SEA CHANGE

HCI Capital AG

Annual Report 2011

SEA CHANGE

From the banks' real estate credit crisis to the global financial crisis and the public financing crisis in industrialised European countries and the USA – we have entered the fifth year of a turbulent up-and-down on the financial markets that has also had a deep impact on the closed-end fund sector. This volatility has led to a high level of uncertainty among investors, who are looking for safe havens or holding on to their cash. The entire banking sector is undergoing sweeping consolidation following huge financial losses and new regulatory requirements. As a result, there has been a lasting change to the parameters for (pre)financing fund investments. The shipping industry – the HCI Group's core business area – is also in the process of restructuring. Ship markets at present are characterised by stiff price competition between liner shipping companies, while we are seeing insolvencies among ship operators as well as new cooperation agreements and mergers between shipowners.

At the same time, a new regulatory framework for alternative investments is taking shape, in that the German government must implement the EU directive on regulating Alternative Investment Fund Managers (AIFM) by the middle of 2013. The regulatory requirements for professional, sustainable and transparent closed-end fund management will become more stringent as a result, and consolidation, which is already starting to occur in the sector, will increase further.

We are witnessing the start of a fundamental, long-term shift that marks a sea change in the industry – a shift that will change the face of the closed-end fund definitively.

This change represents both a challenge and a major opportunity for the sector. Simply put, it is about restoring the reputation of, and confidence in, investments in tangible assets through closed-end funds, and sustainably strengthening them for the future. Initiators of closed-end funds will have to become more active than in the past as managers of the investments they make. New investment concepts, new return models and investor groups – these are also key elements in the future development of the industry. Experience, management expertise and financial strength will be the decisive success factors here.

The HCI Group can draw on its experience of more than 25 years in the market, over 500 funds launched with approximately EUR 6 billion of investor capital, more than EUR 15 billion in investment volume and around 200 fund investments already completed. The HCI Group has also demonstrated its management expertise time and again, in particular during the current crisis. Thanks to a wide-reaching restructuring programme, which the HCI Group successfully completed in 2011, the Company has the necessary financial strength to adapt its business flexibly to the changed conditions. HCI is therefore well equipped to benefit from the opportunities provided by the changes in the sector.

KEY FINANCIAL INDICATORS

Result	Unit	2011	2010 (restated)	Change in %
Revenues	EUR mn	33.0	36.8	-10.3
Total operating revenue	EUR mn	39.8	40.4	-1.5
Earnings before interest and taxes (EBIT)	EUR mn	-9.7	-1.4	--
Earnings before taxes (EBT)	EUR mn	-14.0	4.4	--
Consolidated net result for the year	EUR mn	-15.1	5.0	--

Balance sheet	Unit	31.12.2011	31.12.2010	Change in %
Total assets	EUR mn	97.7	106.2	-8.0
Equity	EUR mn	41.8	46.1	-9.3
Equity ratio	%	42.8	43.4	-0.6 %-Punkte

Employees	Unit	31.12.2011	31.12.2010	Change in %
Average number of full-time equivalents	FTE	239	249	-4.0
Personnel expenses	EUR mn	21.3	20.5	3.9
Personnel expense ratio	%	64.5	55.7	+8.8 %-Pts

Share	Unit	2011	2010	Change in EUR
Earnings per share (basic)	EUR	-0.45	0.19	-0.64
Earnings per share (diluted)	EUR	-0.45	0.19	-0.64

Group-specific measures	Unit	2011	2010	Change in %
Placed equity capital an equity capital investments[1)]	EUR mn	104.6	127.2	-17.8
Customers	Number	123,700	123,300	0.3
New issues	Number	5	8	-37,5
Investment volume (aggregate)	EUR mn	15,122	14,977	1.0
Administered trust assets	EUR mn	4,866	4,889	-0.5
Trust fees	EUR mn	19.7	19.9	-1.0

1) Thereof 18.0 million EUR re-investments respectively capital increases in existing funds in 2011, 47.2 million EUR re-investments respectively capital increases in existing funds in 2010.

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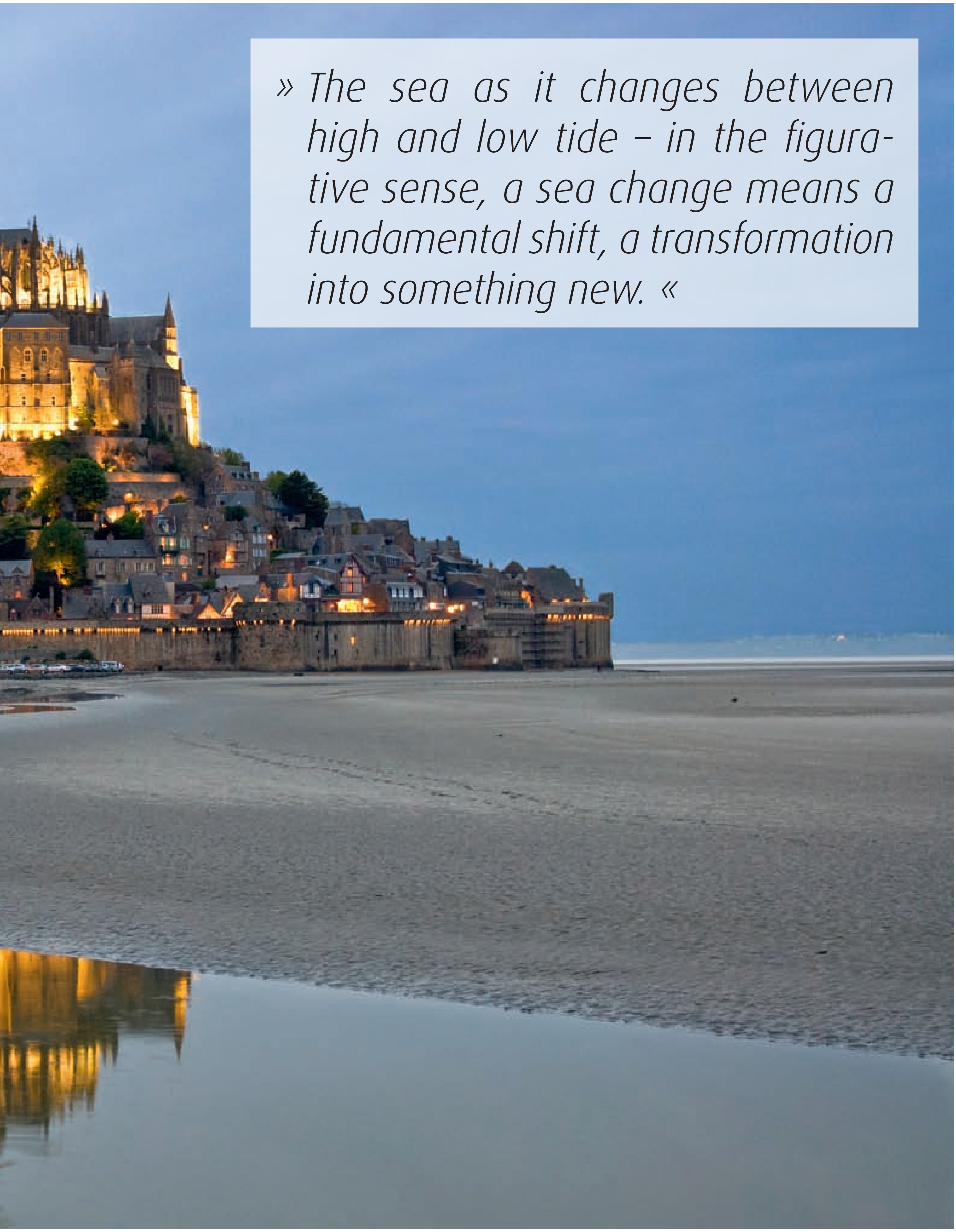
» The sea as it changes between high and low tide – in the figurative sense, a sea change means a fundamental shift, a transformation into something new. «



WELCOME LETTER

Dear shareholders and business friends of HCI Capital AG,

2011 was a turbulent financial year. It began with further signs of positive developments on the markets again. The global economy had made a strong turnaround in 2010 to return to growth and the container shipping markets picked up once more. As such, the indications of a recovery on the market for closed-end funds, and – more importantly for us – the closed-end ship fund segment, were good.

However, this changed in the course of the year. The public financing crises in Europe and the USA in particular have been keeping the financial markets guessing since mid-2011 and are having a considerable negative impact on the performance of the real economy as well. In the light of all this, investors have become even more uncertain and cautious regarding long-term investments. Many investors are holding on to their cash or seeking out "safe" options, such as gold or the Swiss franc.

Accordingly, market developments in our industry were subdued in the past year. Figures recorded by the industry association Verband Geschlossene Fonds (VGF) for 2011 show that equity capital invested in closed-end funds came to around EUR 5.9 billion and thus remains at a low level (2011: EUR 5.85 billion; 2010: EUR 5.84 billion). This sideways trend is primarily due to the fact that a small number of large placements by institutional investors more than compensated for the drop in new business with private investors. In the retail business, by contrast, the placement volume in 2011 with regard to new business decreased further from around EUR 4.9 billion in the previous year to approximately EUR 4.7 billion. When measured against previous industry figures, which in some cases exceeded EUR 10 billion, it can be seen that the market volume has more than halved. Given the ongoing volatility on the market, a sustainable recovery is not expected in 2012 either.

For this reason, we took a number of important steps in 2011 to make the HCI Group stable even in an increasingly difficult market environment. These included focusing on placeable products, aligning our portfolio to the general reduction in placement speeds and thereby limiting our placement risk. We also implemented a capital increase in the second quarter of 2011, totalling around EUR 11 million, which enabled us to significantly strengthen the Group's financial base once more and therefore successfully complete the overall financial reorganisation of the HCI Group. Finally, we reacted to the changing market conditions and began to implement comprehensive cost-cutting measures in 2011. This involves a reduction in the workforce (including cutting vacant positions) from 260 (as of 30 June 2011) to 218 and will enable us to generate a positive operating result despite lower revenues in a persistently weak market environment.

The HCI Group's figures for 2011 are an overall reflection of the difficult market situation. Nevertheless, we managed to record successes in new business. Contrary to the downward sector trend, the HCI Group increased its placement result in retail business compared with the previous year (EUR 80.0 million) to around EUR 86.6 million. In addition to equity capital investments of approximately EUR 58.0 million in new ship funds, a significant rise in the placement result for real estate from EUR 1.5 million in 2010 to EUR 28.6 million in 2011 contributed greatly to this development. However, the growth in new business is not yet fully reflected in the statement of operations as of 31 December 2011. This is because we will only be able to recognise the revenues earned from the placement of the real estate fund HCI Berlin Airport Center totalling EUR 4.1 million in the consolidated financial statements for 2012, as the fund was not closed until January 2012. For this reason, revenues for 2011 showed a year-on-year drop of around EUR 3.8 million to approximately EUR 33.0 million, despite the increased placement result. However, in the third and fourth quarters of 2011 in particular we had to make significant write-downs on receivables and investments that were unavoidable in the difficult prevailing market situation. Although these write-downs do not have a direct effect on the HCI Group's liquidity, they impact on the consolidated net result, which was negative after tax, at EUR 15.1 million as of 31 December 2011. In contrast, even without the earnings from the placement of HCI Berlin Airport Center, the operating result before non-recurring effects for 2011 almost reached break-even. The HCI Group's sound financial footing remains unchanged. The Group's equity totalled EUR 41.8 million as of 31 December 2011, while the equity ratio stood at 42.8 % and cash holdings came to around EUR 21.0 million. For 2012, we aim to reduce costs by approximately EUR 10 million on the previous year as a result of the measures already introduced in 2011.

So what is the next step? In 2012 at least, our business will continue to be shaped by difficult market conditions. This affects the management of existing funds in particular, and especially ship investments. In view of the current oversupply of tonnage and stiff competition among liner shipping companies, we must assume that a lasting recovery in the ship markets will not yet take hold in 2012. In recent years, we have realigned the HCI Group to the changed market conditions in the areas of trust management, fund management and investor communications, and we will continue making every effort to guide our clients' investments through this difficult market phase with the greatest possible success.

With regard to new business in closed-end funds, a recovery of the market is not expected either, in light of the difficulties with existing funds. We have responded to this market scenario with our cost-savings programme for 2012. This year, we intend to launch new products on a very selective basis. We will bring them to market with selected sales partners and they will be tailored to the specific needs of investors.

At the same time, we are witnessing a fundamental shift in our industry – a sea change. This is the main theme of our 2011 Annual Report. The shipping industry – the core area of the HCI Group's business model – is in the process of restructuring, following more than three years in troubled waters. The banking sector is undergoing sweeping consolidation and will not be available in the foreseeable future as a source of financing for tangible assets to the same extent as in the past. On the investor side, we are already seeing today that the market for broad retail business is becoming narrower, but at the same time that professional and institutional investors are increasingly on the search for attractive investments in tangible assets. There are emerging signs of a market shift here, which will gain even more momentum as a result of the upcoming regulations for the closed-end fund sector.

With the implementation of the EU Directive on Alternative Investment Fund Managers (AIFM), there will be a completely new regulatory framework from the middle of 2013, focusing on increased professionalism in fund management and more transparency in alternative investments, including closed-end funds. The new rules of play will be stringent. It is likely that only the larger, experienced initiators of closed-end funds will have the economic capacity to meet the requirements. We therefore expect further consolidation in our industry as a result of these regulations. We intend to play an active role in this process. With a history of more than 25 years in the design, sale, management and trust management of closed-end funds, the HCI Group has the necessary experience and expertise. Thanks to our current level of capital resources, we also believe we can fulfil the expected capital requirements. Finally, as a listed company, we already have risk management structures in place and transparency in our corporate image, which will make it easier for us to implement the new regulatory requirements. It will still be necessary for us to make adjustments and we intend to start tackling these systematically now. Nevertheless, achieving this objective will no doubt be much easier for an investment house like HCI than for many of our competitors.

The imminent restructuring of the industry provides us with a great opportunity to restore and sustainably strengthen the reputation of, and confidence in, closed-end funds. We are all the more certain that closed-end funds and their investments in tangible assets have a future. With new product structures, new return models and a stronger regulatory anchor, we want to create the necessary conditions to make investments in tangible assets attractive for our existing investors as well as for new investor groups, especially professional and institutional investors. This is where the medium and long-term growth potential for our business lies and we want to gradually develop it over the coming years.

Dear shareholders and business friends of HCI Capital AG, 2011 was a year in which our Company was tested once again. Thanks to your support and the immense dedication of all of our employees, we passed this test. We have challenges ahead of us, but, more importantly, opportunities too. The HCI Group has the management expertise and the financial flexibility to take advantage of these opportunities. We will do this with our full commitment and we hope that you will accompany us on our journey.

Best wishes,

Hamburg, March 2012

Dr Ralf Friedrichs
(Chairman of the Management Board)

Management board of HCI Capital AG

Dr Ralf Friedrichs – Chairman 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

Dr Oliver Moosmayer – Member of the Management Board

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

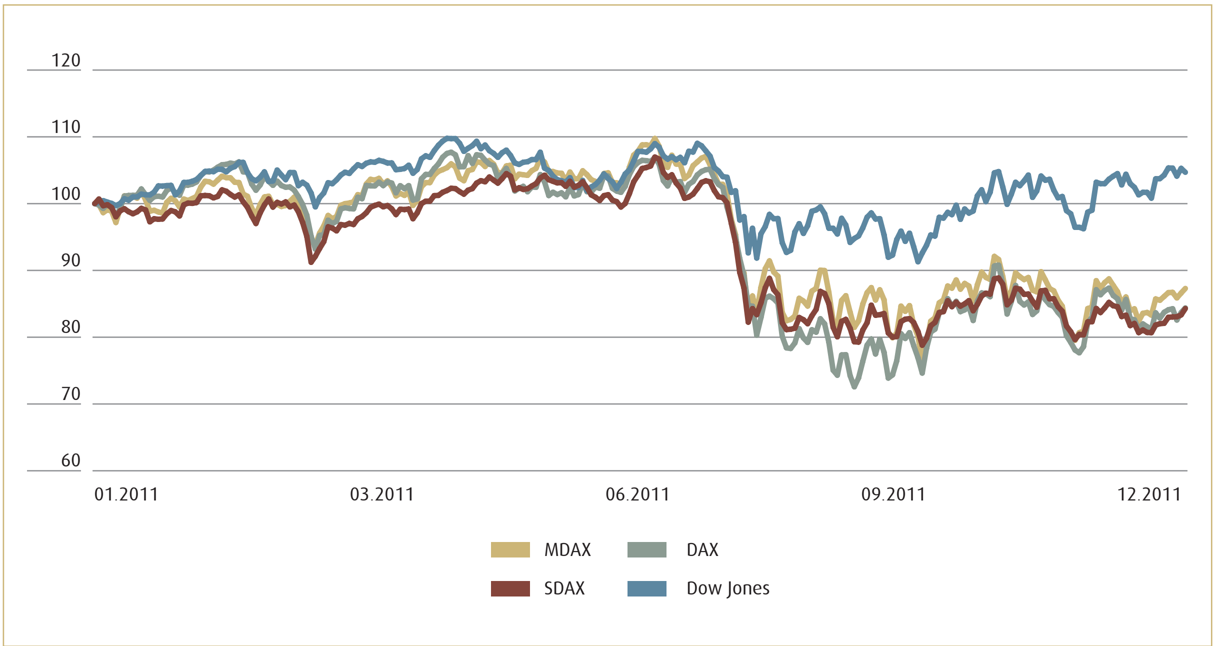
THE HCI SHARE AND INVESTOR RELATIONS

Stock markets experience highs and lows

2011 was a turbulent year for shares, with considerable fluctuations on the stock markets and a number of negative events occurring. The disasters in Japan and in particular the culmination of the debt crises in the USA and Europe led to huge upheavals at times. The markets were extremely volatile in the second half of the year especially. The Dow Jones Index fell sharply to 11,613 points as a result of the events in Japan, before recovering to reach an annual high of 12,811 points at the end of April. From August onwards, the performance dropped quickly and reached an annual low of 10,655 points in early October. By the end of the year, the index had climbed back up to 12,218 points – in part thanks to positive news about the job market and economic growth in the USA – resulting in an overall increase of around 5.5 % for the full year. The performance of the DAX stock market index was much the same in the first half of the year. In March, it fell to 6,514 points, followed by a very sharp rise to reach an annual high of 7,528 points in May. However, the sovereign debt crisis in August had a far greater impact on Germany's leading share index. The DAX dropped to an annual low of 5,072 points in September and, following extreme volatility in autumn, closed the year at 5,898 points, down 14.7 % on the previous year. Small and medium-sized enterprises also had to contend with substantial price losses. Compared with the previous year, the MDAX and SDAX indices decreased by 12.2 % and 14.5 % respectively.

Since the start of 2012, stock market sentiment has become more optimistic again. In the first two months alone, the DAX rose by around 1,000 points to approximately 6,860 points. The Dow Jones stood at around 12,980 points at the end of February. The prospect of a solution to the public financing crises in Europe, continuing low interest rates and positive mood indicators for the economy have all boosted the markets again.

Performance of Dow Jones Index, DAX, MDAX and SDAX in the course of 2011



Values indexed; source: finanzen.net, 2012.

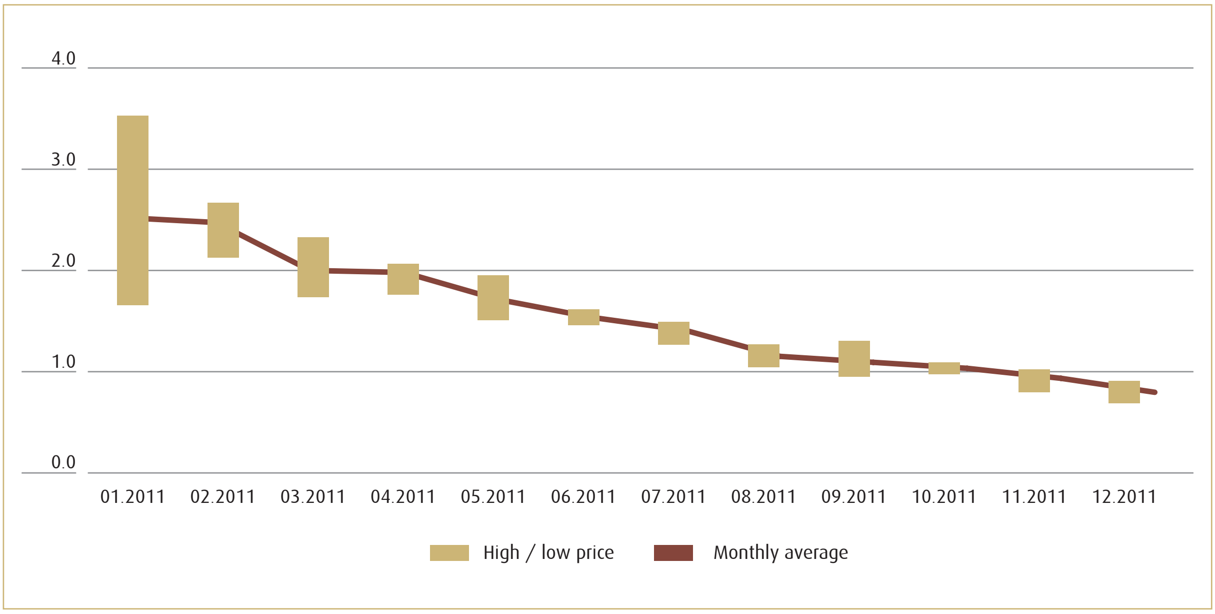
Performance of the HCI share in an unsettled market environment

The HCI share price was extremely volatile, in particular at the start of 2011. After closing 2010 at EUR 1.85 (XETRA), it increased for a short time in January alongside the share prices of HCI's publicly listed competitors as a result of unusually high turnover and peaked at EUR 3.53, whereby this performance was not motivated by any new announcements about the HCI Group. Since then, daily turnover on the stock exchange has returned to its original level. At the year's mid-point, the share cost EUR 1.50 – the same as the new stocks issued by HCI Capital AG as part of the cash capital increase in May 2011. In the second half of 2011, the price of issuing houses' shares also fell sharply as a result of growing uncertainty on the financial markets and substantial price downturns on the stock markets. With expectations of negative results for the HCI Group emerging in autumn, the HCI share price recorded a steep decline and ended the year at EUR 0.71. The average number of shares traded daily was approximately 23,700 in the period under review, with an average daily turnover of around EUR 49,300.

