag Lloyd AG, Hamburg (Member of the Supervisory Board) 	<ul style="list-style-type: none"> ▪ Kühne Holding AG, Schindellegi, Switzerland (Delegate of the Administrative Board) ▪ Kühne + Nagel International AG, Schindellegi, Switzerland (Delegate of the Administrative Board)

Supervisory Board member	Membership of other statutory supervisory boards	Membership of comparable supervisory committees in Germany and abroad
<p>Alexander Stuhlmann Lawyer, Hamburg</p>	<ul style="list-style-type: none"> ▪ alstria office REIT-AG, Hamburg (Chairman of the Supervisory Board) ▪ BW Pensionsfonds des Bankgewerbes AG, Berlin (Member of the Supervisory Board until 25 June 2010) ▪ Capital Stage AG, Hamburg (Deputy Chairman of the Supervisory Board) ▪ Hamburger-Feuerkasse Versicherung AG, Hamburg (Deputy Chairman of the Supervisory Board until 10 May 2010) ▪ LBS Bausparkasse Schleswig-Holstein-Hamburg AG, Hamburg (Member of the Supervisory Board) ▪ EURO-AVIATION Versicherungs-AG, Hamburg (Chairman of the Supervisory Board since 25 June 2010) 	<ul style="list-style-type: none"> ▪ BW Versicherungsverein des Bankgewerbes a.G., Berlin (Member of the Supervisory Board until 25 June 2010) ▪ BW Versorgungskasse des Bankgewerbes e.V., Berlin (Member of the Supervisory Board until 25 June 2010) ▪ Frank Beteiligungsgesellschaft mbH, Hamburg (Chairman of the Advisory Board) ▪ HASPA Finanzholding, Hamburg (Member of the Board of Trustees) ▪ Siedlungsbaugesellschaft Hermann und Paul Frank mbH & Co. KG, Hamburg (Chairman of the Advisory Board) ▪ Studio Hamburg Berlin Brandenburg GmbH, Hamburg (Member of the Advisory Board) ▪ Jahr Holding GmbH & Co. KG, Hamburg (Chairman of the Advisory Board until 15 June 2010) ▪ Ludwig Görtz GmbH, Hamburg (Member of the Administrative Board) ▪ Otto Dörmer GmbH & Co. KG, Hamburg (Chairman of the Advisory Board)

The following were appointed as Management Board members in the financial year:

- Dr Ralf Friedrichs, Diplom-Kaufmann (Master's degree in Business Administration), Stade
- Dr Oliver Moosmayer, Lawyer, Hamburg
- Dr Andreas Pres, Lawyer, Hamburg

Please refer to Note (38) for details on the remuneration of Management Board and Supervisory Board members.

Dr Ralf Friedrichs and Dr Andreas Pres were appointed as members of the Supervisory Board of eFonds Solutions AG in 2010. Dr Oliver Moosmayer is also a member of the Supervisory Board of Fondsbörse Deutschland Beteiligungsmakler AG.

(43) Auditor's fees

The auditor's fees recognised as an expense in the consolidated financial statements amounted to EUR 639 thousand in the 2010 financial year (previous year: EUR 518 thousand) and are comprised of the following items:

Type of service	2010	2009
Audit of financial statements	445	389
Other attestation and valuation services	3	35
Tax advisory services	74	23
Other services	117	71

The fees for the audit of financial statements include expenses of EUR 50 thousand in connection with the audit of the 2009 consolidated financial statements.

(44) Events after the balance sheet date

Companies operating within the Beluga Group filed for insolvency on 16 and 17 March 2011. As a result, HCI cancelled without notice its main contracts with the Beluga Group for ship funds managed by the Beluga Group and transferred management of the relevant ships to HAMMONIA Reederei. In addition, the funds affected have obtained initial financing commitments for shortages. However, it cannot be ruled out that payment extensions or allowances may be necessary for the HCI Group in this regard. HCI is working closely with the new fund managers and the funds' new contractual partners in order to facilitate as smooth a deployment as possible for the ships in question.

As of 17 March 2011, HCI agreed to the cancellation of the only remaining placement guarantee of USD 16.95 million subject to a condition precedent.

Apart from the events outlined here, there were no significant events in the 2011 financial year.

The consolidated financial statements were prepared by the Management Board on 18 March 2011 and submitted to the Supervisory Board for authorisation for issue. The consolidated financial statements will be submitted for approval to the meeting of the Supervisory Board to be held on 23 March 2011.

Hamburg, 18 March 2011

HCI Capital AG

Dr Ralf Friedrichs

Dr Oliver Moosmayer

Dr Andreas Pres

Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the financial performance, cash flows and financial position of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Hamburg, 18 March 2011

HCI Capital AG

Dr Ralf Friedrichs

Dr Oliver Moosmayer

Dr Andreas Pres

Auditor's report

Auditor's report on the financial statements

We have audited the consolidated financial statements prepared by HCI Capital AG, Hamburg, comprising the consolidated statement of operations, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, development of consolidated equity and the notes to the consolidated financial statements, together with the management report of the Company and the Group for the financial year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a(1) of the German Commercial Code (HGB) is the responsibility of the parent company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial performance, cash flows and financial position in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness

of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a(1) of the German Commercial Code (HGB) and give a true and fair view of the financial performance, cash flows and financial position of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the operations and risks of future development.