Performance of HCI share (Xetra) in the course of 2011 in EUR

Source: finanzen.net, 2012.

High, low and average share prices (Xetra) from 01.01.–31.12.2011 in EUR



Source: Stock Reports Deutsche Börse.

Capital increase successfully completes financial reorganisation of the HCI Group – high level of participation by private shareholders

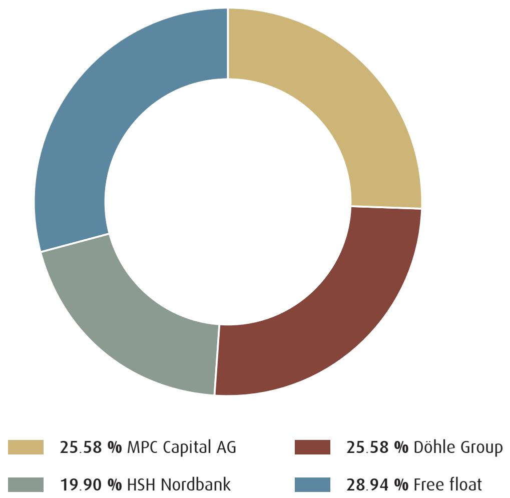
A key milestone in the past year was the capital increase in May 2011, which enabled the HCI Group to complete its programme for the financial reorganisation of the Company. Back in August 2010, the HCI Group had implemented a significant release from contingent liabilities of around EUR 1.6 billion and a conversion of bank debts amounting to EUR 31.5 million into equity. These measures enabled the HCI Group to considerably reduce its financial risks and substantially strengthen the Company's capital and liquidity base.

The completion of the capital increase in May 2011 means that the key data for the HCI share has changed too. HCI Capital AG increased its subscribed capital from EUR 29,354,116 to EUR 36,692,645 through existing authorised capital by issuing 7,338,529 new shares in exchange for cash contributions. The capital increase was entered in the Register of Companies (Handelsregister) on 16 May 2011 and the new shares were offered to HCI Capital AG's existing shareholders in a subscription period lasting from 16 May 2011 to 30 May 2011 at a ratio of four to one and a subscription price of EUR 1.50. Shareholders also had the option of applying for an additional subscription.

The overall gross proceeds from the capital increase came to the targeted amount of around EUR 11 million. Among the principal shareholders, MPC Capital AG and the Döhle Group had committed themselves to taking part in the capital increase and covering the total targeted amount if the remaining shareholders did not exercise their subscription rights. Furthermore, the three principal shareholders – MPC Capital AG, the Döhle Group and HSH Nordbank AG – had agreed to redistribute their shares among themselves. MPC Capital AG and the Döhle Group entered into an agreement to pool their voting rights in this regard.

An encouragingly high 40 % of the free float shareholders took part in the capital increase by exercising their subscription and additional subscription rights. Taking the redistribution of shares among the three major shareholders into account, the new shareholder structure is as follows: MPC Capital AG and the Döhle Group each hold 25.58 %. Based on the pooling agreement named, this corresponds to a combined stake of 51.16 %. HSH Nordbank AG's interest in the Company amounts to 19.90 %, while free float shareholders account for 28.94 %.

Shareholder structure of HCI Capital AG as of 31.12.2011



Continuity, reliability and transparency in communication

The aim of our investor relations activities is to maintain an ongoing, reliable and open exchange of information with capital market participants. We fulfilled this objective during the turbulent times of the past three years as well, by continuing to provide the same information as always in our financial communication. We will continue along this path of open and transparent communication with the capital markets 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 interaction with financial analysts and investors. 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 for analysts.

Key data for HCI share

Share category	No-par-value bearer shares
Number of shares admissible for trading on the stock exchange	34,192,645
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	HXCIGn.DE
Bloomberg	HXCI:GR
Common code	022854488
Number of shares not admissible for trading on the stock exchange[1)]	2,500,000
ISIN	DE000A1EWVW2
WKN	A1E WVW

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

Key indicators for HCI share

	2011	2010
Total number of shares as of 31.12 .	36,692,645	29,354,116
Subscribed capital as of 31.12 in EUR	36,692,645	29,354,116
Year-end closing price in EUR (Xetra)	0.71	1.85
High in EUR (Xetra)	3.53	1.95
Low in EUR (Xetra)	0.70	1.22
Market capitalisation as of 31.12 in EUR million	26.1	54.3
Earnings per share (basic)	-0.45	0.19
Earnings per share (diluted)	-0.45	0.19
Dividend per share	---	---

Financial calendar

26 March 2012	Publication of Annual Report 2011
14 May 2012	Publication of Three-Month Report 2012
24 May 2012	Annual General Meeting
14 August 2012	Publication of Semi-Annual Report 2012
14 November 2012	Publication of Nine-Month Report 2012

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» The changing sea, the up and down of the waves, wind and currents shape the maritime world. The shipping markets also follow the wave motion of the global economy. Since 1985, HCI has initiated investments in well over 500 ships and already brought them to a successful conclusion for 200 ships – always with the aim of using market cycles as an opportunity for our investors. «

CONSOLIDATED STATEMENT OF OPERATIONS OF HCI CAPITAL AG AND THE GROUP FOR THE 2011 FINANCIAL YEAR

A. Business and economic environment

I. Business activities

Diversified product portfolio
Founded in 1985, the HCI Group is one of the leading initiators and providers of closed-end funds in Germany. The HCI Group's traditional product portfolio comprised 521 investment products as of 31 December 2011 with cumulative investor capital of around EUR 6.1 billion in the product segments 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 434 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. This also includes 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 concentrate the HCI Group's investment products in future on the asset classes Ship, Real Estate and Renewable Energy. In view of the continuing weak demand for closed-end funds and the low availability of attractive asset investments, the HCI Group focused its range of new funds in the 2011 financial year on ship funds and two real estate funds. One of management's key objectives here was to guarantee the placeability of the funds on offer in the current weak market environment, thereby minimising the placement risk for the HCI Group.

Broad range of services
The HCI Group's business model is based on extensive coverage of the entire value-added chain. This comprises the acquisition and commitment of investment assets, the design of closed-end funds and guarantee products, the multi-channel marketing of these, and active asset management and trust management in the area of 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 sustainable value-added contributions for both investors in the HCI Group's fund products and the shareholders of HCI Capital AG.

The search for, and identification of, suitable investment properties is carried out by our **design** teams 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, while target funds for private equity funds of funds have been chosen in the past with the assistance of Golding Capital Partners.

Before inclusion in a project, the marketability of each product is reviewed in a selection process supported by the most important functions (Sales, Design, Management and the Management Board). A highly qualified design team, consulted 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 development 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 multi-channel strategy with different groups of closed-end funds brokers. 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 HCI Group generates design income and sales commission through the services offered by its areas **Sales and Design**. They have a significant influence on the HCI Group's revenues and gross profit. However, because of the current weakness of the market environment and the limited placeability of funds, the percentage of revenues and earnings generated by these areas has fallen sharply in recent years.

After Sales Services comprise the trust management of equity capital placed as well as other services for currently about 123,700 investors and 317 active 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 the HCI Group 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 HCI funds in the areas of Ship, Real Estate and Secondary Life Insurance Market. For ship funds launched by the HCI Group, asset management (the operation and disposal of an investment asset) is undertaken by the executive shipowner as a rule. In relation to the currently active funds these are around 60 different shipowners. Ship funds 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. In the past, the pre-financing of these assets by banks until all equity capital is raised from investors was 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 pool of ships ("ship pipeline") built up in previous years for the purpose of placing fund investments in this area. It has achieved this by brokering ship sales. Due to the financial and economic crisis, this ship 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 have, however, clearly decreased and will increasingly be replaced by 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 comparatively 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 ship pipeline released from liability, without necessitating pre-financing obligations on the part of the HCI Group. Finally, the HCI Group considerably strengthened its equity base by converting debt into equity in August 2010 and by a capital increase for cash in May 2011. 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) allowed the HCI Group to attract new target groups amongst private individual investors in the past. 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. Due to the collapse of the capital markets and the difficult situation on the ship markets since 2008, the HCI Group has still not launched any further products for this target customer segment on the market. 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

Following the declines in revenues since 2009, one of the HCI Group's most important goals is to return to growth in new business, thereby guaranteeing increased regular income for the long term from trust management and from asset management, the Company's earnings mainstay. Given the continuing weakness of the market for closed-end funds, it is likely that this objective will only be achieved over the coming years. In the light of this, the HCI Group will attempt to make substantial cost savings in 2012 totalling around EUR 10 million. This will enable it to generate a positive operating result despite lower revenues from new business in a persistently weak market environment. With comprehensive regulations in the closed-end fund sector on the way as part of the EU's Alternative Investment Fund Managers (AIFM) Directive, which will be incorporated into national law from mid-2013, wide-reaching consolidation is expected within the industry. As one of the leading initiators of closed-end funds products, the HCI Group can benefit greatly from this.

The Companies annual targets are based on the planned equity capital placed in the individual product segments. This is an important factor in the success of the HCI Group next to gross profit and future regular income from trust management and from asset management activities. Another key figure for management is earnings before interest and taxes (EBIT) in accordance with the International Financial Reporting Standards (IFRS). Our product design, 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, the HCI Group has organised its segment reporting, so that the operating segments Sales and Design, After Sales Services (trust business) and Asset Management disclose EBIT separately.

Maintaining a good credit rating for the HCI Group is another key aim of business and financial policy. In this respect, a solid equity base and liquidity level are essential management goals. The enormous impact of the 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 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 included a complete release from all significant contingent liabilities owed to banks, the conversion of the HCI Group's bank liabilities into equity and a capital increase of around EUR 11 million, which was used to complete the restructuring in May 2011 (cf. section A.II. on the restructuring of the HCI Group). As a result, the HCI Group substantially reduced its guarantees and placement guarantees from around EUR 1.7 billion as of 31 December 2009 to approximately EUR 42.7 million as of 31 December 2010 and about EUR 45.7 million as of 31 December 2011. The Group equity ratio rose from 29.4 % (31 December 2009) to 43.4 % as of 31 December 2010 and to 42.8 % as of 31 December 2011. Cash and cash equivalents amounted to EUR 21.0 million at the end of 2011.

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 Sales and Design, After Sales Services and Asset Management.

Please refer to the notes to the consolidated financial statements of HCI Capital AG for the 2011 financial year for information on the main subsidiaries and their locations.

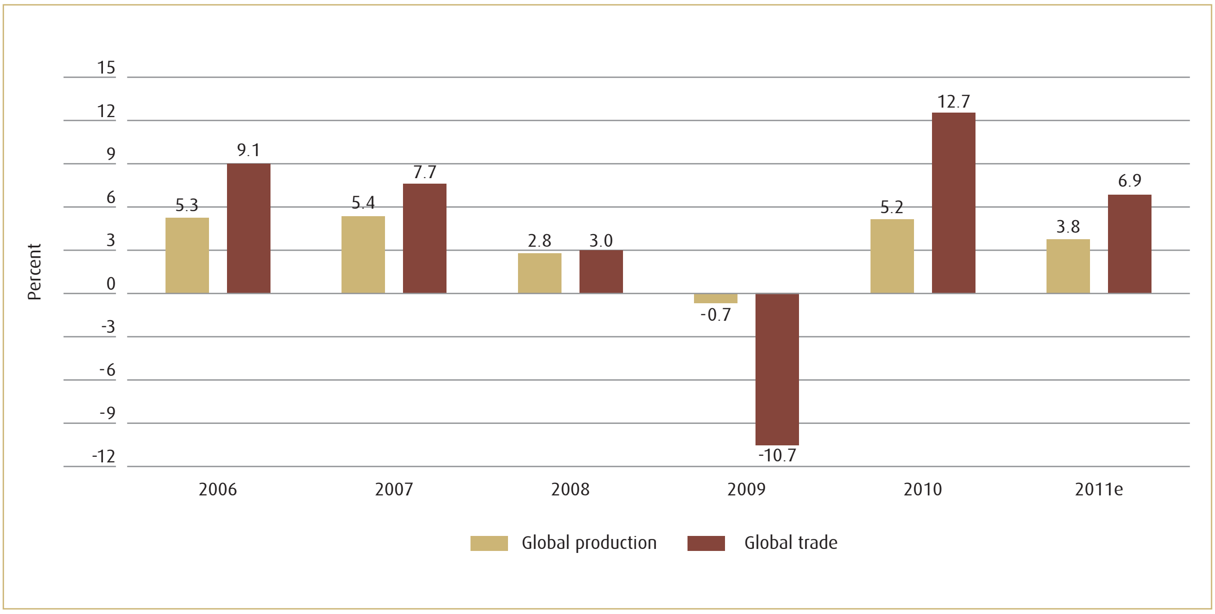
II. Course of business

Slowdown in world economy

Global economic growth slackened in the course of 2011. While leading economic institutes predicted very healthy growth rates of up to 4.4 % for the full year at the start of 2011, the global economy's momentum began to weaken in spring as a result of several occurrences. The earthquake in Japan and its consequences had a negative impact, particularly on the country's own economy, but also for a short time on global trade. At the same time, the political upheaval in many Arab countries pushed up the price of oil to an annual high of around USD 127, with correspondingly negative effects on worldwide production and energy costs. Finally, the public financing crises in Europe and the USA have also been having a growing impact on the global economy since the middle of the year.

Once again, 2011 was a year of two different paces overall. As in recent years, economic growth was primarily driven by Asia's emerging market countries. China and India continue to occupy a leading position, with respective growth rates of 9.2 % and 7.4 % anticipated for 2011 as a whole. In the industrialised countries, the severe public financing crises in particular had a negative effect on economic performance. Despite the difficulties, the global economy is expected overall to record a respectable growth rate of between 3.5 % and 4.1 % for 2011. This means that world economic growth has lost momentum compared with the previous year's very strong performance. While this was expected, it happened to a greater extent than forecast at the start of 2011.

Percentage change in global production and global trade p. a. 2006–2011e

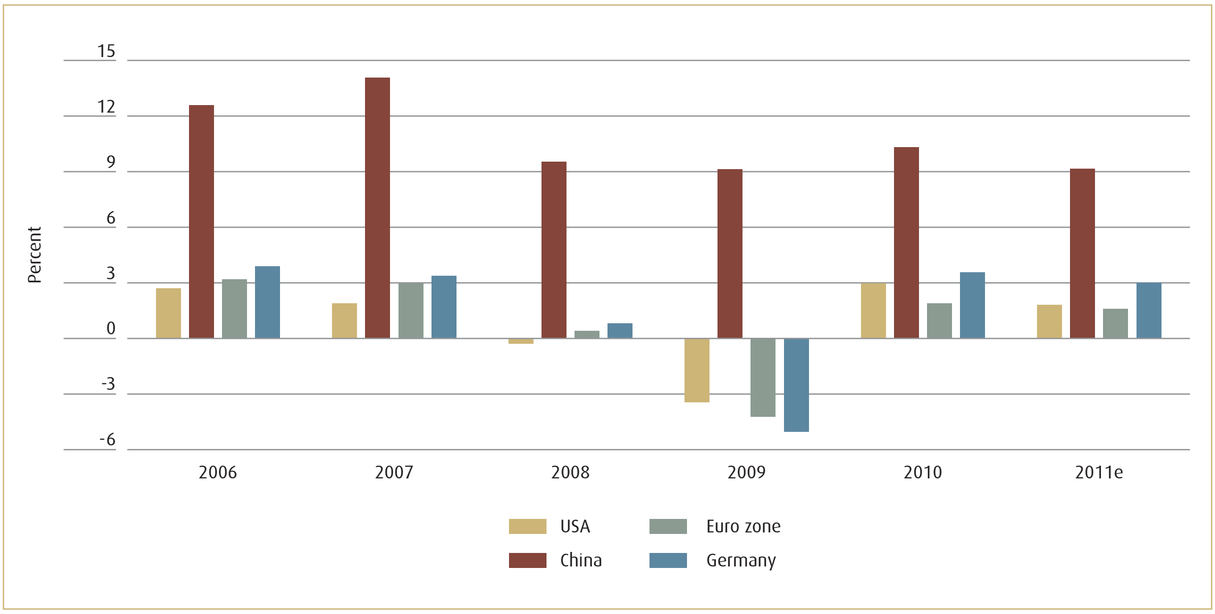


Source: IMF World Economic Outlook Database, September 2011; IMF World Economic Outlook Update, January 2012.

The USA had to deal with a looming default in the first half of the reporting year, which led to the debt ceiling being raised and the formation of an extensive austerity package. On top of this, private consumption was subdued, in part due to the earthquake in Japan and the resulting supply bottlenecks in the automotive industry. However, despite the continuing weakness of the real estate and labour markets, the US economy picked up again as the year progressed. Rising consumer spending and increasing exports brought growth in the final quarter to an annualised 2.8 %, according to figures from the Bureau of Economic Analysis. All in all, the USA is expected to record a growth rate of 1.8 % for 2011.

Economic developments in the euro zone were strongly impacted by the debt problems of several member states in the year under review. As a result, the economic performance of the euro zone shows a mixed picture. The situation in the countries directly affected by the debt crisis such as Portugal, Italy, Spain and in particular Greece made significant budgetary consolidation necessary, which has to some extent already been carried out. These countries are in a period of either stagnation or recession. However, the euro zone's economically stronger countries are also witnessing a slowdown in growth due to increasingly restrictive financial policies and a weakening of domestic economies caused by the high level of uncertainty surrounding the European debt crisis. An increase of around 1.6 % in the euro zone's GDP is estimated to have been achieved in 2011.

Percentage change in GDP p. a. 2006–2011e for USA, China, euro zone, Germany



Source: IMF World Economic Outlook Database, September 2011; IMF World Economic Outlook Update, January 2012.

Germany is Europe's anchor of stability

As in the previous year, Germany proved to be an anchor of stability for Europe in 2011. The European debt crisis primarily has an indirect effect on Germany's economy, in particular on German banks as creditors of the debtor countries affected and on the German budget, which bears a significant share of the guarantees issued under the European Stability Mechanism (ESM). The industrial sector of the economy, by contrast, put in a robust performance. Strong household consumption, high capital expenditure and further increases in exports largely offset negative developments such as recessionary trends in some European countries. Against this backdrop, the job market continued to perform well throughout the year, with the number of unemployed falling once more to 2.7 million, the lowest level since the reunification of Germany. All in all, initial calculations by the German Federal Statistical Office for 2011 put economic growth at 3.0 %. Even the country's budget deficit, at 1.0 % of GDP, was low by comparison with previous years.

Sovereign debt crises shape the financial and currency markets

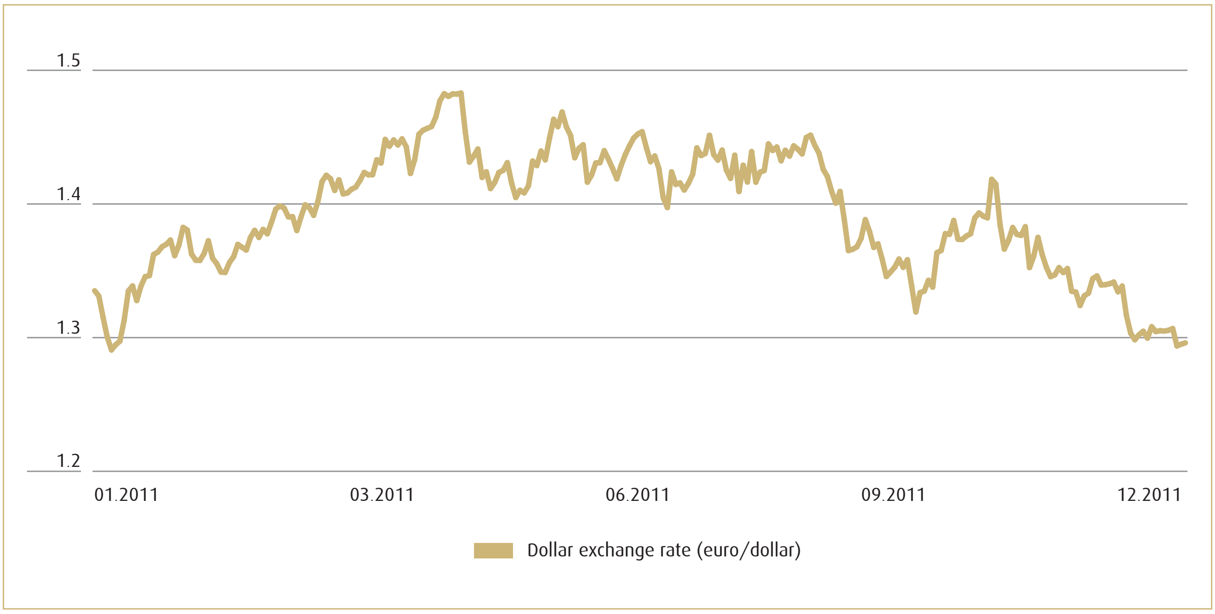
The debt crises in the USA and Europe prompted considerable uncertainty on the financial and currency markets during the reporting period, which in turn led to very high volatility. Following the decision of rating agencies to downgrade the credit ratings of the countries affected, the interest yields on government bonds rose sharply and, in the case of Greece and Portugal, for example, where risk premiums in some cases were over 1,000 basis points, they have in recent times been at a level which is no longer sustainable for these countries.

On the whole, share prices rose on international stock markets in the first half of the year. However, the third quarter of 2011 saw prices crash. Although stock markets recovered again in the fourth quarter, the German leading share index, the DAX, closed 2011 with a significant loss of 14.7 %. The US leading share index, the Dow Jones, made a comparatively stronger recovery in the fourth quarter and was up slightly by 5.5 % in 2011 overall.

The value of the euro also fluctuated considerably in the period under review: the currency was worth USD 1.33 at the beginning of the year, rising to USD 1.48 in April. As the public financing crises in Europe reached their peak, in May 2011 the exchange rate began to gradually fall back again to the same level as the start of the year and closed at USD 1.30. All in all, the debt crisis drove investors to favour the Swiss franc in particular. Having stood at CHF 1.24 at the beginning of the year, the Swiss franc reached a record high of CHF 1.03 against the euro in August. The Swiss National Bank pegged the Swiss franc to the euro on 6 September 2011 and set a minimum exchange rate of CHF 1.20 to prevent any further weakening of the Swiss export industry. Since then, exchange rates between the euro and the Swiss franc have largely stabilised in the region of CHF 1.20 to 1.24.

Monetary policy at the central banks developed disparately. In the emerging market and developing countries, the national banks upped the base rate considerably in the face of rising inflationary pressure. China and India currently have base rates of 6.56 % and 8.50 % respectively. At 10.50 %, the base rate in Brazil is even higher at present. By contrast, monetary policy was kept heavily expansive in the industrialised nations to avoid compromising dwindling economic growth with rising interest rates. The European Central Bank (ECB) raised the base rate by 25 basis points in April and July of 2011, taking it to 1.5 %, with the aim of counteracting the threat of inflation caused by rocketing commodity and food prices. However, in the light of much gloomier economic prospects, the ECB dropped interest rates to 1.25 % again at the beginning of November, and more recently, at the start of 2012, it cut them further to 1.00 %. Interest rates in the USA and the UK did not change in the period under review. Due to the tense economic situation, interest rates here remained extremely low at 0.25 % and 0.50 % respectively. The picture was similar in Japan, where the interest rate stood at 0 %. In January 2012, the US Federal Reserve announced that it wants to keep the base rate at its current level until the end of 2014.

Development of EUR / USD in 2011



Source: finanzen.net, 2012.

Shipping markets / charter rates
There was altogether little cause for joy on the shipping markets in 2011. Despite initial signs of recovery, especially in container shipping, rates plummeted once again in the middle of the year. A sustainable recovery within the short term is not yet in sight.

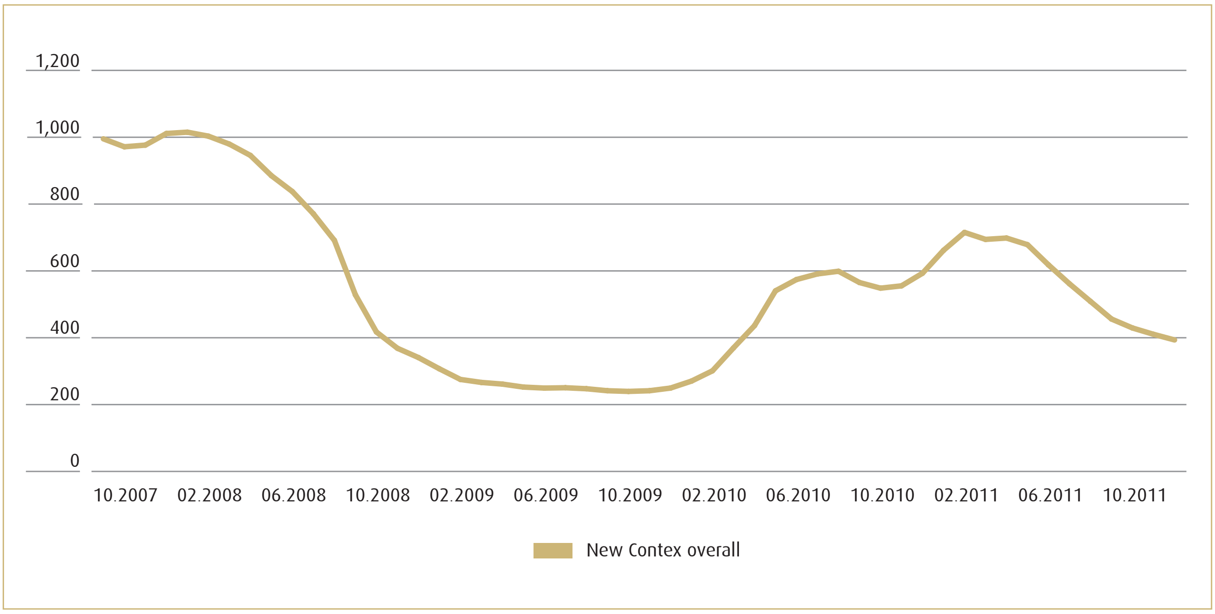
On the **container shipping market**, the first half of 2011 saw tumbling freight rates (transport price per container) due to tough competition among liner shipping companies. This is primarily attributable to the delivery of a large number of new container vessels with a capacity of over 8,000 TEU and the slowdown in world trade growth. The increased competition as well as cost pressures are prompting many liner shipping companies to enter into cooperation agreements more frequently.

The cost pressure resulting from the stiff price competition among liner shipping companies has been impacting on charter rates since June 2011. Prior to that, developments here had been positive. Charter rates underwent a substantial correction during the third and fourth quarters of 2011. At the same time, the percentage of idle ships rose from 2.3 % of fleet capacity (or 140 ships) at the start of 2011 to 3.9 % (or 246 ships) by the end of the year. This figure had fallen to 0.5 % for a time due to the market situation being positive until mid-2011.

Newbuild order figures also reflect the generally positive market sentiment as well as the expectations of further recovery that prevailed in the first six months of the year. In fact, orders for the period between the end of 2008 and the end of 2011 reached their peak in the first and second quarters of 2011. Approximately 1.5 million TEU of container capacity was ordered in these six months, around 70 % of which was by liner shipping companies. In the second half of the year, order activity fell sharply again as a result of the market downturn and only a further 300,000 TEU was ordered. Overall, the order volume at the end of 2011 came to about 28 % of the total full container fleet. Approximately 79 % of the current order book relates to units over 5,100 TEU. A total of around 1.2 million TEU of new ship tonnage – 8 % of total fleet capacity – ordered in the previous years was delivered in 2011. About 49 % of this relates to ships over 10,000 TEU. This sharp increase in the fleet size was accompanied by a fall in the growth of world trade, which resulted in an oversupply of tonnage. While global trade grew by around 12.7 % in 2010, thereby reaching the momentum seen before the shipping crisis, the growth rate in 2011 contracted to 6.9 % and, as such, was lower than forecast at the start of the year.

Having stood at 557 points at the beginning of the year, the Container Ship Time Charter Rate Index (New ConTex) shot up to 700 points by the start of June 2011. This was followed by a dramatic decrease to just over 400 points by the end of 2011.

New ConTex from 2007 to 2011



Source: Vereinigung Hamburger Schiffsmakler und Schiffsagenten e.V. (VHSS), 2012.

The **bulker market** was further characterised by significant overcapacities in 2011. In spite of a substantial increase in scrapping activity, total fleet capacity grew by 13.6 %. This contrasted with a rise in demand of around only 5 %. Further negative factors in the first half of 2011 were the catastrophic flooding in Australia, which resulted in production stoppages at many iron ore mines, the earthquake disaster in Japan and the insolvency of Korea Lines, a major operator and charterer of bulk carriers.

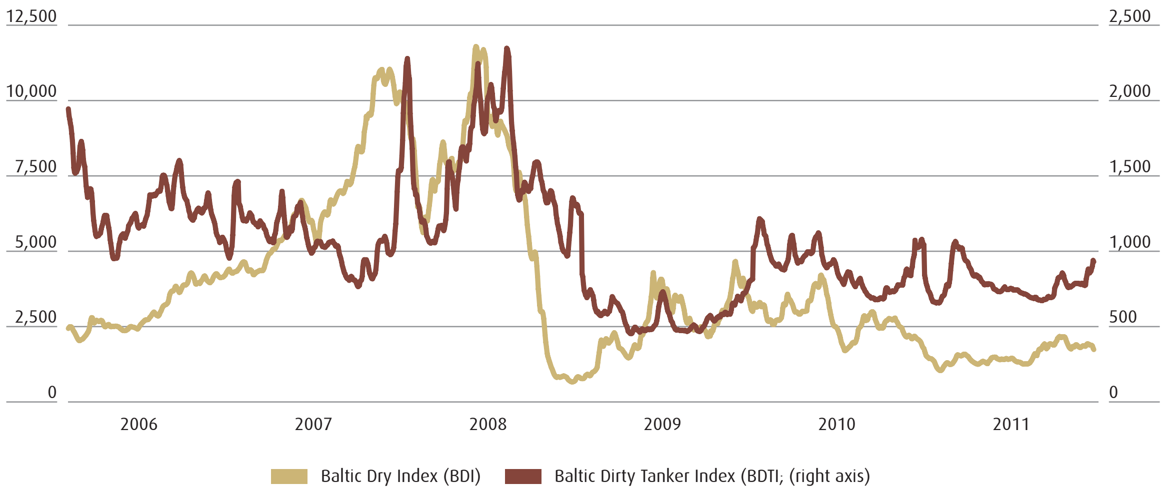
Despite a temporary recovery, these developments pushed charter rates for bulkers down considerably on the previous year in 2011. In particular the charter rate level for very large ships – capesize carriers – is far below what is needed to service debts as well as cover ship operating costs. The Baltic Dry Index (BDI), a price index for the shipping of bulk goods, recorded a low of 1,043 points at the beginning of February 2011. It then started to rise again and reached an annual high of 2,173 points in mid-October. The temporary positive performance of the Baltic Capesize Index is largely responsible for this development. Rates in the capesize segment have increased significantly since mid-August thanks to China's growing demand for iron ore. Charter rates for capesize bulkers were much more volatile overall than for Panamax and Supramax bulkers. The rates for the two latter types were relatively stable throughout the year, albeit at a low level. An additional reason for the rise in the BDI are catch-up effects, since the natural disasters in Japan and Australia had led to a significant level of downtime in the first half of the year. The index dropped again at the start of 2012, to 1,347 points. Its annual average for 2011 was just 1,549 points, its lowest level since 2002.

As in the previous years, the **tanker market** was very volatile in 2011. Worldwide demand for oil was sluggish due to global economic developments. Furthermore, the persistent oversupply of tankers has caused charter rates to collapse. The VLCC (very large crude carrier) segment has been particularly hard hit by this.

In the first quarter there were signs of a recovery in charter rates for both crude oil tankers and product tankers. However, this did not last. The BDTI (Baltic Dirty Tanker Index) climbed to a season-dependent high of 1,065 points at the start of March, but had already dropped back again to 796 points by the beginning of May. At the mid-year point, charter rates for crude oil and product tankers were stagnating at a low level and, in fact, fell significantly below the 700-point mark from August onwards. The onset of autumn prompted a slight upward trend for a short period; however, by the end of January 2012, rates had returned to a low level. Following an interim high of 939 points in December 2011, the BDTI dropped down to 829 points at the end of January 2012.

The situation on the tanker markets has led to increasing hardship among tanker shipping companies. For example, the ship manager General Maritime Corp. was forced to file for bankruptcy and is currently operating under Chapter 11. Other shipping companies (including Maersk Tankers and Mitsui OSK) are attempting to improve their ships' income situation by pooling their VLCC tankers.

Development of the Baltic Dry Index and Baltic Dirty Tanker Index 2006–2011



Source: Clarkson Research Services Limited, see disclaimer p. 132.

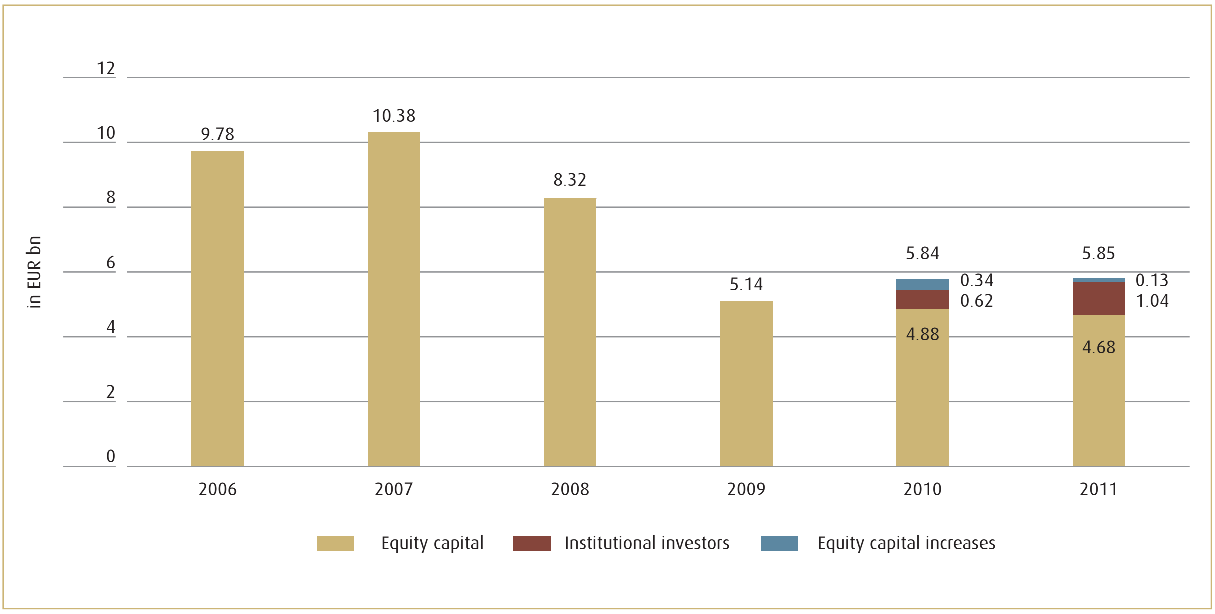
Market for closed-end funds at a persistently weak level

The market for closed-end funds did not experience any noteworthy revival in 2011. The re-emergence of the financial market crisis – this time in the guise of a public financing crisis – has caused investor uncertainty and cautiousness to continue. With the recovery of the shipping markets suffering a huge setback, current ship funds remain under pressure. This is impacting on new business within this market segment and, more generally, on the overall mood in the closed-end fund market. The situation is reflected in both the placement figures for the sector in 2011, which the industry association Verband Geschlossene Fonds (VGF) published in February 2012, and the current business climate index, regularly compiled by ScopeAnalysis.

The fund initiators surveyed for the business climate index predominantly considered 2011 to be "unsatisfactory" and even "poor". Ongoing reticence among investors as well as uncertainty surrounding the regulations to be introduced soon were the most common reasons given.

The VGF's industry figures for 2011 confirm this picture. According to its calculations, EUR 5.85 billion of equity capital was placed in 2011, a rise of just 0.2 % on the previous year. However, around EUR 1.04 billion, or 18 %, of this came from institutional investors. In the previous year, they accounted for just EUR 620 million, or 11 %, of equity capital placed. Equity capital raised from private investors amounted to EUR 4.81 billion in 2011 (2010: EUR 5.21 billion). This represents a decrease of about 8 % on 2010. The figure includes approximately EUR 131 million in equity capital increases to safeguard the liquidity of existing funds (2010: EUR 344 million), with the result that original new business with private investors only came to around EUR 4.68 billion in 2011. The previous year's amount was EUR 4.87 billion. This means that, despite a clear drop in contributions needed for capital increases, new business with private investors had to accept losses of around 4 %. An overall trend can be identified, whereby business with institutional investors is becoming increasingly important for the industry. At the same time, however, it can also be seen that the placement result for 2011 in institutional business was primarily due to two companies with just a small number of large investment products.

Development of equity capital placed in the overall market 2006–2011



Source: VGF industry figures, 2011.

Overall market performance in the individual product areas relevant for the HCI Group in the 2011 financial year are as follows:

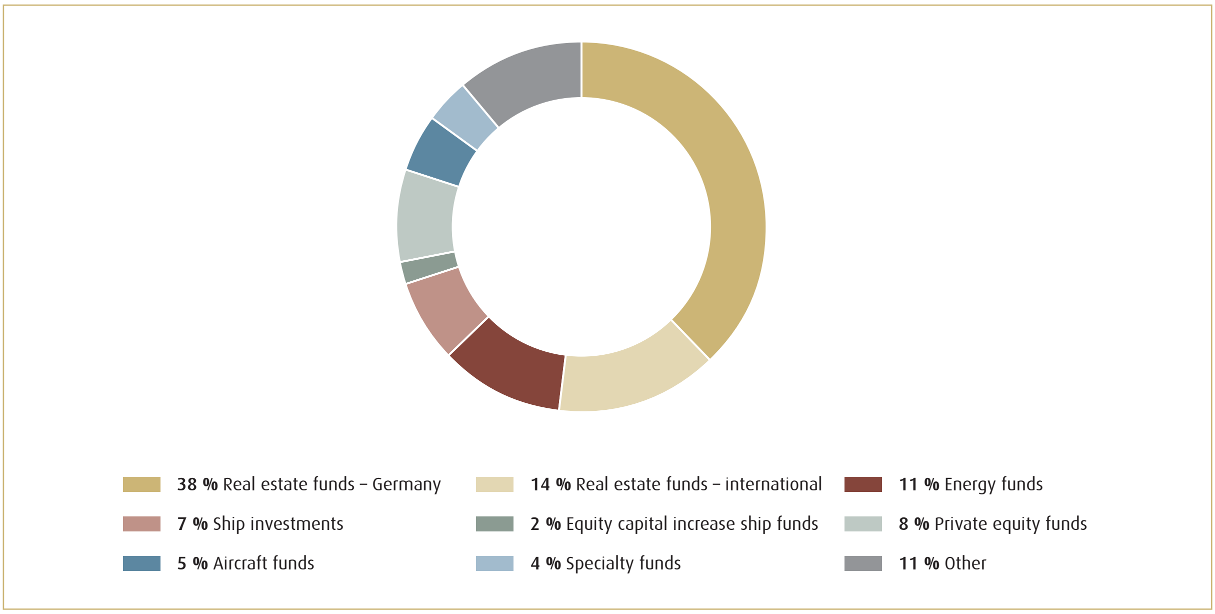
Closed-end funds in real estate in particular were in high demand in the past year.

Closed-end real estate funds had an equity capital volume of EUR 3.0 billion in 2011 (2010: EUR 2.3 billion) and continue to be by far the largest asset class in the industry. The amount placed in foreign real estate funds grew by 10 % to around EUR 0.8 billion. Domestic real estate funds were in greatest demand, however; the placement volume here was up 38 % on the previous year at approximately EUR 2.2 billion. Once again, Germany real estate funds were by far the most popular asset class, with a market share of about 38 % (previous year: 28 %).

Following a record year in 2010 for **energy funds**, when equity capital placed totalled EUR 832 million, demand in this segment fell sharply again in 2011 by 23 % to EUR 637 million. The industry had expected the change in energy policy to deliver a much greater impact and had therefore anticipated a higher placement result. However, there was a lack of suitable investment assets in Germany, while potential investments in southern European locations were avoided due to the sovereign debt crises. Nevertheless, energy funds still accounted for approximately 10.9 % (previous year: 14 %) of the total market volume, putting this asset class in second place behind real estate funds in 2011.

The **closed-end ship fund** segment was not able to stage a recovery in 2011 either. In the period under review, a mere EUR 506 million (2010: EUR 996 million) of equity capital was placed overall – this represents a decrease of around 49 %. Approximately EUR 104 million (2010: EUR 286 million) of this related to reinvestments and capital increases for existing funds, which means that new business in closed-end ship funds contracted to around EUR 402 million. Compared with pure new business in 2010, this is a drop of about 44 %. Overall, equity capital investments in ships had a market share of 8.6 % in 2011.

Market shares of asset classes in 2011



Source: VGF industry figures, 2011.

Business developments at the HCI Group

New business grows to EUR 86.6 million

In spite of the generally difficult underlying conditions, the HCI Group placed a volume of approximately EUR 86.6 million in the 2011 financial year, thereby increasing its new business on the previous year (EUR 80.0 million), contrary to the market trend. The HCI Group recorded a jump in business towards the end of the year in particular, with around EUR 27.5 million of equity capital invested in the fourth quarter of 2011. Its quarterly earnings were approximately EUR 9.8 million up on the previous quarter (Q3 2011) and about EUR 17.0 million higher than the same quarter of the previous year (Q4 2010).

Added to this were contributions of EUR 18.0 million made by investors to safeguard existing funds. This amount was thus less than half the previous year's figure of approximately EUR 47.2 million.

Equity capital placed[1] and equity capital investments in 2011 in EUR million

	01.01.2011–31.12.2011	01.01.2010–31.12.2010
Ship	**58.0**	**72.3**
Traditional investments[2]	45.1	40.4
Of which placed via: asset creation plans	17.8	14.1
guarantee products	0.4	2.0
Equity capital invested by ship managers[3]	8.3	24.4
Certificates	0.0	2.9
Guarantee products	0.0	0.1
Asset creation plans	4.6	4.5
Real Estate	**28.6**	**1.5**
Traditional investments	28.6	1.5
Of which placed via: asset creation plans	0.3	0.0
Renewable Energy	**0.0**	**4.8**
Traditional investments	0.0	4.8
Of which placed via: guarantee products	0.0	0.6
Other[4]	**0.0**	**1.4**
Traditional investments	0.0	0.7
Of which placed via: asset creation plans	0.0	0.1
guarantee products	0.0	0.6
Asset creation plans	0.0	0.7
Total equity capital placed	**86.6**	**80.0**
Equity capital investments[5]	**18.0**	**47.2**
Total equity capital placed and equity capital investments	**104.6**	**127.2**

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 to being wound up if a specified minimum equity capital amount is not reached. The commission-bearing equity 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 2011 totalled EUR 3.6 million.
2) Traditional ship investments include participations in limited partnerships of Shipping Select 26 Vorzugskapital totalling EUR 3.1 million. These interests were wound up in early 2012 and the resulting effects on sales commission and expenses have already been recognised in the 2011 consolidated financial statements.
3) The equity capital raised in the Ship area includes participations in limited partnerships by shipowners amounting to EUR 8.3 million (2011) and EUR 24.4 million (2010), which is not subject to commission.
4) The product areas Aircraft and Secondary Life Insurance Market are pooled under "Other".
5) 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 for new business in the individual product areas were as follows:

Investments in the **Ship** area in 2011 remained the strongest asset class in the HCI Group's new business: investors placed EUR 58.0 million in newly launched HCI ship funds. This enabled the HCI Group to fully place a total of five ship funds in the past financial year. In addition to investments of around EUR 45.1 million in classic closed-end funds, this also includes approximately EUR 4.6 million placed as investments in asset creation plans, which in turn invest in ships.