Hamburg, 23 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Heckert
Wirtschaftsprüfer

Tauchen
Wirtschaftsprüfer

Report of the Supervisory Board

Ladies and Gentlemen,

The HCI Group implemented a complete financial restructuring in 2010 and, in doing so, created a solid basis to achieve long-term success for the Company in an improving market environment. In view of the ongoing difficulties in the market, which were again reflected in the HCI Group's poor placement result in 2010, this represented an important step forwards. As a result of the successful release from contingent liabilities and the conversion of bank liabilities into equity, the executive management has eliminated significant risks caused by the financial and economic crisis, strengthened the Company's capital base in the long term, and achieved a positive consolidated net result for the 2010 financial year. Based on these achievements, the HCI Group now has a capital base that puts the Company in a considerably stronger competitive position. In addition to this, the Management Board has also developed a concept to enhance the HCI Group's strategy and, as a result, has laid the foundations for the continued success of the Company's core business as an issuing house for closed-end funds in the asset classes Ship, Real Estate and Renewable Energy. The Supervisory Board has been closely involved in all of these measures and provides the Management Board with full support in its activities. We are certain that the HCI Group has overcome the main challenges posed by the crisis in order to emerge strengthened for a better future.

The Supervisory Board of HCI Capital AG held a total of seven meetings in 2010. The most important agenda items discussed at these meetings included:

- Passing a resolution to approve the annual financial statements and the consolidated financial statements for 2009
- Discussion of the quarterly reports and the semi-annual report for 2010
- Risk management report
- Corporate planning and strategic direction
- Overcoming the crisis that threatened the ongoing viability of HCI Capital AG
- Passing a resolution on the capital increase of 5,354,116 shares by a contribution in-kind

The Supervisory Board carried out an intensive and comprehensive investigation of the causes and possible solutions for the crisis that the Company was facing. As far as is permitted by law, Supervisory Board members supported the Management Board in its discussions with the banks. The Supervisory Board was kept informed by the Management Board about the various stages of negotiation outside the regular meetings of the Supervisory Board.

All Supervisory Board members participated in the significant meetings, especially those dealing with the crisis that threatened the existence of the Company. A total of 23 resolutions were passed outside of meetings.

The Supervisory Board has reviewed and examined the report on relations with affiliated companies prepared pursuant to Section 312 of the German Stock Corporation Act (AktG) (dependency report) by the Management Board and audited by the auditors. The auditor confirmed that the factual details of the report are correct and the expenses of the Company were not unreasonably high with respect to the legal transactions detailed in the report. The Supervisory Board has no objections to the declaration given by the Management Board in the dependency report.

The Management Board of HCI Capital AG provided the Supervisory Board with prompt and regular information about the material issues of corporate management and ensured that the Supervisory Board was provided with regular reports about events of fundamental importance. There was regular exchange of information between the Chairman of the Management Board and Chairman of the Supervisory Board outside of the regular Supervisory Board meetings. The relationship between the Management Board and Supervisory Board is transparent, which allows the Supervisory Board to carry out effective monitoring and advisory functions. The Supervisory Board also maintained contact with the principal shareholders of HCI Capital AG.

The Supervisory Board complies with the provisions of the German Corporate Governance Code to a large extent. The declaration of compliance required in accordance with

Section 161 of the German Stock Corporation Act (AktG) was issued by the Supervisory Board and Management Board on 24 January 2011. For further details, please see the declaration on corporate governance.

At the Annual General Meeting on 30 August 2010, KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, was appointed as auditor of the annual financial statements and consolidated financial statements for the financial year from 1 January 2010 to 31 December 2010. Where so instructed, this also includes an auditor's review of interim financial reports prepared prior to the Annual General Meeting in 2011.

KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified auditor's opinion on the annual financial statements of HCI Capital AG to 31 December 2010 and the management report. The auditor's report on the annual financial statements also confirmed that the Management Board had carried out all necessary measures to identify risk at an early stage in accordance with Section 91(2) of the German Stock Corporation Act (AktG). The consolidated financial statements, which are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and also take account of the regulations under Section 315a(1) of the German Commercial Code (HGB), also included a group management report. The auditor also issued an unqualified auditor's opinion on consolidated financial statements and Group management report.

The audit committee of the Supervisory Board closely reviewed and examined the audit reports (HCI Capital AG, HCI Group) prepared by the auditor. The Chairman of the Supervisory Board also talked directly with the auditors. At two meetings of the audit committee key issues regarding the financial statements were discussed (on 13 January 2011) and the financial statements were discussed in detail with the auditors (on 21 February 2011). The full Supervisory Board was informed in detail of the findings at its next meeting on 23 March 2011. All audit reports and documentation were made available to Supervisory Board members in good time. After examining the auditor's results, the Supervisory Board expressly approved the audit report on 24 March 2011. The consolidated financial statements, the annual financial statements and the management report of HCI Capital AG and the Group prepared by the Management Board were approved by the Supervisory Board. The annual financial statements were formally adopted.

The Supervisory Board of HCI Capital AG would like to thank the Management Board for its trusting cooperation. It also wishes to thank all employees for their high level of commitment during the 2010 financial year.

Hamburg, 24 March 2011

Dr John Benjamin Schroeder,
Chairman of the Supervisory Board

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