Thanks to its real estate fund HCI Berlin Airport Center, the HCI Group significantly boosted its placement volume in the **Real Estate** area compared with the previous year. The HCI Berlin Airport Center fund, for investment in an office real estate property at Berlin's new airport, was successfully closed in January 2012. The HCI Wohnkonzept Hamburg fund, which gives investors an opportunity to invest in a newly built residential complex in the Lurup area of Hamburg, is still being sold at present. With these two products, the HCI Group placed a total of EUR 28.6 million of equity capital in 2011, EUR 27.1 million more than in the previous year.

In the **Renewable Energy** area the HCI Group did not have any products on offer in the 2011 financial year. The capping of funding for renewable energy in Germany and in other European countries too has considerably restricted the market relevant for closed-end funds. Despite the German government's announcement of a renewed change in energy policy following the Fukushima nuclear disaster, the situation for offering investments again in this area that have the required level of payment stability and attractive return prospects has initially worsened for a time.

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 58.5 % (2010: 76.4 %). Other sales channels contributed as follows: savings banks / cooperative banks 25.5 % (2010: 18.6 %) and large and private banks 14.8 % (2010: 2.4 %). Pools and large sales partners accounted for 1.2 % (2010: 2.6 %) of the placement volume.

Around 348 active sales partners sold HCI products in the 2011 financial year. That is fewer than the previous year (2010: 415), 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 2011 financial year. Positive developments were seen in sales via savings banks and large and private banks, which acted as brokers for the real estate fund HCI Berlin Airport Center in particular. Ship fund products, on the other hand, were primarily offered via independent financial brokers.

As well as product sales via our sales network, our asset creation and guarantee products are also contributing to the placement success of the HCI Group. In the reporting period, a total of EUR 17.8 million (previous year: EUR 14.1 million) of equity capital for closed-end ship funds was raised from asset creation plans alone.

Reorganisation of After Sales Services activities

Against the background of the changed market conditions, the HCI Group continued to systematically reorganise its After Sales Services activities (trust management) in 2011. In light of the severe consequences of the financial and economic crisis, particularly in the area of closed-end ship funds, the HCI Group has been greatly expanding and reorganising its activities in this area since 2009. This includes 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 team of employees 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.

Within trust management, a clear separation of functions between pure trust management activities and service activities for the asset management of ship funds was made, and has been incorporated into the respective areas of responsibility of the trust business's executive managers. This organisational restructuring also represents an important step in terms of the future regulatory requirements under the AIFM Directive.

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 2011 (taking disposals into account) was maintained at a level of EUR 4.9 billion. The number of investors increased to 123,700 as of year-end (previous year: 123,300). Trust management activities thus ensured sustainable income from trust management and service fees.

Restructuring of the HCI Group completed

In recent years HCI has built up a comprehensive ship pipeline 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 had therefore begun 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.

In summer 2009, a comprehensive restructuring concept was agreed with the main creditor banks and the principal shareholders. Its implementation was completed in May 2011 and included 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.

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 45.7 million as of 31 December 2011.

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 forwent receivables amounting to around EUR 31.5 million, or made a contribution in kind. The non-cash capital increase 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. As a result, HCI Capital AG's subscribed capital increased from EUR 24,000,000 to EUR 29,354,116.

With the completion of the release from contingent liabilities, the conditions were fulfilled to conclude the restructuring of the HCI Group with HCI Capital AG's planned capital increase. To that end, a corresponding agreement was reached on 29 March 2011 with the three main shareholders, MPC Capital AG, the Döhle Group and HSH Nordbank AG. This agreement provided for a capital increase to be carried out for a total of EUR 11 million partially from the existing authorised capital, with the statutory subscription right of the existing shareholders being granted. MPC Capital AG and the Döhle Group committed themselves to taking part in this capital increase and covering the total targeted amount if the remaining shareholders did not exercise their subscription rights. In addition, part of the agreement involved a redistribution of shares among the main shareholders so that MPC Capital AG and the Döhle Group each hold an equal stake of 25.58 % in HCI Capital AG. Following the capital increase and the redistribution, HSH Nordbank AG was to hold a maximum share of 19.90 % in HCI Capital AG. MPC Capital AG and the Döhle Group also entered into an agreement to pool their voting rights in this regard.

After all the conditions to implement the agreement had been fulfilled, the Management Board agreed to the capital increase with the approval of the Supervisory Board on 12 May 2011. The subscribed capital was increased by issuing 7,338,529 new shares, and rose from EUR 29,354,116 to EUR 36,692,645 as a result. The new shares were offered to HCI Capital AG's shareholders in a subscription period lasting from 16 May 2011 to 30 May 2011 at a ratio of 4:1 and a subscription price of EUR 1.50. HCI Capital AG's shareholders also had the option of applying for an additional subscription. Additional subscriptions were allocated on the basis of the availability of unsubscribed new shares and the respective interest held by the individual shareholders and, as such, were limited. The subscription and additional subscription offer was extended solely to the Company's existing shareholders. No stock market trading in subscription rights was planned. The subscription offer was published on 13 May 2011 and HCI Capital AG's subscribed capital increase was entered in the Register of Companies (Handelsregister) on 16 May 2011.

The conversion of bank liabilities into equity and the capital increase have substantially altered the shareholder structure of HCI Capital AG. Taking the redistribution of shares among the three major shareholders into account, the shareholder structure following the capital increase in May 2011 is as follows: MPC Capital AG and the Döhle Group each hold the targeted 25.58 %. Based on the pooling agreement, this corresponds to a combined stake of 51.16 %. HSH Nordbank AG's interest in the Company amounts to 19.90 % as intended, while free float shareholders account for 28.94 %.

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 2011 financial year can be compared with the previous year as follows:

In EUR million	2011	2010 (restated)
Revenues	33.0	36.8
Other operating income	4.7	3.7
Changes in inventories	2.1	-0.1
Cost of purchased services	-6.2	-5.7
Personnel expenses	-21.3	-20.5
Write-downs	-0.5	-0.9
Other operating expenses	-21.9	-23.0
Results of associated companies and joint ventures accounted for under the equity method	0.4	7.9
Earnings before interest and taxes (EBIT)	**-9.7**	**-1.8**
Financial result	-4.3	6.2
Earnings before taxes (EBT)	**-14.0**	**4.4**
Income taxes	-1.1	0.6
Consolidated net result	**-15.1**	**5.0**

Please refer to note (20) in the notes to the consolidated financial statements for information on the restating of the previous year's information.

Revenues fell by 10.3 % in the reporting period from EUR 36.8 million to EUR 33.0 million and are comprised as follows:

In EUR million	2011	2010 (restated)
Transport and Logistics	5.9	6.8
Real Estate	0.2	1.1
Energy and Commodities	0.0	0.9
Other	0.0	0.5
Sales and Design	**6.1**	**9.3**
Transport and Logistics	17.2	17.2
Real Estate	0.5	0.7
Energy and Commodities	0.1	0.1
Other	1.9	1.9
After Sales Services	**19.7**	**19.9**
Asset Management	**7.1**	**7.3**
Other remuneration	**0.1**	**0.4**
Total revenues	**33.0**	**36.8**

The reduction in revenues is due in particular to the EUR 3.2 million drop in revenues from Sales and Design in comparison with the previous year. This decrease of 34.4 %, which occurred alongside a rise in the placement result of 8.3 %, is essentially due to the fact that it was not possible to recognise the sale and design revenues from the equity capital placed in 2011 for the HCI Berlin Airport Center fund (EUR 4.1 million) as of 31 December 2011 because of existing winding-up agreements. These revenues can only be recognised after an agreed minimum capital amount has been reached. This fund was fully placed by the start of the 2012 financial year.

Following the overall revenue drop, the steady income from After Sales Services at EUR 19.7 million (previous year: EUR 19.9 million) and Asset Management at EUR 7.1 million (previous year: EUR 7.3 million) had a greater impact on total revenues.

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

Other operating income, at EUR 4.7 million, was EUR 1.0 million higher than in the previous year (EUR 3.7 million) and includes income from recharging costs of EUR 1.9 million (previous year: EUR 0.8 million).

The **change in inventories** includes progress and finished services relating in particular to the costs of producing prospectuses and commissions, which resulted from services provided by sales partners with regard to finding limited liability partners for the HCI Berlin Airport Center fund.

The **cost of purchased services**, which mainly comprises commission paid to sales partners and prospectus creation costs, rose to EUR 6.2 million in the reporting period in line with the placement result and is therefore 8.7 % above the previous year’s figure of EUR 5.7 million. Please refer to the earlier notes for information on the treatment of purchased services in connection with the placement of the HCI Berlin Airport Center fund.

Trust management and service fees accounted for 65.6 % of total revenues in 2011, up from 59.4 % in 2010. Gross profit was down approximately EUR 2.1 million on the previous year to EUR 28.9 million. The gross margin improved slightly in the reporting year from 84.2 % to 87.6 % based on revenues. This was due in particular to the higher percentage of revenues from After Sales Services, which is an area characterised by strong margins.

Personnel expenses increased from the previous year's figure of EUR 20.5 million to approximately EUR 21.3 million in 2011. Personnel expenses include severance payments and current obligations to pay salaries until the expiry of employment contracts amounting to approximately EUR 2.7 million (previous year: EUR 0.5 million) for employees whose employment contracts were terminated as part of Group-wide personnel measures in 2011. The average number of employees was reduced from 261 in 2010 to 251 in 2011 and there were 247 employees as of 31 December 2011.

Other operating expenses totalled EUR 21.9 million, a rise of EUR 0.7 million, or around 3.1 %, compared with the previous year (EUR 22.7 million). It includes expenses from losses on receivables of EUR 5.0 million (previous year: EUR 1.8 million). In contrast, legal and consulting expenses decreased from EUR 6.9 million in 2010 to EUR 5.1 million in 2011. In 2010, other operating expenses included fees of EUR 2.6 million which were payable to banks for the release from contingent liabilities.

The **results of associated companies and joint ventures accounted for under the equity method** dropped significantly by EUR 7.5 million from EUR 7.9 million in the previous year to EUR 0.4 million in the reporting period. The pro rata results of all associated companies and joint ventures accounted for under the equity method totalled around EUR 0.3 million in 2011 (previous year: EUR 3.3 million). The result for 2011 also includes expenses for impairments of EUR 0.1 million on the interests in eFonds Solutions AG. In the previous year, the Company had reversed EUR 6.3 million of write-downs made on its interests in HAMMONIA Reederei GmbH & Co. KG (HAMMONIA Reederei) and recognised impairments on the interests in eFonds Solutions AG.

Earnings before interest and taxes (**EBIT**) of EUR -9.7 million decreased significantly by EUR 8.3 million on the previous year's figure of EUR -1.4 million as a result of the business developments in 2011 outlined earlier.

At EUR -4.3 million, the **financial result** was considerably below the previous year's EUR 5.9 million. Other financial result of EUR -7.1 million (previous year: EUR 8.2 million) includes impairments on loans and financial receivables of approximately EUR 6.0 million. These impairments were EUR 2.0 million in the previous year.

A call option granted in the previous year by the HCI Group to the co-shareholders of HAMMONIA Reederei for 50 % of the interests held by the HCI Group in HAMMONIA Reederei became available for exercise as of 30 June 2011. This meant that the HCI Group no longer had a significant influence on the HAMMONIA Reederei. The investment in HAMMONIA Reederei previously accounted for under the equity method was therefore reclassified under other investments as of 30 June 2011 and measured at fair value. This measurement resulted in a profit of EUR 12.4 million. Following the reduction in the fair value of HAMMONIA Reederei as a result of developments on the shipping market, impairments totalling EUR 7.2 million were recognised on the interests in this company as of 31 December 2011. The revaluation of the above-mentioned call option increased its negative fair value compared with 31 December 2010 by EUR 1.4 million to EUR 8.0 million, thereby reducing the financial result accordingly. The negative value of this option includes the amount calculated during the measurement of the fair value for the company in question as of 31 December 2011.

The other financial result also includes expenses from other obligations of around EUR 2.9 million. Furthermore, write-downs were also made, in particular on interests in ship ordering companies jointly managed with shipowners, totalling EUR 2.1 million (previous year: EUR 1.0 million). These impairments were caused by developments in the fund and shipping markets that had deteriorated further during the 2011 financial year.

The previous year's other financial result was shaped by the effects of converting bank liabilities into equity (earnings of EUR 15.0 million) and granting the call option (expenses of EUR 6.6 million) for interests in HAMMONIA Reederei, which had a sizeable impact on the result for the 2010 financial year and therefore on the HCI Group's financial performance.

Net interest income improved in 2011 to EUR 2.8 million (previous year: EUR -2.4 million). The change in net interest income is largely attributable to income generated from reversing a provision for interest liabilities of EUR 2.5 million, which was created for the financial years from 2002 onwards as part of tax-entity relationships, and to the reduction in interest expenses from discounting receivables from EUR 1.7 million to EUR 0.4 million in 2011. In addition, interest expenses to banks fell by EUR 0.8 million as a result of the conversion of bank liabilities into equity in 2010.

Earnings before taxes (EBT) came in at EUR -14.0 million in 2011 – a significant decrease on the previous year's figure (EUR 4.4 million).

Income taxes amounted to EUR -1.0 million in the 2011 financial year (previous year: tax income of EUR +0.6 million). Income taxes comprise trade taxes, corporation taxes, the solidarity surcharge and the relevant foreign income taxes. Tax expense in the financial year contains deferred tax expenses of EUR 0.5 million (previous year: tax income of EUR 1.7 million) and current tax expenses of EUR 0.7 million (previous year: EUR 0.2 million).

The overall result of the effects described was a negative **consolidated net result for the period** of approximately EUR -15.1 million (previous year: EUR 5.0 million), representing a significant deterioration of about EUR 20.1 million on the previous year's figure.

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 Sales and Design, 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.

Sales and Design

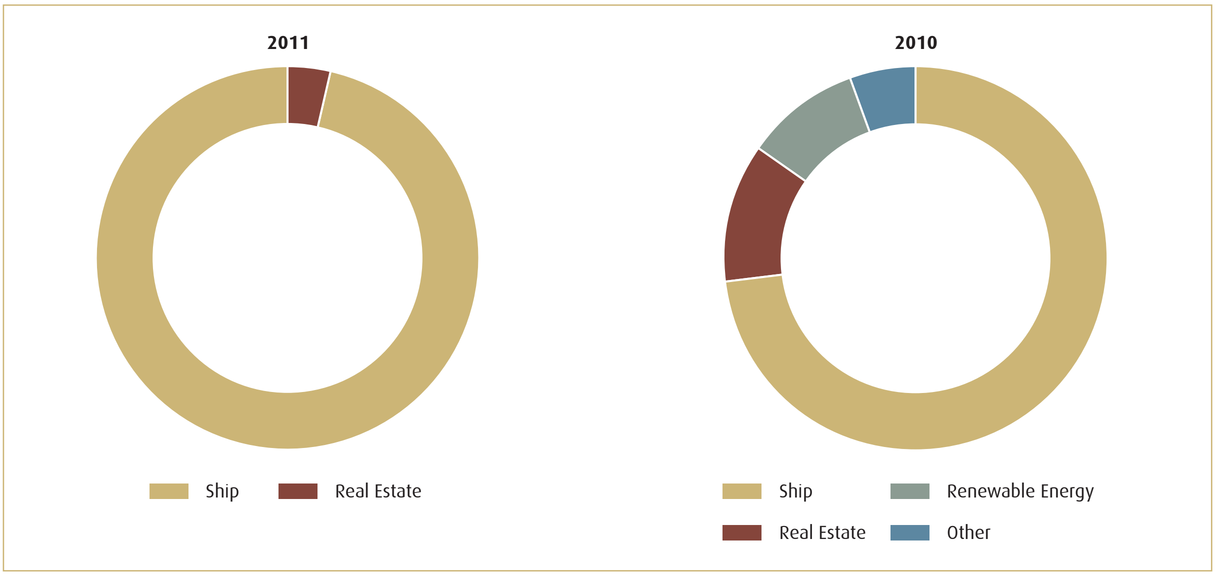
The financial performance of the Sales and Design segment was as follows in the reporting period:

In EUR million	2011	2010 (restated)
Revenues	6.1	9.3
Changes in inventories	2.1	-0.1
Cost of purchased services	-6.2	-5.7
Gross profit	2.0	3.5
Other operating income	1.3	0.7
Personnel expenses	-6.1	-6.5
Other operating expenses	-8.3	-8.0
Results of associated companies and joint ventures accounted for under the equity method	-0.6	-2.7
Earnings before interest and taxes (EBIT)	**-11.7**	**-13.0**

Contrary to the overall market trend, equity capital placed increased by 8.3 % from EUR 80.0 million to EUR 86.6 million in the 2011 financial year. In addition to new business, contributions from investors totalling EUR 18.0 million (previous year: EUR 47.2 million) were raised to safeguard existing funds.

It was not possible to recognise the sale and design revenues from the HCI Berlin Airport Center fund, amounting to EUR 4.1 million, in the 2011 financial year because of existing winding-up agreements. Revenues fell accordingly by EUR 3.2 million compared with the previous year despite the growth in new business.

Revenues for the individual product areas are as follows:



The increases in work in progress and finished services relate in particular to commissions and the costs of producing prospectuses, which resulted mainly from the raising of capital for the HCI Berlin Airport Center fund.

The cost of purchased services, which mainly comprises commission paid to sales partners and prospectus creation costs, rose to EUR 6.2 million in the reporting period in line with the placement result and is therefore 8.8 % above the previous year's figure of EUR 5.7 million.

Gross profit in the 2011 financial year was down by EUR 1.5 million in comparison with the previous year, primarily because the margin from the HCI Berlin Airport Center fund of EUR 1.6 million had not yet been recognised.

Other operating income in 2011 included income from receivables already written down amounting to EUR 0.7 million (previous year: EUR 0).

Personnel expenses were reduced during the 2011 financial year by EUR 0.4 million. This is mainly due to a reduction in average staff numbers in Sales and Design as a result of the personnel measures implemented. The effect of this will only be seen in full in 2012.

Other operating expenses were EUR 0.3 million higher than in the previous year, mainly as a result of non-recurring effects in the 2011 financial year.

The results of associated companies and joint ventures accounted for under the equity method improved compared to the previous year by EUR 2.1 million to EUR -0.6 million. The main reason for this was the impairment recognised in the previous year for eFonds Solutions AG of EUR 1.7 million.

The overall result of these developments was a year-on-year improvement of EUR 1.3 million in EBIT to EUR -11.7 million in the Sales and Design segment.

After Sales Services

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

In EUR million	2011	2010 (restated)
Revenues	19.7	19.9
Other operating income	3.0	1.5
Personnel expenses	-7.4	-6.4
Other operating expenses	-8.8	-5.8
Earnings before interest and taxes (EBIT)	**6.5**	**9.2**

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 in the product area Ship.

Ongoing trust management and service fees as well as fees from interest and currency management in 2011 amounted to EUR 19.5 million (previous year: EUR 19.7 million) and were therefore approximately the same as in the previous year. This was due to the almost unchanged volume of trust management business.

One-off trust management and service fees in 2011 were at the previous year's level.

Other operating income includes income from recharging costs paid of EUR 1.6 million in particular for the restructuring of existing funds (previous year: EUR 0.3 million).

Personnel expenses rose by EUR 1.0 million to EUR 7.4 million compared with the previous year, due partly to the personnel measures implemented and partly to the additional expenses in connection with the restructuring of existing funds.

The year-on-year increase in other operating expenses amounted to EUR 3.0 million and primarily resulted from the recognition of additional valuation allowances for trust receivables and from restructuring costs paid for existing funds.

At EUR 6.5 million, EBIT in the After Sales Services segment was lower than the previous year's figure (EUR 9.2 million).

Asset Management

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

In EUR million	2011	2010 (restated)
Revenues	7.1	7.6
Other operating income	0.8	1.1
Personnel expenses	-2.8	-2.5
Write-downs	0.0	-0.4
Other operating expenses	-3.4	-2.1
Results of associated companies and joint ventures accounted for under the equity method	1.0	10.7
Earnings before interest and taxes (EBIT)	**2.7**	**14.4**

Revenues from the management of real estate funds launched by the HCI Group came to EUR 3.2 million (previous year: EUR 3.3. million).

The revenues also include fees received by the HCI Group as part of contractual agreements in the form of advance payouts from Secondary Life Insurance Market funds. These totalled EUR 2.6 million in the 2011 financial year (previous year: EUR 2.6 million).

Revenues from management services for HCI HAMMONIA SHIPPING AG came to EUR 1.3 million, as in the previous year. One-off fees were also earned from a ship disposal of EUR 0.4 million in 2011.

Other operating income was EUR 0.3 million below the previous year's figure at EUR 0.8 million. This is mainly because of one-off revenues from brokering real estate of EUR 0.3 million in the 2010 financial year.

Other operating expenses in 2011 included valuation allowances for management fee receivables in the Real Estate area totalling EUR 1.2 million (previous year: EUR 0.2 million).

The results of associated companies and joint ventures accounted for under the equity method of EUR 1.0 million were down EUR 9.7 million on the previous year and essentially comprised the pro rata result of HAMMONIA Reederei for the period from 1 to 30 June 2011 of EUR 1.1 million. As a result of a call option granted to co-shareholders of HAMMONIA Reederei on half of the interests held by the HCI Group in HAMMONIA Reederei, this investment was no longer accounted for as an associated company under the equity method as of 30 June 2011 and was reclassified under other investments. This means that from this point onwards no income or expenses were recognised for HAMMONIA Reederei in the results of associated companies and joint ventures accounted for under the equity method. A positive result of EUR 10.5 million, including an impairment reversal on the interests held of EUR 6.3 million, was recognised in the previous year for HAMMONIA Reederei GmbH & Co. KG.

The overall result of these developments was a year-on-year decrease of EUR 11.7 million in EBIT to EUR 2.7 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	2011	2010
Other operating income	3.6	4.5
Personnel expenses	-5.0	-5.1
Write-downs	-0.5	-0.5
Other operating expenses	-5.3	-11.0
Earnings before interest and taxes (EBIT)	**-7.2**	**-12.1**

Other operating income primarily comprised recharges of costs to the segments totalling EUR 3.4 million (previous year: EUR 3.7 million). Income from the reversal of provisions amounting to EUR 0.6 million was also recognised for the 2011 financial year (previous year: EUR 1.1 million).

Other operating expenses declined sharply in 2011 by EUR 5.7 million compared with the previous year, mainly as a result of restructuring costs of EUR 2.7 million and bank fees for the release from contingent liabilities of EUR 2.6 million incurred in the previous year.

Overall, EBIT in the Other / Holding segment improved in comparison with the previous year by EUR 4.9 million to EUR -7.2 million.

II. Cash flows

In EUR million	2011	2010
Consolidated net result	-15.1	5.0
Non-cash income and expenses and elimination of net tax, interest and investment income	7.7	-9.9
Changes in net working capital	0.9	-0.9
Interest and income taxes paid and received	-0.4	1.6
Distributions received	0.1	0.2
Cash flow from operating activities	**-6.8**	**-4.0**
Cash flow from investing activities	**-0.6**	**0.7**
Cash flow from financing activities	**10.2**	**-2.2**
Net cash inflow / outflow	**2.8**	**-5.5**
Cash and cash equivalents at beginning of period	18.3	23.3
Exchange rate-related changes	-0.1	0.5
Cash and cash equivalents at end of period	**21.0**	**18.3**

In the 2011 financial year, the HCI Group generated a negative cash flow from operating activities of EUR -6.8 million (previous year: EUR -4.0 million). Compared with the previous year, this was a decrease of EUR 2.7 million. The main reasons for this were the comparatively weaker operating business, the cash expenses related to the Group-wide personnel measures at the HCI Group totalling EUR 1.0 million, the deposit of cash and cash equivalents of EUR 0.5 million and the lower net amount from income taxes received and paid of around EUR -0.5 million compared with the previous year's figure of EUR +1.8 million. These contrasted with a fall in working capital of EUR 0.9 million (previous year: increase of EUR 0.9 million).

The cash flow from investing activities of EUR -0.6 million (previous year: EUR 0.7 million) is primarily the balance from capital expenditure on intangible assets and property, plant and equipment, other investments and interests in associated companies and joint ventures, as well as from the positive cash flow from proceeds in connection with the disposal of other investments of EUR 0.5 million. Proceeds from the disposal of other investments and securities amounting to EUR 2.8 million were generated in the previous year. Compared with the previous year, cash flow from investing activities sank by EUR 1.3 million.

The cash capital increase carried out in May 2011 resulted in proceeds after the deduction of transaction costs of around EUR 10.6 million, which were partly offset by the repayment of debts of EUR 0.4 million. The overall result was a positive cash flow from financing activities of EUR 10.2 million.

All of this caused cash and cash equivalents to contract by around EUR 2.9 million as of 31 December 2011, notwithstanding changes due to foreign exchange rate changes. Cash and cash equivalents at the end of the period stood at EUR 21.0 million (previous year: EUR 18.3 million).

III. Financial position

The financial position of the HCI Group is as follows:

	31.12.2011		31.12.2010	
Assets	**In EUR million**	**in %**	**In EUR million**	**in %**
Intangible assets, investments, and property, plant and equipment	48.0	49.1	45.7	43.0
Non-current receivables and other assets	4.8	4.9	6.7	6.3
Work in progress and finished services	2.6	2.7	0.6	0.6
Current receivables and other assets	19.2	19.6	32.3	30.4
Securities	1.5	1.6	1.8	1.7
Cash and cash equivalents	21.0	21.5	18.3	17.2
Deferred taxes	0.6	0.6	0.8	0.8
Total assets	**97.7**	**100.0**	**106.2**	**100.0**
Equity and liabilities				
Consolidated equity	41.8	42.8	46.1	43.4
Non-current provisions and liabilities	15.9	16.3	15.3	14.4
Current provisions	5.9	6.0	3.9	3.7
Current liabilities	30.6	31.3	37.4	35.2
Deferred taxes	3.6	3.6	3.5	3.3
Total equity and liabilities	**97.7**	**100.0**	**106.2**	**100.0**

Total assets as of 31 December 2011 fell by EUR 8.5 million in comparison with the previous year from EUR 106.2 million to EUR 97.7 million.

Non-current assets including deferred tax assets, at approximately EUR 53.4 million, were virtually unchanged on the previous year (EUR 53.3 million). The EUR 28.9 million rise in **other investments**, from EUR 14.9 million to EUR 43.8 million, was primarily caused by reclassification of the interests in HAMMONIA Reederei as other investments. This step became necessary as of 30 June 2011 on account of the exercisable call option on half of the interests held by the HCI Group which was granted to co-shareholders. The interests were measured at the fair value of the investment during their designation as a financial instrument. This resulted at the time of reclassification in an impairment reversal of EUR 12.4 million recognised in profit and loss. The interests in HAMMONIA Reederei were recognised at their fair value of EUR 32.5 million as of 31 December 2011 as a result of an impairment that occurred in the meantime. The figure posted for interests in associated companies and joint ventures accounted for under the equity method shrank by a total of EUR 26.6 million.

There was a year-on-year fall in **non-current receivables and other assets** from EUR 6.7 million to EUR 4.8 million, which essentially resulted from write-downs on loan receivables from real estate fund companies amounting to around EUR 5.7 million.

Current assets were reduced from EUR 53.0 million to EUR 44.3 million. The percentage of current assets contained in total assets decreased from 49.8 % as of 31 December 2010 to 45.3 % as of 31 December 2011 as a result. The drop in other financial assets is due to the derecognition of receivables from former affiliated companies totalling EUR 10.5 million, which was offset by the removal of existing other obligations within current provisions and liabilities of EUR 13.0 million. In addition, trade receivables were down EUR 3.3 million. In addition to revenue developments, the change in these receivables resulted from the valuation allowances of EUR 3.6 million which had to be recognised in 2011 due to the market situation.

Work in progress and finished services, which include capitalised services related to the design of funds, went up by EUR 2.0 million to EUR 2.6 million. The increases in work in progress and finished services relate in particular to the costs of producing prospectuses and commissions, which resulted from services provided by sales partners with regard to finding limited liability partners for the HCI Berlin Airport Center fund.

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

As of 31 December 2011, **equity** declined by EUR 4.3 million compared with the previous year to EUR 41.8 million. The equity ratio remained almost unchanged at 42.8 %.

A cash capital increase of EUR 11.0 million was carried out in May 2011 from authorised capital, prompting an overall cash increase in capital of EUR 10.6 million as a result of the issuance of 7.3 million new no-par-value shares and the transfer of EUR 3.7 million to additional paid-in capital after the deduction of transaction costs. As a result of the consolidated net loss of EUR -15.1 million for 2011, equity decreased by EUR 4.3 million despite the cash capital increase. Please see the notes on the financial performance of the Group and segments for the reasons behind the consolidated net loss.

Non-current provisions and liabilities rose to EUR 19.5 million and were therefore almost the same as on 31 December 2011 (previous year: EUR 18.8 million). Non-current other financial liabilities include obligations of EUR 8.7 million and therefore correspond to the current value of the banks' entitlement to compensation arising from the agreement concerning the moratorium and intended release from contingent liabilities. This stipulates that after the full release from contingent liabilities, the banks should receive compensation of EUR 12.5 million that is payable only when the HCI Group has met specified earnings and liquidity thresholds, as long as no dividends are paid to shareholders before the entire compensation amount has been paid. If the Annual General Meeting decides to pay dividends prior to this, any compensation amount still outstanding at this point in time will become due for payment as of the end of the following business year.

Current provisions and liabilities, on the other hand, decreased by EUR 4.8 million in comparison with the previous year, essentially as a result of the fall in income tax liabilities. This change was principally due to the above-mentioned removal of obligations amounting to EUR 10.5 million. In addition, provisions for interest liabilities of EUR 2.5 million were released in relation to this, as the reason for these provisions no longer applies. Due to contingencies in connection with its position as a limited liability trustee, the Company formed provisions as of 31 December 2011 totalling EUR 1.8 million (31 December 2010: EUR 0.3 million). In addition to this, other provisions were recognised amounting to EUR 1.0 million for liquidity commitments to fund companies and EUR 1.0 million for guarantee obligations. Current other liabilities rose by EUR 5.8 million, primarily as a result of deferring commission already paid by fund companies of EUR 3.8 million for funds which are in the process of being placed, and measuring the call option granted to the co-shareholders of HAMMONIA Reederei, which was recognised at its negative fair value of EUR 8.0 million as of the reporting date (previous year: EUR 6.6 million).

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 2011 again placed huge demands on the Company's creativity and ability to adapt as well as on its value creation processes. 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. Due to the persistently weak market situation, the HCI Group implemented various personnel measures in September 2011 that impacted directly on 36 employees. The Company intends to reduce the number of employees during 2012 from around 260 (as of 30 June 2011) to 218 (30 June 2012) through measures such as not refilling vacant positions and cutting planned positions. The measures pertain to all areas of the HCI Group. Due to the periods of notice in place the full effect of the associated cost savings will only be seen in the course of 2012.

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

	2011	2010
Average number of employees	251	261
plus trainees	11	15
Personnel expenses in EUR million	21.3	20.5

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 some managers, departmental heads and sales staff. As part of the HCI Group's release from contingent liabilities, the Company's executive management of a certain salary threshold agreed to defer 10 % of their monthly fixed salary to the HCI Group in the period from March 2010 until August 2011. The salary amounts deferred will only be paid when the HCI Group exceeds certain earnings thresholds again. The executive management of the HCI 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

The HCI Group completed placement of the real estate fund HCI Berlin Airport Center in early 2012. Due to existing winding-up agreements, it was not possible to recognise revenues from the fund until an agreed minimum capital amount had been reached. Full placement of the fund in financial year 2012 resulted in revenues of EUR 4.3 million, of which EUR 4.1 million came from placements in 2011. After deducting the total cost of purchased services of EUR 2.6 million, the result was a positive earnings contribution before taxes of around EUR 1.7 million.

At the same time that the consolidated financial statements and management report of HCI Capital AG and the Group for the 2011 financial year were being prepared, the HCI Group discovered that a large international shipping company was in financial difficulty. According to the information available to us, the company has already implemented measures in an effort to restructure and ensure that it remains solvent. The HCI Group is unable to assess whether the measures taken are sufficient and suitable for the company to restructure successfully and maintain its solvency. The HCI Group does not have any direct business relationships with this company. In our estimation, HCI ship funds could be affected by this situation if they have entered into charter agreements with this company. At present, it is not possible to assess whether and to what extent there could be an indirect impact on the value of the HCI Group's assets.

Apart from the events outlined here, there were no events of significance for the financial performance, cash flows and financial position of the HCI Group in the 2012 financial year.

E. Accounting-related internal control system

Pursuant to the German Accounting Law Reform Act (BilMoG), 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 HCI 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 officers and the Chief Financial Officer / Commercial Director of HCI Capital AG in conjunction with the controlling department and the managers 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 and is intended to provide a detailed picture of material risk. Systematic risk identification and appraisal, respectively the quantification and assessment of the probability of occurrence, are all integral parts of the system. On this basis, adequate measures to avoid, reduce or limit risk can be developed and implemented.

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 target-performance analysis and permanent communication by the risk officers with the risk control department and 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 financial performance, cash flows and financial 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 control department. The risk officers from the various departments report to this department. If there are any significant changes regarding individual risks, the relevant risk officer immediately informs the risk controlling department and the Management Board. 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 investments (which include closed-end funds) are likely to be subject to substantial change in the coming years. In particular, the AIFM Directive issued at EU level will lead to fundamental changes for issuing houses and trust, asset and fund management companies. However, it is not yet known exactly what the full impact on the industry will be when the directive is implemented in national law. The AIFM Directive sets out extensive regulations for initiators and managers of closed-end funds as they conduct their existing business activities. In addition to strict requirements relating to minimum capital amounts and the management expertise of initiators, and wide-reaching requirements with regard to the administration, risk and liquidity management and transparency of closed-end funds, there will also be mandatory licensing and continuous monitoring of closed-end fund providers and managers by a supervisory authority. One of the consequences of this would be a substantial increase in the cost of structuring and managing funds, which could in turn lead to additional expenses for the HCI Group.

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 initiated by the HCI Group and upon which the HCI Group has limited or no influence.

The re-emergence of the financial and economic crisis in 2011, in part due to the debt crises in the USA and the EU, resulted in persistent uncertainty and cautiousness among investors. Overall, there was little cause for joy in 2011 on the shipping markets in particular. Despite initial signs of recovery, especially in container shipping, charter rates plummeted once again in the middle of the year, with the result that current ship funds remain under pressure. This is impacting on new business within this market segment and, more generally, on the overall mood in the closed-end fund market. HCI's product lines also felt the effects of this. There was noticeable reluctance by clients to invest in closed-end funds, which led to a slow-down in planned product placements. The situation is exacerbated by the fact that arranging financing for projects is taking longer, capital costs are higher and lending policies have become much more restrictive. On top of this, 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).

The HCI Group assumes that the market will consolidate, resulting in a clear market recovery in the medium to long term. If the markets recover more slowly than expected and / or the reluctance of clients to invest in closed-end funds and in HCI products persists for longer than anticipated, the planned liquidity and earnings might be generated with a corresponding time lag. In the event that a market recovery fails to materialise within the time frame predicted, which the HCI Group considers to be unlikely, the HCI Group's liquidity and earnings might be lower than planned. This would also be true if extremely unfavourable market developments made it impossible or economically unfeasible to acquire individual fund assets.

3. Sector-specific risks

Its business activities in the segments Sales and Design, 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 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 which managed at times to make a temporary recovery were once again negatively affected by the re-emergence of the financial and economic crisis in the course of 2011. This means that, even if markets recover temporarily, there is still a risk that economic developments will have a negative impact on realisable sale prices for investment assets and on the recurring revenues generated from operating them. If this happened, the HCI Group would probably generate lower earnings from the sale or management of investment assets than in previous years and / or there would be a delay in these earnings.

A regular feature of the HCI Group's fund models is that individual HCI companies participate in the existing funds as limited liability partners and, if necessary, also operate as limited liability trustees for investors. This situation means that these HCI companies are entered in the Register of Companies (Handelsregister) with the liability contributions of the interests held on own account and / or with the trust-managed interests.

In line with the prospective liquidity and payout plans, investors regularly receive distributions (primarily in the starting phase of the funds) that are not covered by corresponding commercial law profits (subsequently referred to as "liquidity distributions"). In this case, investors in the funds concerned are at risk of being liable in accordance with Sections 171 and 172(4) of the German Commercial Code (HGB), which initially affects the limited liability partners and limited liability trustees entered in the Register of Companies (Handelsregister). Liability under Sections 171 and 172(4) of HGB means that the portion of the liquidity distributions that led to a failure to meet the liability contributions would have to be paid back to the relevant fund companies (so-called reinvestments). However, reinvestments already made are taken into consideration here. This scenario generally becomes reality if the fund becomes insolvent and the creditors' claims cannot be met using the liquidity available. Claims against companies under the liability outlined here could cause a considerable outflow of liquidity for the HCI Group. Any subsequent compensation claims by the limited liability trustees under the trust agreement against the investors concerned would then 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 liquidity distributions which may have to be repaid is estimated at around EUR 71 million. In the previous year, the amount was in an estimated range of between EUR 21 and 40 million. The increase is primarily due to the risks relating to HCI real estate funds, which were hit harder by the effects of the financial and economic crisis in 2011. As already outlined, if the limited liability trustees were required to repay liquidity distributions, they could make compensation claims under the trust agreement against the individual investors amounting to the portion of repayments pertaining to the trust-managed capital. To hedge against the risk that compensation claims against individual investors may not be possible, provisions have been recognised in the consolidated financial statements as of 31 December 2011.

3.1. Risks relating to the Sales and Design 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 areas and / 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 fungibility. 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 both investment forms and individual product areas.

The cautiousness of investors in the market for closed-end funds, particularly with regard to ship funds, is reflected in the placement figures for the sector in 2011 which were published by the industry association Verband Geschlossene Fonds (VGF). Nevertheless, investments in closed-end funds in 2011 remained at the same level as in the previous year. This is primarily due to the steady rise in the percentage of institutional investors, such as insurance companies. VGF reported equity capital placed of EUR 5.85 billion for 2011 (previous year: EUR 5.84 billion), of which EUR 1.04 billion (previous year: EUR 0.62 billion) came from institutional investors. This means that institutional investors placed around 67 % more than in the previous year and increased their share of the overall market to 18 %. Due to the ongoing cautiousness of investors and uncertainty surrounding the upcoming regulations in the closed-end fund industry, the sales market is expected to stagnate in 2012. Analysts at ScopeAnalysis are predicting at best moderate growth in the market at a low level for 2012. In addition to this, fund initiators will face further challenges as a result of the limited availability of good investment assets.

HCI will still provide placement guarantees and pre-financing to a limited degree only when designing products and committing investment assets for fund products. Accordingly, the Company will also only enter into the resulting contingent liabilities on a justifiable scale. In order to be able to continue offering an attractive product range, placements will be hedged wherever possible by means of penalties when committing investment assets. In addition, there are non-binding 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, however, HCI will then bear the risk of a fund being wound up, which would occur in the event that complete placement is not achieved, with a correspondingly negative effect on the liquidity position and financial performance.

The placeability risk should be countered by innovative and high-quality fund ideas that are tailored to current demands.

3.1.2. Market development for the Ship asset class

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 ship markets it operates in. Ship markets have been of a predominantly cyclical nature in the past.

According to VGF's figures for the industry, closed-end ship funds were the fourth-largest product area in the overall market for closed-end funds in 2011. Product availability in closed-end ship funds at HCI is strongly dependent on the ship pipeline, which has been released from contingent liabilities, especially if HCI has the option of including these ships in funds. HCI has over 25 years of market experience in this asset class and occupies an adequate competitive position. Nevertheless, the risk remains that revenue targets in this area will be missed in the absence of product or financing availability. Please refer to section G. "Outlook" for the future sales strategy.

3.1.3. Dependence on sales partners

HCI generally has no direct client business and is therefore dependent on top-performing external sales partners. The sale of HCI products would be severely restricted if there were a temporary or permanent loss of important individual partners or a number of individual partners. To counter this, HCI has in recent years pursued 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. For this, HCI co-ordinates closely with its independent sales partners through individual relationships (cf. A.I. "Business activities").

Nevertheless, in light of the continuing market weakness and negative press about existing funds, there is a not-inconsiderable risk that the Company will be unable to maintain its long-standing relationships, particularly with top-performing sales partners. Furthermore, it cannot be ruled out that certain sales channels (in particular banks and savings banks) will temporarily be unable to generate revenues due to the absence of product approval by central institutes.

3.1.4. Financing risks

The quality of a fund's design and the selling success it enjoys are largely influenced by whether adequate investment assets can be 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 and the continuing restrictive lending policies of banks with regard to interim equity capital financing, it is unlikely that this type of financing will be available or be made available in the short to medium term. Purchase agreements with conditions precedent (or comparable structures) will therefore be increasingly entered into for asset commitment, and investment assets will be committed together with financially sound partners such as shipowners.

The successful conclusion of the release from significant liabilities owed to banks and the conversion of bank liabilities into equity in 2010, as well as the capital increase in May 2011 that enabled the restructuring to be completed, puts the HCI Group on a solid financial basis, thereby ensuring that it is well positioned to deal with the challenges outlined. With regard to committing assets for ship funds, HCI has also entered into non-binding agreements with a series of shipowners. These agreements could enable continued access to the ship pipeline, which has been released from contingent liabilities, without necessitating pre-financing obligations on the part of HCI.

The changes in financing terms and conditions and the continuing reluctance of investors to invest in closed-end funds mean, however, that HCI is exposed to an increased liquidity risk due to the fact that proceeds from design and sales fees have failed to materialise.

3.1.5. Risks from contingent liabilities

During fund design and structuring, the underlying assets are usually ordered or acquired by special-purpose entities in which the HCI Group and a cooperation partner hold a stake. Asset commitment normally takes place at a time when the equity capital needed 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 HCI Group in the past regularly provided guarantees to the banks as a means of collateral for the interim financing. Following the release from contingent liabilities in 2010, HCI will in future hedge asset commitments by means of penalties and winding-up regulations 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 HCI 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.

There were no placement guarantees as of 31 December 2011.

Acquisition commitments amounted to EUR 8 million as of 31 December 2011.

To protect its new product pipeline, the HCI 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 a risk of claims being made under these guarantees.

3.1.6. Prospectus liability

Individual companies within the HCI Group, which develop and outline the economic and legal structure for investment offers independently, are liable if the design and advertising of the fund is defective. As designers and providers of the fund products, these companies are exposed to the following risks:

Sales prospectuses are drawn up for the investment offers made by the HCI Group, and these prospectuses are used by potential investors as the basis for an investment decision. The companies and natural persons directly responsible for the content of the prospectus are liable to investors with respect to the completeness, clarity and correctness of the information in the sales 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 were claims for damages against the HCI Group, which were mostly related to the current negative performance of individual fund companies triggered by the financial and economic crisis. They were followed by further claims for the same reasons in 2011. It cannot be ruled out that other investors will successfully pursue similar claims for damages, especially if individual investors successfully enforce claims against HCI.

The HCI 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.

Nevertheless, at this point in time it cannot be ruled out that individual investors will make successful claims against HCI. This would result in both the settlement of claims for damages (possible payment of a minimum return) and the withdrawal of the fund company's interests as well as increased legal and consultancy expenses. It might not be possible to resell the withdrawn fund interests immediately again in some cases, and / or the market price might not match the withdrawal price that HCI would nevertheless have to pay to the individual investors in this regard. If this happened, the difference between the purchase price and the fair value of the fund interests would have to be recognised as an expense. As well as this, the liquidity needed to acquire the interests would have to be made available.

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 in some cases significant, changes to economic circumstances as a result of negative developments on the global financial and economic markets can cause such failures.

In light of the changed market conditions and the sometimes considerable effects of the ongoing financial and economic crisis in 2011 (particularly in the area of closed-end ship funds), the HCI Group continued with the systematic reorganisation of activities in its after sales services. The Company did this in order to prevent fund insolvencies and damage to its reputation as well as a resulting fall in the marketability of its funds and its profitability. This includes greater monitoring of funds in the form of an early-warning system to identify any threatened liquidity shortages in individual fund companies and so enable fund managers to react quickly to changes in the market environment. The HCI Group has also set up a restructuring team that helps fund managers to develop sustainable restructuring models for existing funds. Furthermore, HCI conducts detailed discussions with banks, charterers, shipowners and others and provides its investors with comprehensive information. Despite these measures, the returns offered by individual funds could still be significantly affected. Avoidance of these risks requires restructuring concepts involving all of the relevant parties.

The funds managed by the HCI Group generally have sufficient financing to cover the full term of the fund. However, it is possible that certain funds will 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. This could become necessary if the payment extensions agreed with the banks for the ship in question expire and the charter situation has still not 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, e.g. via restructuring capital.

The situations outlined above can affect the HCI Group's reputation, with a corresponding negative impact on future marketability, financial strength and profitability.

3.2.2. Earnings and liquidity risks

Earnings 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. If the performance of individual existing funds is below the level forecast due to the current market environment or currency fluctuations, the HCI Group 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 on the liquidity situation. It cannot be ruled out that HCI will also make contributions in the form of further deferments and, in some cases, waivers and liquidity commitments as part of necessary fund restructuring measures.

The above-mentioned risk also exists for funds still in the placement phase. If placement falls significantly short of its planned level, this would have a negative impact on the HCI Group's planned earnings. In the worst-case scenario of one of these funds being wound up, the Company may also be obliged to refund earnings which have already been recognised and bear the costs of designing and selling the funds. This would impact on the HCI Group's liquidity situation and financial performance.

How the various asset markets and the related income situation of the funds develop is of crucial importance. With regard to the largest part of the HCI Group's product portfolio, the performance of the ship markets, particularly the development in charter rates, will be the biggest factor.

3.2.3. Trustee liability

HCI Group companies act as trustees of investors (hereafter referred to as "trustees") 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 trustee seeks to reduce liability risk by continuously optimising processes.

The limited liability trustees have various obligations in this regard, 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.

3.3. Risks relating to the Asset Management segment

Ship markets are currently experiencing a difficult market situation, largely characterised by overcapacities and tough competition among shipowners. The HCI Group believes that the market will consolidate, resulting in a notable market recovery in the medium to long term. The volatility over the past year 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 ship 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 a financial and 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 is hugely affected by this at present.

A heightened level of uncertainty dominated the mood on the international financial markets in 2011 and this had an impact on secondary life insurance markets. Investors continue to display considerable cautiousness. 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.

Performance problems with the HCI Group's other funds (e.g. aircraft funds, solar energy funds and funds of funds) are also possible and could lead to reputational problems.

HCI holds investments in various joint ventures and minority holdings such as funds, shipowners, real estate companies and sales companies. These investments were subject to an impairment test as of the reporting date and written down where required. Investments were also written down in 2011 largely as a result of the downturn on the ship markets. 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 frequent monitoring of investments in order to identify these risks at an early stage.

The HCI Group also holds individual equity capital and debt positions in special-purpose entities connected with the commitment of ships and the liquidity management of real estate. These investments and loan receivables were also tested for impairment as of the reporting date. In the case of special-purpose entities consolidated as associated companies in the annual financial statements, no impairment occurred in comparison with the previous year. However, an assessment of the recoverability of loan receivables from real estate funds showed that valuation allowances were necessary here. 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, enthusiastic and motivated employees. An outflow of well-trained and qualified employees could have a severe impact on the Company. In light of the difficult market situation, which had already resulted in substantial revenue losses for the HCI Group in the past, the Company had no option but to adapt its cost structure to market conditions in 2011 and implement essential personnel measures. There were also employee resignations in 2011. In order to ensure that the HCI Group has the human resources it needs, specific measures have already been implemented. The focus here is on providing all employees with 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. The introduction of a data loss protection system is planned for the first half of 2012.

4.3. Financial risks

The spread of the international financial and economic 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 plus interest from Bankhaus Wölbern in connection with an order for 9 container ships with a cooperation partner. Under the terms of the non-cash capital increase carried out in 2010, Bankhaus Wölbern also had the option of converting the project-related loan as part of 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 still taking place.

4.3.2. Liquidity risks

Maintaining a solid equity base and liquidity is an essential management goal. As outlined above, the ongoing reluctance of investors to invest in closed-end funds and potential delays in the settlement of trust receivables mean that there is a continued liquidity risk for the HCI Group. However, this risk will be addressed by means of conservative liquidity and earnings planning that has been adapted to the gloomier market prospects for 2012. 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 these two 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 Group's financial performance and cash flows. 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 35(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 (35)(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 6.1 billion of equity capital placed (EUR 4.9 billion of investor capital managed as of 31 December 2011), 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 future. Against the background of current market developments, attention should be drawn to the following opportunities:

Recovery of the market in the retail sector

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 long-term investment. With the expectation of a noticeable recovery in the global economy and on financial markets, there is a good chance that investors will abandon their reticence and return to making investments in closed-end funds. We believe that this will also apply to ship investments in the medium to long term.

Developing the institutional investor group for closed-end investments in tangible assets

Current market developments indicate a shift within the investor spectrum of companies that offer closed-end fund investments in tangible assets, with institutional investors in particular becoming more important. The focus of institutional investors at present is on real estate investments. Investments in ships, by contrast, have received little attention from this target group to date. We see an opportunity here to increase placements from institutional investors in the Ship asset class over the medium and long term by offering suitable investment products. Thanks to the listed HCI HAMMONIA SHIPPING AG, the HCI Group already gained a foothold in this sector in the past. We also believe that the incorporation of the AIFM Directive in national law from mid-2013 will provide a regulated framework to help make closed-end investments in tangible assets more attractive for institutional investors. The HCI Group intends to use these opportunities to exploit the growth potential of new business with a wider range of investors and increase its recurring proceeds from managing fund products.

Recovery and consolidation of ship markets

Ship markets are currently experiencing a difficult market situation, largely characterised by overcapacities and tough competition among shipowners. The HCI Group believes that the market will consolidate, resulting once again in a notable market recovery in the medium to long term. This refers to a correction in supply capacities (reduction of oversupply) and consolidation among shipowners, which can bring greater stability to the market in the medium to long term, in particular with regard to the development of charter rates and therefore the value of ships. As a result, the attractiveness of ship investments for private and institutional investors will increase again. Over a period of more than 25 years, the HCI Group has established itself as a leading provider and manager of closed-end ship investments in Germany. Thanks to a strong network in the area of shipping and many years of experience in structuring ship investments for both private and institutional investors, we believe that the HCI Group has an opportunity to benefit from these developments more than its competitors. In detail, this means exploiting opportunistic ship investments in the current market environment and developing alternative product structures, thereby accessing new target groups, particularly professional and institutional investors.

Market-led consolidation within the closed-end fund industry

In our view, in a highly fragmented market the risks for providers of closed-end funds resulting from the financial and economic crisis will especially hit smaller competitors. These competitors have less well-established products, smaller sales networks, and lower credit standing and financial strength than larger fund initiators such as the HCI Group. Therefore, there is a chance that the financial and economic 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.

Regulation-led consolidation within the closed-end fund industry

When the act to update asset investment law and investment brokerage law comes into force in mid-2012 and the AIFM Directive is incorporated into national law by mid-2013, the closed-end fund sector and the independent financial service providers that make a substantial contribution to HCI's placement success will experience a comprehensive and far-reaching level of regulation. This pertains in particular to the regulations under the AIFM Directive, which have not yet been implemented. In accordance with the directive, there will be strict requirements relating to minimum capital amounts and the management expertise of closed-end fund providers. Wide-reaching legal requirements with regard to the administration, risk and liquidity management and transparency of closed-end funds will also be stipulated. Finally, there will be mandatory licensing and continuous monitoring of closed-end fund providers and managers. 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 new regulatory requirements. With regard to further regulation of independent financial service providers, the HCI Group is also relatively well positioned to provide this group of sales partners with services and consultation that will enable them to adapt to the regulatory changes. A large amount of predominantly smaller issuing houses will be unable to do this, with the result that the number of closed-end fund providers will decline significantly in our opinion. The HCI Group therefore stands to benefit here too from further industry consolidation as a result of stricter market regulation.

Inflation risks as an opportunity for investment in tangible assets

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 and economic crisis, we see an opportunity for investments in solid tangible assets to enjoy a revival among investors. As a direct result 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 its investment range focused on tangible assets, the HCI Group in particular could benefit from this trend.

More leeway following completion of restructuring

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 contingent liabilities owed to banks, the conversion of a large share of bank liabilities into equity, and the capital increase in May 2011 that enabled the restructuring to be completed, 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 in an improved market environment using its current financial leeway.

Advantages of stock market listing

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.

G. Outlook

World economy remains on growth course

The outlook for global economic developments in 2012 involves some uncertainties but is positive overall. Germany's leading economic institutes are forecasting global economic growth of 3.0 % (source: Hamburg Institute of International Economics [HWWI]) to 3.8 % (source: German Institute for Economic Research [DIW]). This means, however, that the pace of growth will be even slower than in the previous two years. The drop in economic output is primarily due to the consolidation of government and household budgets as a result of the sovereign debt crisis, the loss of confidence in the financial sector and decreasing capital expenditure by companies. The expiry of economic stimulus programmes together with spending cuts is also having a negative effect.

Emerging market countries – especially China and India – will continue to drive the global economy. The economies of these countries are likely to expand by less than in recent years due to lower domestic consumption and weaker demand from industrialised countries. Economic institutes are expecting growth in China to remain at a respectable level in 2012 of between 8.0 % (source: Kiel Institute for the World Economy [IfW]) and 9.4 % (source: DIW). The Chinese government cut its own growth target for 2012 from 8.0 % to 7.5 % in early March.

Following a weak start to 2011, growth in the USA picked up noticeably from the middle of the year onwards, with stronger consumption and rising exports. However, in light of persistently high unemployment, stagnating household incomes and gloomier consumer sentiment, economic growth here is again likely to slow down somewhat in the course of 2012. Nevertheless, economic institutes are expecting GDP in the USA to grow by between 1.5 % (source: Warburg) and 1.9 % (source: IfW) in 2012.

Due to the ongoing debt crisis within the EU, the outlook for economic developments in Europe is much less optimistic. The crisis-hit countries are having to consolidate their government budgets, with correspondingly negative effects on their domestic economies. In some countries, such as Greece, the recession is expected to continue in 2012. By contrast, the EU's larger economies – in particular Germany – are anticipating growth this year too, albeit at a lower level. Overall, however, there is a risk of a slight recession in the euro zone in 2012. Forecasts here vary somewhat, ranging from a slight fall in economic output of -0.3 % (source: European Commission) to marginal growth of 0.1 % (source: IfW). The economic institutes' forecasts are based on the assumption that the crisis-hit countries are systematically consolidating their budgets and that there will not be a deep, long-term recession in the euro zone.

The mood barometers for Germany had already indicated less optimism during 2011. Having started at 114.0 points in January 2011, the ifo Business Climate Index for trade and industry in Germany recorded a sharp drop to 106.5 points in October 2011. However, sentiment has brightened somewhat since then. In February 2012, the index stood at 109.6 points, thereby recording its fourth consecutive rise since the low of October 2011. A key reason for the weaker growth expectations in Germany is lower growth in world trade. This is now predicted to expand by only 3.8 %, which will slow down Germany's strong exports. With regard to the German employment market, experts are anticipating stable development and therefore also robust domestic consumption. Housing construction in particular will be a growth driver over the next year. Against this background, economic growth in Germany in 2012 is forecast to lie between 0.3 % (source: IMF) and 0.6 % (source: European Commission).

Ship markets remain under pressure

Charter rates in the **container ship** sector are unlikely to recover in the short term, given the gloomy macroeconomic outlook and the steady stream of newly built large container vessels. Greater equilibrium between the growth of supply and demand is forecast for 2012. Nevertheless, the debt crisis in several EU countries, weak growth in the US economy and the oversupply of tonnage mean that a sustained recovery on the container ship market is not yet expected. Analysts believe that a significant improvement in the market situation will come in 2013 at the earliest. As most of the strong growth on the supply side relates to large container ships of 5,000 TEU and higher, there will, however, be market opportunities in the medium term for small to medium-sized container vessels used for feeder traffic.

The **bulker market** remains in trouble, primarily as a result of the large amount of transport capacity to be delivered soon. The order book total amounts to about 32 % of current fleet capacity, two thirds of which is scheduled for delivery in 2012. After taking scrappings into account, the fleet is predicted to grow by around 12 % in 2012, while demand in the same period is expected to increase by just 3 %. This is partly due to lower demand for iron ore in China. In light of this situation, it is assumed that charter rates for bulkers will remain under severe pressure in 2012 and that a sustained recovery will not materialise until the medium term. An increased level of volatility is forecast for the capesize segment in particular, while rates for smaller ship sizes are expected to be stable. Even higher scrapping rates in the partially outdated fleet as well as cancellations and postponements of newbuilding orders will only compensate for the supply pressure to a limited extent.

With the demand for oil at a relatively weak level, further pressure on charter rates for **tanker shipping** is anticipated. Tonnage supply will continue to exceed demand forecasts, given the growth in available capacity. A lasting recovery is currently not expected in this shipping segment either before 2013. By taking various steps such as bundling their marketing activities and pooling their ships, market participants are attempting to restore their financial stability.

Outlook for closed-end funds remains subdued

The mood in the closed-end fund sector darkened again considerably during 2011. Market sentiment had been much more optimistic at the start of the year. This change is reflected in the business climate index calculated by ScopeAnalysis twice yearly for the industry. Having reached 153 points at year-end 2010 – its highest level since the end of 2007 – the barometer fell to 146 points in the first half of 2011. By the end of 2011, the index displayed a slight upward trend once more, rising to 150 points.

63 % of initiators surveyed expect the sales market to stagnate in 2012. Lower investor confidence was the main reason given, but also uncertainty surrounding the industry regulations to be implemented soon as part of the AIFM Directive. In addition to this, issuers will face further challenges as a result of the lack of good investment assets. As a result, analysts at ScopeAnalysis are predicting at best moderate growth in the market at a low level.

This can be seen in domestic real estate in particular, which still had by far the largest market share in 2011. Although approximately 60 % of fund providers continue to focus on real estate funds, and 86 % of these want to set up funds in German real estate, the strong demand has pushed up the price of German core real estate to a high level, which makes it more and more difficult to achieve attractive returns for real estate investments in Germany. Around 60 % of closed-end real estate fund providers wish to participate in this segment in 2012. In view of the decreasing returns offered by direct investments, opportunistic strategies are also being pursued once again. Foreign real estate will play a smaller role in 2012. Only around 8 % of issuing houses plan on being active in the Netherlands, while just 7 % of fund initiators wish to acquire investments in the USA or Austria. ScopeAnalysis also thinks that the German real estate market will continue to dominate in this asset class on account of its relative stability, even though the market here has become tighter. However, analysts are forecasting a fall in the amount of equity capital placed in domestic real estate funds, while they believe the placement volume for foreign real estate investments will rise.

The range of ship funds on offer is likely to decline further. Only about 12 % of initiators intend to design funds in this asset class in 2012. This is a sharp drop of 22 percentage points on the previous year. The primary reason for this is the negative performance of existing funds in the persistently weak market environment. The Scope analysts only expect niche markets such as cruise ships to enjoy greater placement success.

Approximately 40 % of providers wish to set up new energy funds in 2012. This is more or less the same as in the previous year, although initiators' interest is more focused on wind energy funds. The percentage of providers that are planning to launch funds in this category in 2012 has risen from 11 % in 2011 to 27 %. The main reason, according to analysts at ScopeAnalysis, is that it is increasingly difficult to find attractive investments in solar energy facilities, which have been the preferred type up until now. The fall in feed-in remuneration in Germany and the economic problems in southern European countries have significantly reduced the level of interest in solar energy investments. As a result, several issuing houses are now attempting to switch to wind energy, even though the risks in this area are considerably greater.

HCI Group adapted to change in market conditions

As a result of the ongoing turbulence on the financial markets, the high level of uncertainty regarding economic prospects and the associated deep reluctance of investors to place their money in long-term asset investments, we assume that the market for closed-end funds will not yet stage a recovery in 2012. While we had expected the market environment to develop along much more positive lines a year ago, prospects deteriorated considerably from the middle of 2011 onwards due to the escalating public financing crises in Europe and the USA.

In light of the persistently weak market situation, the active management of existing funds, especially ship funds, will continue to be of key importance in 2012. Following a temporary recovery in the course of 2010, the container ship markets suffered another significant setback as a result of fierce price competition among liner shipping companies and the general downturn in the global economy during 2011. The bulker and tanker markets are not expected to recover any time soon either. This is impacting on the liquidity of existing funds, with the result that the HCI Group will continue to have an important role to play in its trust management and fund 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. We have realigned HCI Treuhand's activities accordingly in recent years so that the focus is on these tasks and have considerably increased capacities in the areas of fund controlling, restructuring management and investor relations.

The HCI Group will initially concentrate its new business in 2012 on placeable fund products in the Ship area. In line with the current market situation, the focus here will be on opportunistic investment ideas and smaller private placements. This also facilitates the key objective of keeping placement risks to a minimum in view of the current weakness and expected further volatility of the market.

The HCI Group has adapted to the changed market environment over the last three years in many respects. Following extensive financial restructuring, which included a release from contingent liabilities and a considerable strengthening of its equity base, the HCI Group bolstered its financial foundations substantially in 2010 and 2011 and significantly reduced existing risks. With market prospects remaining poor, the Group began implementing extensive cost-saving measures in 2011. Overall, personnel expenses and material costs are expected to fall by around EUR 10 million in the 2012 financial year. We are thus pursuing a goal of generating a positive operating result despite lower revenues in a persistently weak economic environment.

In addition, the course of business in 2012 and 2013 will largely be determined by how quick and how sustainable the recovery of ship markets in particular is and how the demand for closed-end funds in general develops. This will also depend on the extent to which the financial markets stabilise and the positive global economic forecasts associated with this are confirmed. The parameters for regulating the industry under the AIFM Directive will also become clearer during 2012. Provided that economic developments are positive overall, we believe that there are good opportunities for the HCI Group to benefit in the coming years from the anticipated changes and consolidation in the closed-end fund sector.

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.

Financial performance
The following table includes the key financial performance figures of HCI Capital AG for the 2011 financial year in comparison with the 2010 financial year. The financial performance of HCI Capital AG in 2011 was largely shaped by its strong investment income, which includes the positive results from profit transfer agreements and is essentially due to Group-internal disposals of interests in affiliated companies and investments and the hidden reserves identified as a result. These profits from Group-internal disposals were eliminated in the consolidated financial statements.

In EUR million	2011	2010
Other operating income	2.6	4.6
Personnel expenses	-1.9	-2.1
Other operating expenses	-5.8	-7.5
Investment income	29.8	-3.3
Write-downs	-10.0	-6.2
Other financial result	0.3	1.0
Income taxes	-0.3	-0.3
Other taxes	-0.1	-1.4
Extraordinary result	--	9.1
Net profit (loss) for the year	**14.6**	**-6.1**

Other operating income for the 2011 financial year mainly comprises income from the recharging of costs to affiliated companies of EUR 2.1 million (previous year: EUR 2.1 million), In the previous year, income from the reversal of impairments on investment assets of EUR 0.6 million and income from the reversal of impairments on receivables were recognised.

Personnel expenses were reduced by around EUR 0.2 million to EUR 1.9 million.

Other operating expenses mainly comprise legal and consulting costs of EUR 2.1 million (previous year: EUR 4.0 million), expenses from exchange rate differences of EUR 0.2 million (previous year: EUR 0.4 million), financial statement and auditing costs of EUR 0.3 million (previous year: EUR 0.4 million) and rental expenses of EUR 0.8 million (previous year: EUR[0.8 million). In addition, expenses in the amount of EUR 1.0 million resulted from liquidity commitments (previous year: EUR 0.0 million).

Investment income was EUR 33.1 million higher than in the previous year at EUR 29.8 million and comprises income from profit transfer agreements of EUR 19.8 million (previous year: EUR 8.9 million). In the previous year, there were expenses from loss transfers of EUR 14.3 million. In the 2011 financial year, the Company recognised gains and losses from control and profit transfer agreements with HCI Hanseatische Capitalberatungsgesellschaft mbH for EUR 1.9 million (previous year: EUR -14.3 million), HSC Hanseatische Sachwert Concept GmbH for EUR 10.9 million (previous year: EUR 0.8 million) and HCI Treuhand GmbH for EUR 7.0 million (previous year: EUR 8.2 million). It also earned income from investments amounting to EUR 10.0 million (previous year: EUR 2.1 million). The positive results from profit transfer agreements included profits from Group-internal sales of interests in affiliated companies and investments of around EUR 21.5 million. Investment income also contained profits of HCI Treuhand GmbH from previous years of EUR 9.7 million, which it was decided to distribute in 2011.

Write-downs relate mainly to impairments on the eFonds investment of EUR 0.3 million (previous year: EUR 2.7 million), impairments on investments in subsidiaries of EUR 3.4 million (previous year: EUR 0.1 million) and impairments on fund companies of EUR 0.6 million (previous year: 0.3 million). Additional write-downs, over and above the usual write-downs, of EUR 5.7 million (previous year: EUR 2.9 million) were also recognised for current assets, primarily with respect to affiliated companies (EUR 5.5 million).

The **other financial result** includes interest income of EUR 0.9 million and interest expenses of EUR 0.6 million, derived mainly from receivables from and liabilities to Group companies as part of cash pooling. Interest expenses of EUR 0.2 million were recorded with regard to banks.

The previous year's **extraordinary expenses** relate to expenses from compensation payments and processing fees owed to banks as part of the release from contingent liabilities.

The previous year's **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 0.3 million. Other taxes came to EUR 0.1 million.

Financial position and cash flows

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

	31.12.2011		31.12.2010	
Assets	**In EUR million**	**in %**	**In EUR million**	**in %**
Office equipment	0.1	0.1	0.0	0.0
Investments	42.1	43.1	35.7	48.6
Receivables from related parties	42.9	44.0	26.2	35.6
Receivables and other assets	4.6	4.7	8.0	10.9
Securities	1.5	1.5	1.7	2.3
Cash and cash equivalents	6.4	6.6	1.9	2.6
Total assets	**97.6**	**100.0**	**73.5**	**100.0**
Equity and liabilities				
Equity	69.8	71.5	44.2	60.1
Provisions	5.9	6.0	4.5	6.1
Liabilities to banks	16.6	17.0	17.8	24.2
Trade payables	0.4	0.4	0.1	0.2
Liabilities to related parties	4.1	4.2	5.9	8.1
Other liabilities	0.8	0.8	1.0	1.3
Total equity and liabilities	**97.6**	**100.0**	**73.5**	**100.0**

Investments went up by EUR 6.4 million to EUR 42.1 million as of 31 December 2011 (previous year: EUR 35.7 million), essentially as a result of the increase in reserves at a subsidiary of EUR 10.0 million. This was offset to some extent by write-downs on the eFonds investment of EUR 0.5 million and on other investments and interests in affiliated companies of approximately EUR 3.6 million.

The rise in **receivables from related parties** of EUR 16.7 million was mainly due to receivables in connection with distributions of investment income and profit transfers under corresponding agreements. 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 tax receivables of EUR 3.5 million (previous year: EUR 0.5 million).

Securities include interests in HCI HAMMONIA SHIPPING AG for which write-downs to the fair value in the amount of EUR 0.2 million (previous year: write-down reversals of EUR 0.2 million) were recognised as of 31 December 2011.

Cash and cash equivalents grew by EUR 4.5 million from EUR 1.9 million as of 31 December 2010 to EUR 6.4 million as of 31 December 2011.

The increase in **equity** of EUR 25.6 million to EUR 69.8 million is mainly due to the cash capital increase of EUR 11.0 million and an annual net profit of EUR 14.6 million in 2011. A cash capital increase of EUR 11.0 million was carried out in May 2011 from authorised capital, prompting an overall cash increase in capital of EUR 11.0 million as a result of the issuance of 7.3 million new no-par-value shares and the transfer of EUR 3.7 million to additional paid-in capital.

Provisions went up by EUR 1.4 million to EUR 5.9 million. This rise is largely attributable to the increase in tax provisions of EUR 0.8 million.

Liabilities to banks mainly comprise obligations arising from the compensation payment of EUR 12.5 million owed to banks. This stipulates that after the full release from contingent liabilities, the banks should receive compensation of EUR 12.5 million that is payable only when the HCI Group has met specified earnings and liquidity thresholds, as long as no dividends are paid to shareholders before the entire compensation amount has been paid. If the Annual General Meeting decides to pay dividends prior to this, any compensation amount still outstanding at this point in time will become due for payment as of the end of the following business year.

The item also includes non-current liabilities of EUR 3.9 million owed to a bank.

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 the last declaration of compliance on 24.01.2011 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 26.05.2010 (hereinafter “the Code”) published by the German Ministry of Justice in the official section of the German electronic Federal Gazette on 02.07.2010, 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.

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(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.

Management Board and Supervisory Board of HCI Capital AG

Hamburg, 23 January 2012

For the Management Board	For the Supervisory Board
Dr Ralf Friedrichs	Dr John Benjamin Schroeder
(Chairman of the Management Board)	(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 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 week 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 noticeable 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 prior examination 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 appointment, determination of audit focus 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 (Chairman), 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 employment 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 AktG and Section 249(1) sentence 1 AktG). The members of the human resources committee are: Dr John Benjamin Schroeder (Chairman), 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 (Chairman), 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 fundamentally significant topics for 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 2011 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 simultaneously. 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 generally accompanied by press publications. 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. All financial and mandatory publications are publicly available on the HCI Capital AG website under Investor Relations and Press.

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 Reporting 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 2011. The members of the Supervisory Board directly and indirectly hold 26.71 % 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. In the case of Dr Moosmayer, 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.

The following arrangements were agreed with two Management Board members in relation to the contractually agreed fixed salary components forgone in 2009 and 2010 and continued to apply in 2011. 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. If these thresholds are not met, payment of the remaining amount forgone plus an additional sum will be made in 2012 and 2013, provided that EBT reaches the specified thresholds.

The Management Board member Dr Pres resigned from his position as of the end of 31 May 2011. Dr Pres was released from his duties before his employment contract ended on 31 August 2011.

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 and Dr Moosmayer 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), and that of Dr Oliver Moosmayer is 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 1.4 million (previous year: EUR 1.9 million).

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

	2011	2010	2011	2010	2011	2010
	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	667	884	0	0	667	884
Dr Oliver Moosmayer	355	362	0	90	355	452
Dr Andreas Pres	396	520	0	90	396	610
	1,418	**1,766**	**0**	**180**	**1,418**	**1,946**

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

Supervisory Board members receive an annual payment of EUR 18 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 500. Total remuneration for the Supervisory Board in the 2011 financial year amounted to EUR 150 thousand (previous year: EUR 322 thousand). The year-on-year decrease is due to the members of the Supervisory Board forgoing half of their entitlement for 2011.

The Supervisory Board members received the following individual remuneration:

EUR '000	**Fixed Supervisory Board remuneration**		**Meeting attendance fee**		**Total**	
Supervisory Board	2011	2010	2011	2010	2011	2010
Udo Bandow	27	54	3	9	30	63
Karl Gernandt	18	36	2	9	20	45
Alexander Stuhlmann	18	36	2	8	20	44
Dr John Benjamin Schroeder	36	72	3	9	39	81
Jochen Döhle	18	36	3	8	21	44
Stefan Viering	18	36	2	9	20	45
Total	**135**	**270**	**15**	**52**	**150**	**322**

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

In the financial year 2011 former members of the Management Board received a total of EUR 86 thousand (previous year: EUR 0 thousand) in other remuneration. This breaks down as follows: Mr. Harald Christ, EUR 28 thousand; Dr Rolando Gennari, EUR 38 thousand; and Mr. Wolfgang Essing, EUR 20 thousand.

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 2011 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 companies or one of their 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 36,692,645.00. It is divided into 36,692,645 no-par value registered shares. All shares in the Company are ordinary shares; no other classes of shares exist. 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 Döhle Group and MPC Münchmeyer Petersen Capital AG entered into a pooling agreement on voting rights with pre-emptive and purchasing rights with regard to the shares in HCI Capital AG held by each of them. The Management Board is not aware of any other 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 2011 by MPC Münchmeyer Petersen Capital AG, Hamburg, with a stake of 25.58 %, the Döhle Group, Hamburg, with a stake of 25.58 % and HSH Nordbank AG, Hamburg, with a stake of 19.9 %.

(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 or a court is responsible for appointment and dismissal of a Management Board member. The decision is based on 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 General 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) By way of a resolution dated 4 July 2011, the Annual General Meeting authorised the Management Board – with the approval of the Supervisory Board – to increase the subscribed capital in one or more tranches until 3 July 2016 by up to EUR 18,346,322.00 by issuing new no-par value registered shares for cash and / or contribution in kind ("Authorised Capital 2011"). 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. 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. The Management Board is also authorised – with the approval of the Supervisory Board – to specify further details on the capital increase and its implementation, in particular with regard to share rights and the conditions for issuing shares. The Supervisory Board is authorised to amend the articles of association in accordance with the utilisation of authorised capital. Furthermore, the Management Board is authorised to increase subscribed capital conditionally by up to EUR 18,346,322 by issuing up to 18,346,322 new no-par value registered shares ("Conditional Capital 2011"). Conditional capital is only used if the owner / creditor of debentures with conversion or option rights that were issued by the company or its direct or indirect majority-owned companies on the basis of the Annual General Meeting's authorisation resolution passed on 4 July 2011 actually make use of the conversion or option rights, or the owner / creditor of debentures with conversion obligations that were issued by the company or its direct or indirect majority-owned companies on the basis of the Annual General Meeting's authorisation resolution passed on 4 July 2011 fulfil their obligations regarding conversion and if no cash is exchanged or existing shares are used. The new shares are issued at the option / conversion price determined by the Annual General Meeting's authorisation resolution passed on 4 July 2011. The new shares participate in the Company's profits as and from the start of the financial year in which they arise as a result of conversion / option rights being exercised or conversion obligations being fulfilled. The Management Board is authorised to specify further details on the conditional capital increase. The Supervisory Board is authorised to amend the articles of association in accordance with the utilisation of conditional capital; the same applies if the authorisation granted on 4 July 2011 to issue convertible or optional bonds is not exercised during the authorisation period or if the conditional capital has not been used up before the deadlines for exercising option / conversion rights or for fulfilling conversion / option obligations expire.

(8) There are no significant agreements with the Company regarding a change of control after a takeover bid.

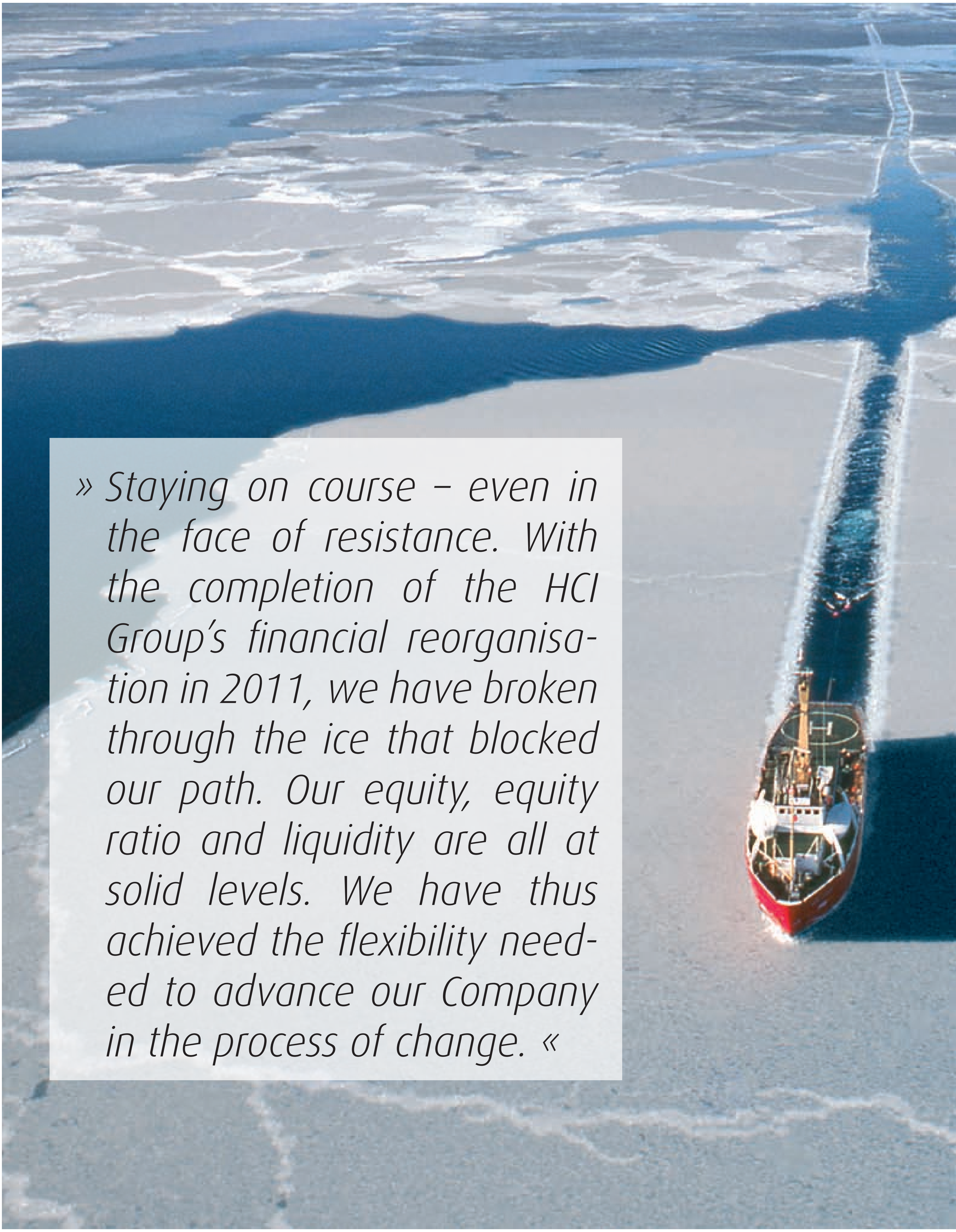
(9) The Company has not made any compensation agreements with Management Board members or employees if there is a takeover bid.

Hamburg, 20 March 2012

HCI Capital AG

Dr Ralf Friedrichs

Dr Oliver Moosmayer


» Staying on course – even in the face of resistance. With the completion of the HCI Group's financial reorganisation in 2011, we have broken through the ice that blocked our path. Our equity, equity ratio and liquidity are all at solid levels. We have thus achieved the flexibility needed to advance our Company in the process of change. «

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of operations

EUR '000	Note	01.01.–31.12.2011	01.01.–31.12.2010 (restated)
Revenues	(20)	32,958	36,771
Other operating income	(21)	4,715	3,670
Change in inventories	(22)	2,110	-53
Cost of purchased services	(23)	-6,205	-5,695
Personnel expenses	(24)	-21,327	-20,490
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(25)	-491	-907
Other operating expenses	(26)	-21,921	-22,684
Results of associated companies and joint ventures accounted for using the equity method	(27)	444	7,948
Earnings before interest and taxes (EBIT)		**-9,717**	**-1,440**
Interest income	(28)	3,873	1,199
Interest expenses	(28)	-1,030	-3,556
Other financial result	(28)	-7,111	8,239
Earnings before taxes (EBT)		**-13,985**	**4,442**
Income taxes	(29)	-1,081	567
Consolidated net result for the period		**-15,066**	**5,009**
Consolidated net result for the period attributable to the shareholders of the parent company		-15,066	5,009
Earnings per share (basic) in EUR	(30)	-0.45	0.19
Earnings per share (diluted) in EUR	(30)	-0.45	0.19

Consolidated statement of comprehensive result

EUR '000	Note	01.01.–31.12.2011	01.01.–31.12.2010
Consolidated net result for the period		**-15,066**	**5,009**
Gains and losses for associated companies and joint ventures not affecting net income		0	495
Gains and losses for associated companies and joint ventures affecting net income		-462	0
Changes in fair value of available for sale financial instruments not affecting net income		-223	394
Foreign currency translation adjustment not affecting net income		33	11
Foreign currency translation adjustment affecting net income		635	0
Other comprehensive income		**-17**	**900**
Total comprehensive result	(14)	**-15,083**	**5,909**
Total comprehensive result for the period attributable to the shareholders of the parent company		-15,083	5,909

Consolidated balance sheet

ASSETS EUR '000	Note	31.12.2011	31.12.2010
Non-current assets		**53,388**	**53,282**
Intangible assets	(6)	1,409	1,382
Property, plant and equipment	(7)	1,016	1,059
Investments in associated companies and interests in joint ventures accounted for using the equity method	(8)	1,724	28,322
Other investments	(9)	43,815	14,938
Other financial assets	(13)	4,786	6,735
Deferred taxes	(29)	638	846
Current assets		**44,361**	**52,928**
Work in progress and finished services	(10)	2,648	615
Trade receivables	(11)	10,108	13,434
Receivables from related parties	(12)	118	24
Income tax receivables		3,716	851
Other assets	(13)	5,232	17,986
Other financial assets		4,522	17,459
Other miscellaneous assets		710	527
Securities		1,530	1,753
Cash and cash equivalents		21,009	18,265
Total assets		**97,749**	**106,210**

EQUITY AND LIABILITIES EUR '000	Note	31.12.2011	31.12.2010
Equity	(14)	**41,809**	**46,142**
Subscribed capital		36,693	29,354
Capital reserve		81,149	77,738
Retained earnings		-61,996	-46,930
Accumulated other equity		495	512
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		**19,473**	**18,824**
Pension provisions	(15)	33	30
Other provisions	(16)	1,004	0
Debts	(17)	4,116	3,784
Liabilities due to related parties	(18)	0	3,075
Other financial liabilities	(19)	8,676	8,460
Other miscellaneous liabilities		2,092	0
Deferred taxes	(29)	3,552	3,475
Current provisions and liabilities		**36,467**	**41,244**
Other provisions	(16)	5,903	3,948
Debts	(17)	3	1,553
Trade payables		5,577	6,927
Liabilities due to related parties	(18)	1,405	3,034
Income tax payables		5,235	13,258
Other current liabilities	(19)	18,344	12,524
Other financial liabilities		12,720	11,788
Other miscellaneous liabilities		5,624	736
Total equity and liabilities		**97,749**	**106,210**

Consolidated cash flow statement

EUR '000	01.01.–31.12.2011	01.01.–31.12.2010 (restated)
Consolidated net result for the period	-15,066	5,009
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	491	907
Impairment on loans, interests and other financial receivables	7,673	1,875
Gains from the valuation of shares of HAMMONIA Reederei GmbH & Co. KG at fair value	-12,398	0
Losses from the fair value accounting of HAMMONIA Reederei GmbH & Co. KG	7,205	0
Losses from the valuation of an option at fair value	1,383	6,623
Gains from associated companies and joint ventures	-444	-7,948
Revaluation of shares of associated companies and joint ventures	-225	0
Gains (previous year: losses) from the disposal of intangible assets and property, plant, equipment and securities	159	-2,107
Increase in pension provisions	3	3
Elimination of income taxes	1,081	-567
Elimination of net interest result and net investment result	-3,147	4,562
Losses resulting from the allowance for bad debts	4,794	1,845
Cash deposit of available funds	-500	0
Other non-cash income and expenses	1,560	-15,109
Decrease (previous year: increase) in working capital	902	-947
Increase (previous year: decrease) in inventories	-2,033	7
Increase in trade receivables	-1,468	-2,623
Decrease in other assets	13,924	3,081
Increase in current provisions	1,955	1,760
Decrease in trade payables	-1,350	-692
Decrease (previous year: increase) in receivables from and payables to related parties	-4,798	2,031
Increase in other liabilities	-5,328	-4,511
Income taxes paid	-1,105	-3,379
Income tax refunds	566	5,214
Interest paid	-24	-599
Interest received	152	372
Distributions received	124	198
Cash flow from operating activities	**-6,816**	**-4,048**
Proceeds from disposals of intangible assets, property, plant and equipment as well as assets held for sale	11	11
Proceeds from the disposal of associated companies	138	245
Proceeds from disposals of other investments and securities	518	2,758
Payments for intangible assets and property, plant and equipment	-368	-224
Payments for investments in associated companies and interest in joint ventures	-363	-462
Payments for investments, securities and long-term loans to related parties	-552	-1,661
Cash flows from investing activities	**-616**	**667**
Proceeds from capital increase	11,009	0
Payments from capital increase	-381	0
Payments for transaction costs related to capital increase	0	-482
Proceeds from additions to debts	3	29
Repayments of debts	-404	-1,740
Cash flow from financing activities	**10,227**	**-2,193**
Net Changes in cash and cash equivalents	**2,795**	**-5,574**
Changes in cash and cash equivialents due to foreign exchange rate changes	-51	505
Cash and cash equivalents at beginning of period	18,265	23,334
Cash and cash equivalents at end of period	**21,009**	**18,265**

Consolidated statement of changes in equity

				Accumulated other equity				
EUR '000	Subscribed capital	Capital reserve	Retained earnings	Gains and losses recog-nised directly in equity from associated companies	Foreign currency translation adjustment	Changes in fair value of available for sale financial instruments	Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions	Consolidated equity
Balance at 01.01.2010	**24,000**	**75,943**	**-51,939**	**-33**	**-355**	**0**	**-14,532**	**33,084**
Capital increase	5,354	1,795						7,149
Total comprehen-sive result			5,009	495	11	394		5,909
Balance at 31.12.2011	**29,354**	**77,738**	**-46,930**	**462**	**-344**	**394**	**-14,532**	**46,142**
Balance at 01.01.2011	**29,354**	**77,738**	**-46,930**	**462**	**-344**	**394**	**-14,532**	**46,142**
Capital increase	7,339	3,411						10,750
Total comprehen-sive result			-15,066	-462	668	-223		-15,083
Balance at 31.12.2011	**36,693**	**81,149**	**-61,996**	**0**	**324**	**171**	**-14,532**	**41,809**

Segment reporting

EUR '000	Sales and Design		After Sales Services		Asset Management	
	2011	2010 (restated)	2011	2010 (restated)	2011	2010 (restated)
Revenues	6,116	9,256	19,707	19,883	7,136	7,633
Change in inventories	2,110	-53				
Cost of purchased services	-6,205	-5,695				
Gross Margin	**2,021**	**3,508**	**19,707**	**19,883**	**7,136**	**7,633**
Other operating income	1,300	715	2,982	1,550	743	1,054
Personnel expenses	-6,157	-6,486	-7,345	-6,341	-2,775	-2,526
Depreciation, amortisation and impairment		-15	-15	-28	-23	-353
Other operating expenses	-8,312	-7,987	-8,813	-5,820	-3,433	-2,083
Results of associated companies and joint ventures accounted for using the equity method	-558	-2,748			1,001	10,696
Earnings before interest and taxes (EBIT)	**-11,705**	**-13,014**	**6,515**	**9,244**	**2,650**	**14,421**
Segment assets	**10,382**	**10,722**	**14,391**	**18,791**	**40,480**	**37,112**

Operating Segment Total		Holding / Others		Consolidation		HCI Group	
2011	2010 (restated)	2011	2010	2011	2010	2011	2010 (restated)
32,959	36,771					32,958	36,771
2,110	-53					2,110	-53
-6,205	-5,695					-6,205	-5,695
28,864	**31,023**					**28,863**	**31,023**
5,025	3,318	3,610	4,509	-3,921	-4,157	4,715	3,670
-16,277	-15,353	-5,050	-5,137			-21,327	-20,490
-38	-396	-453	-511			-491	-907
-20,558	-16,230	-5,283	-10,952	3,921	4,157	-21,921	-22,684
444	7,948					444	7,948
-2,540	**10,311**	**-7,176**	**-12,091**	**0**	**0**	**-9,717**	**-1,440**
65,253	**66,625**					**65,253**	**66,625**

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

2011	Historical cost			
EUR '000	01.01.2011	Additions	Disposals	31.12.2011
Acquired intangible assets	25,490	186	-79	25,597
Goodwill	2,264	0	-3	2,261
Total	**27,754**	**186**	**-82**	**27,858**

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**

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

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

2011	Historical cost				
EUR '000	01,01,2011	Additions	Disposals	Reclassification	31,12,2011
Land, land rights and buildings	911	0	0	-17	894
Other equipment, furniture and fixtures	4,245	314	-466	17	4,110
Total	**5,156**	**314**	**-466**	**0**	**5,004**

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

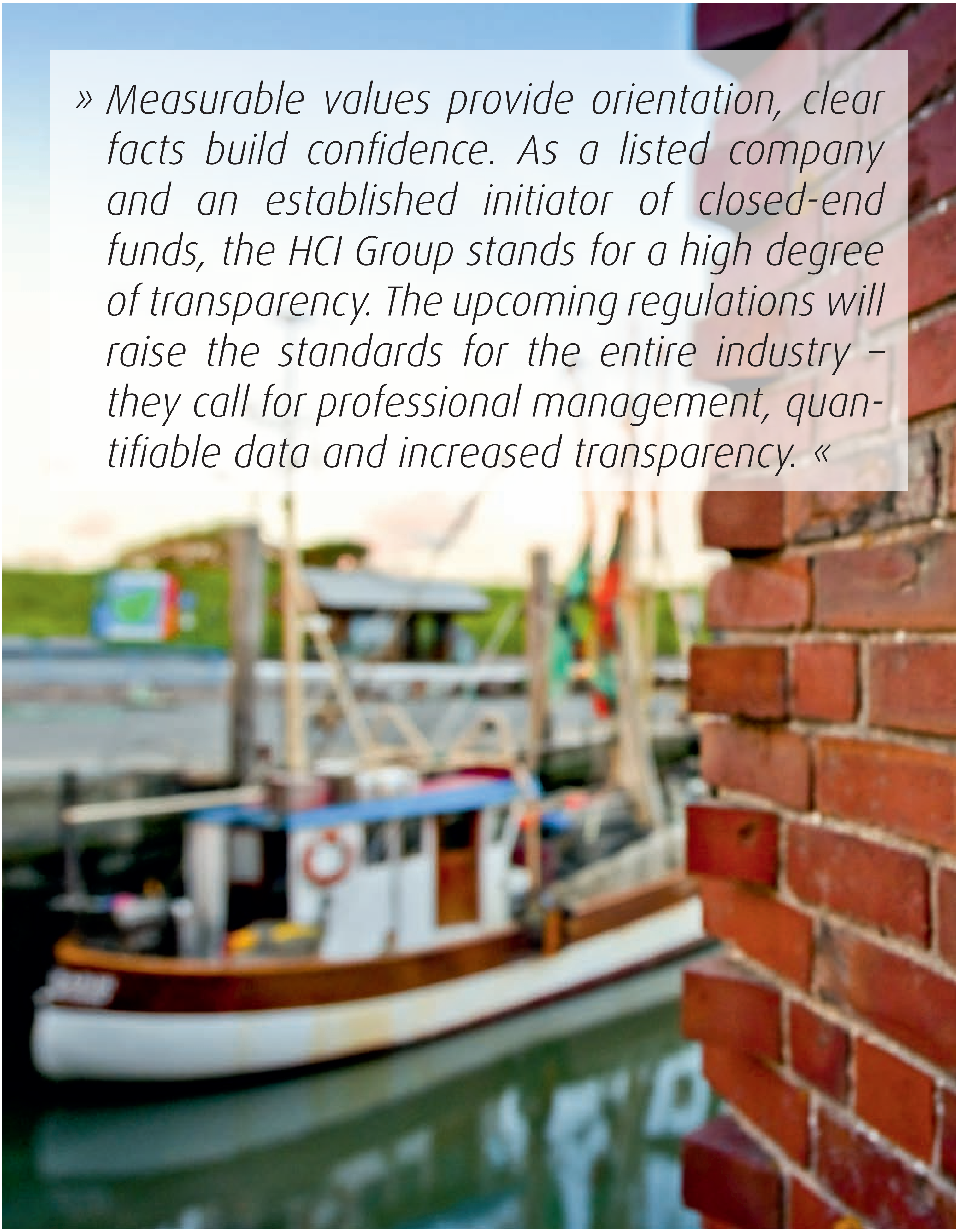
The development of intangible assets and the development of property, plant and equipment form part of the notes to the consolidated financial statements.

	Accumulated amortisation / impairment				Carrying amount	
01.01.2011	Amortisation	Impairment	Disposals	31.12.2011	31.12.2011	01.01.2011
-24,983	-153	0	76	-25,060	537	507
-1,389	0	0	0	-1,389	872	875
-26,372	**-153**	**0**	**76**	**-26,449**	**1,409**	**1,382**

	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 depreciation / impairment			Carrying amount	
01.01.2011	Depreciation	Disposals	31.12.2011	31.12.2011	01.01.2011
-879	-6	0	-885	9	32
-3,217	-332	446	-3,103	1,007	1,028
-4,096	**-338**	**446**	**-3,988**	**1,016**	**1,060**

	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**



» *Measurable values provide orientation, clear facts build confidence. As a listed company and an established initiator of closed-end funds, the HCI Group stands for a high degree of transparency. The upcoming regulations will raise the standards for the entire industry – they call for professional management, quantifiable data and increased transparency.* «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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 36,692,645 and is divided into 36,692,645 no-par value registered 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 2011, according to information made available to the Company, 9,384,565 shares (25.58 %) were held by MPC Münchmeyer Petersen Capital AG (hereinafter "MPC"), 9,384,565 shares (25.58 %) were held by Mr. Jochen Döhle, Germany, and by companies in which he holds a controlling interest or exercises significant influence, and 7,301,836 shares were held by HSH Nordbank AG (19.90 %). 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 areas Transport and Logistics, Real Estate, Life Insurance, Energy and Commodities, as well as the subsequent raising of capital 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 2011 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 2011 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 not affecting profit and loss.

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 recognition 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) Capital increase in 2011

On 12 May 2011, the Management Board of HCI Capital AG decided – with the approval of the Supervisory Board – to make use of the authorisation set down in article 4(3) of the articles of association and increase the Company’s subscribed capital by EUR 7,338,529 from EUR 29,354,116 to EUR 36,692,645 from authorised capital by issuing 7,338,529 new no-par value registered shares for subscription in cash with a pro rata subscribed capital amount of EUR 1.00 at the lowest issuing amount of EUR 1.00 per share. The 7,338,529 new shares were issued at a subscription price of EUR 1.50 per share. This resulted in the transferral of EUR 3,669,264.50 to additional paid-in capital, before deducting directly attributable transaction costs.

Transaction costs of EUR 380 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 121 thousand were associated with the transaction costs. These were also recognised directly in equity. As a result, the amount transferred to additional paid-in capital was reduced by a total of EUR 259 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, insofar as this is of material importance for the financial position and financial performance of the HCI Group. 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 ventures 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:

	31.12.2011	31.12.2010
Fully consolidated companies		
Germany	63	27
Abroad	4	4
Associated companies accounted for under the equity method		
Germany	1	3
Abroad	--	--
Joint ventures accounted for under the equity method (all Germany)	**5**	**6**

The individual companies included in the consolidated financial statements are set out in the list of shareholdings in Note (36).

In the 2011 financial year, 29 new entrepreneurial companies were set up in the After Sales Services segment and included in the consolidated financial statements of HCI Capital AG for the first time. A further seven new companies were set up and assigned to the segments as follows:

Segment	Number
Sales and Design	4
After Sales Services	3

(c) Important changes in associated companies and joint ventures and in other investments

In 2010, the HCI Group granted the co-shareholders of HAMMONIA Reederei GmbH & Co. KG a call option on half of its interests held in HAMMONIA Reederei GmbH & Co. KG, which was available to be exercised in full and at any time as of 30 June 2011. For this reason, it must be classified under IAS 28 as a potential voting right. Due to the loss of its significant influence here, the HCI Group's interest in HAMMONIA Reederei GmbH & Co. KG of 32 % can no longer be recognised as an investment in an associated company under IAS 28.18 as of 30 June 2011 but rather as a financial instrument in accordance with IAS 39 and it must be measured at its fair value on this date. The difference between the carrying value under IAS 28 and the fair value at the time that the equity method and classification under IAS 39 no longer applied was recognised in profit and loss (IAS 28.18). The interests in HAMMONIA Reederei are recognised under other investments as of 30 June 2011. The HCI Group classified its 16 % interest in HAMMONIA Reederei GmbH & Co. KG relating to the call option as "measured at fair value through profit or loss" under IAS 39.9 and allocated the remaining 16 % interest to the category "available for sale". Future changes in fair value will be recognised, depending on the category in question, either in the statement of operations ("measured at fair value through profit or loss") or directly in equity ("available for sale"). Please refer to Note (9) in the notes to the consolidated financial statements with regard to the quantitative effects of these circumstances in the consolidated financial statements as of 31 December 2011.

HCI Capital AG has interests in eFonds Solutions AG. 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. The inclusion of NORDCAPITAL GmbH as a further shareholder as of 31 May 2011 by way of a capital increase at eFonds Solutions AG reduced the HCI Group's share in eFonds Solutions AG from 29.19 % to 22.60 %. The purchase price paid for the new shares as part of this capital increase therefore made it necessary to re-estimate during the year the value of the shares held by the HCI Group in eFonds Solutions AG on the basis of the current market transaction. This led to an impairment reversal of EUR 554 thousand at this time for these shares, which was recognised in profit or loss. The HCI Group's pro rata result from this company for 2011 was EUR 691 thousand. Following impairment testing, impairments of EUR 421 thousand were also made as of 31 December 2011.

In addition, 5 (previous year: 6) ship ordering companies are accounted for in the consolidated financial statements under the equity method. These companies are one-ship companies in which the HCI Group holds a 50 % stake. In the case of one of the ship companies still accounted for under the equity method, HCI's stake dropped below 50 % due to contractual agreements. Its controlling influence was lost as a result of this, which led to the stake being reclassified under investments. For changes in the group of consolidated companies, please see part b) 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 functional currency of the ship ordering companies accounted for under the equity method is also 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	
	2011	2010	31.12.2011	31.12.2010
US dollar	1.3916	1.3268	1.2932	1.338

(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.

Revenues are recognised at the time 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.

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 already 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 if the design and capital-raising commissions can also be realised. 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 are 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
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. This stipulates that goodwill is no longer part of the asset relevant 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 2011 financial year to determine the value in use amounts to 9.0 % (previous year: 8.25 %) 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 wherever 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 2011 for interests in eFonds Solutions AG 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 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 2011 financial year to determine the value in use amounts to 13.0 % (previous year: 12.25 %) for eFonds Solutions AG. Impairment tests on ship ordering companies used an interest rate after tax of 12.2 % (previous year: 11.00 % and 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 five years for eFonds Solutions AG is taken into account with a discount of 1.0 % 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, financial assets and financial liabilities available for sale and measured at fair value through profit or loss, 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". 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. Investments in equity instruments for which a fair value on the balance sheet date cannot be reliably determined are measured at cost (cf. (iv) of this Note).

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 liabilities 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 change 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) Assets measured at fair value through profit and loss

The HCI Group’s 16 % interest in HAMMONIA Reederei GmbH & Co. KG relating to the call option granted is the only item assigned to this category in the consolidated financial statements. Please refer to Note 3(c) in the notes to the consolidated financial statements. In accordance with IAS 28.18, the fair value of these interests at the time when the equity method ceased to apply to the investment in HAMMONIA Reederei GmbH & Co. KG is the fair value to be recognised under IAS 39. All changes in the fair value of the interests subsequent to this are recognised through profit and loss.

The fair value of these interests as of 31 December 2011 was calculated from the measurement of future net cash flows as part of impairment testing based on planning done by HAMMONIA-Reederei GmbH & Co. KG. Please see section (iv) of this Note for the main assumptions that were used as a basis for these calculations.

(ii) Cash and cash equivalents

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

(iii) 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.

(iv) 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, and other non-derivative financial instruments that cannot be allocated to either cash and cash equivalents, the category “measured at fair value through profit and loss” or the category “loans and receivables”.

Interests in subsidiaries, associated companies and joint ventures that are not consolidated due to their insignificance, 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”. An exception to this are the interests in HAMMONIA Reederei GmbH & Co. KG, which, as already outlined, were allocated to the category “measured at fair value through profit and loss” due to the call option granted with a 16 % interest. Only the remaining 16 % interest not affected by the call option was allocated to the category “available for sale”. 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 cost. Where the fair values of fund shares held by the HCI Group cannot be derived from price quotations in secondary markets or suitable 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. If there is another impairment of equity instruments in subsequent periods, the impairment reversal recognised directly in equity is written back down first, and any amount in excess is recognised in profit or loss.

During the second half of the 2011 financial year, there were objective indications of a significant and continuous impairment of the 16 % interest in HAMMONIA-Reederei GmbH & Co. KG. In order to calculate the impairments required, impairment tests were carried out as of 31 December 2011 for these interests with a discount rate after tax of 11.0 % (previous year: 8.25 %). The net cash flows are calculated based on the planning done by HAMMONIA-Reederei GmbH & Co. KG. Expected growth for the periods after the detailed planning phase of five years is taken into account with a discount of 0.5 % to the rate.

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

(v) Financial liabilities

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

(vi) Derivative financial instruments

The derivatives used by the HCI Group relate to an option that HCI has granted to the other shareholders of HAMMONIA Reederei GmbH & Co. KG to acquire 50 % of the interests held by HCI in this company. 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.

(vii) 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) 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 current 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.

HCI also paid contributions for individual employees into support funds, which should be classified as defined contribution plans. In 2011, expenses arising from these payments totalled EUR 64 thousand (previous year: EUR 108 thousand).

(i) 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.

(j) 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 contained in IFRS 4. The HCI 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 HCI Group pursuant to IAS 37. A provision is recognised if a claim against the HCI Group from the financial guarantees is probable and the settlement amount can be reliably determined.

(k) 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 carryforwards. 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 carryforwards will probably be utilised. Deferred tax assets on temporary differences or tax loss carryforwards 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.

(l) 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.

(m) 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:

- Fair value of the interests in HAMMONIA Reederei GmbH & Co. KG (31 December 2011: EUR 32,460 thousand) and negative fair value of the option granted to the other shareholders of HAMMONIA Reederei GmbH & Co. KG to acquire 50 % of the interests held by HCI in this company (31 December 2011: EUR 8,006 thousand; 31 December 2010: EUR 6,623 thousand)

- Recoverability of the remaining other investments, particularly interests and silent partnerships in, and loans to, fund companies in the shipping business (31 December 2011: EUR 11,355 thousand; 31 December 2010: EUR 14,938 thousand)

- Recoverability of trade receivables (31 December 2011: EUR 10,108 thousand; 31 December 2010: EUR 13,434 thousand) and of other financial assets (31 December 2011: EUR 9,308 thousand; 31 December 2010: EUR 24,194 thousand)

- Recoverability of goodwill (31 December 2011: EUR 872 thousand; 31 December 2010: EUR 875 thousand)

- Recoverability of the interest in eFonds Solutions AG accounted for under the equity method (31 December 2011: EUR 794 thousand; 31 December 2010: EUR 1,351 thousand)

- Recoverability of deferred tax assets (31 December 2011: EUR 9,090 thousand; 31 December 2010: EUR 9,016 thousand)

- Assessment of the risk of contingent liabilities being utilised under Sections 171, 172(4) of the German Commercial Code (HGB) (31 December 2011: provision of EUR 1,829 thousand; 31 December 2010: provision of EUR 340 thousand)

- Assessment of the risk of prospectus liability (31 December 2011: provision of EUR 1,950 thousand; 31 December 2010: provision of EUR 1,119 thousand)

- Assessment of the risk of guarantee commitments (31 December 2011: provision of EUR 1,004 thousand; 31 December 2010: provision of EUR 0 thousand)

The recoverability of the interests in fund companies recognised in other investments and classified as available-for-sale financial instruments pursuant to IAS 39 in the absence of fair values and the recoverability of the silent partnerships and other investments in fund companies classified at cost as financial assets in the "loans and receivables" category mainly depend on the future earnings power of the assets in these investment 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 2011, a reduction in gross profit of 2 % over time would have resulted in an impairment increase of EUR 64 thousand.

The recoverability of the interests in HAMMONIA Reederei GmbH & Co. KG 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 2011, a reduction in management revenues or charter revenues of 10 % over time would have resulted in a decrease in the carrying value of the entire interest in HAMMONIA Reederei GmbH & Co. KG from EUR 32,460 thousand to EUR 18,614 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. Provided that the cost structure had remained constant as of 31 December 2011, a reduction in charter revenues of 10 % over time would have resulted in a decrease in the negative fair value to thousand to EUR 1,083 thousand.

Actual amounts may deviate from the amounts estimated or assumed.

(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 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 2011 financial year:

- The amendment to IAS 32 "Financial Instruments: Presentation" 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.

- 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.

- 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.

- 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.

- 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.

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

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

- The amendments to IFRS 7 "Financial Instruments: Disclosures" should lead to an improvement in 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 disproportionally large amount of transfers occur towards the end of a reporting period.

The HCI Group applies these rules when they become mandatory. The HCI 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 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:

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements in accordance with IFRS
- IAS 28 Investments in Associates and Joint Ventures
- Amendments to IAS 12 regarding Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 1 regarding the Removal of Fixed Dates for First-Time Adopters
- Amendments to IAS 1 regarding the Presentation of Items of Other Comprehensive Income
- Amendments to IAS 19 Employee Benefits
- Amendments to IFRS 7 Financial Instruments: Disclosures
- Amendments to IAS 32 Financial Instruments: Presentation

Subject to adoption by the EU, the first-time application of these standards and interpretations will be at the time they become mandatory. The HCI 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 HCI Group's intangible asset items is shown in the statement of changes to non-current assets.

Goodwill as of 31 December 2011 was allocated as follows: EUR 809 thousand (previous year: EUR 809 thousand) to the After Sales Services segment and EUR 63 thousand (previous year: EUR 66 thousand) to the Asset Management segment.

(7) Property, plant and equipment

Please refer to the HCI 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 HCI Group. The figures do not refer to the interests held by the HCI 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	31.12.2011	31.12.2010
Non-current assets	8,881	72,119
Current assets	3,181	42,146
Total assets	**12,062**	**114,265**
Non-current liabilities	--	12,508
Current liabilities	4,833	9,586
Total liabilities	**4,833**	**22,094**
Equity	**7,229**	**92,171**
Revenues	**16,832**	**39,839**
Earnings	**-4,953**	**2,024**

The decrease in total assets is primarily due to the reclassification of the interests in HAMMONIA Reederei GmbH & Co. KG as financial assets available for sale of HCI (see Note (3)(c)).

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

EUR '000	31.12.2011	31.12.2010
Non-current assets	155,560	204,394
Current assets	2,688	2,256
Total assets	**158,248**	**206,650**
Non-current liabilities	154,553	200,787
Current liabilities	4,757	6,220
Total liabilities	**159,311**	**207,007**
Equity	**-1,063**	**-357**
Revenues	**12,744**	**11,703**
Earnings	**-3,797**	**-2,766**

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 there being no obligation to assume such losses as the amount recognised for such interests was EUR 0, amounted to EUR 4,024 thousand (previous year: EUR 2,507 thousand).

Impairments of EUR 421 thousand (previous year: EUR 1,682 thousand) and impairment reversals of EUR 554 thousand (previous year: EUR 6,344 thousand) were recognised for interests in associated companies and joint ventures accounted for under the equity method in the 2011 financial year. Please see Note (27).

(9) Other investments

Interests in subsidiaries not consolidated and financial instruments included in other investments in the category "financial instruments 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	31.12.2011	31.12.2010
Fair value	32,460	--
At cost	11,355	14,938
Financial instruments in the category „financial instruments available for sale"	**43,815**	**14,938**

For financial instruments in the category "financial instruments available for sale" where the fair value cannot be determined and thus are measured at cost, impairments of EUR 2,114 thousand were made in the 2011 financial year (previous year: EUR 1,957 thousand). These relate in particular to the interests in the shipping companies and reflect the reduced earnings prospects of these companies due to negative market developments.

The investments in the category "financial instruments available for sale" recognised at fair value consist of the investment in HAMMONIA Reederei GmbH & Co. KG. As outlined in Note 3(c) of the notes to the consolidated financial statements, the interests in HAMMONIA Reederei GmbH & Co. KG should no longer be accounted for under the equity method as interests in associated companies as of 30 June 2011. This is because HCI lost its significant influence at HAMMONIA Reederei GmbH & Co. KG, which means that the interests must be recognised at fair value pursuant to IAS 39. In accordance with IAS 28.18, the interests were to be initially recognised at their fair value as of 30 June 2011 of EUR 39,665 thousand. Classification of the interest in HAMMONIA Reederei GmbH & Co. KG in this way resulted in it being split across the categories stipulated by IAS 39. A 16 % share was assigned to the category "measured at fair value through profit and loss", as outlined above, and another 16 % share was allocated to the category "available for sale". Due to objective indications that the 16 % share classified as available for sale had been impaired, impairments of EUR 3,602 thousand were subsequently recognised in profit and loss for this share. Expenses for the same amount were also recognised in profit and loss as a result of the change in fair value of the other 16 % share. As of 31 December 2011, the carrying value of the interests in HAMMONIA Reederei GmbH & Co. KG totalled EUR 32,460 thousand. Please refer to Note (28) for details on the earnings effect at 31 December 2011.

(10) Work in progress and finished services

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

EUR '000	31.12.2011	31.12.2010
Work in progress	36	--
Finished services	2,612	615
Work in progress and finished services	**2,648**	**615**

The year-on-year increase in finished services in 2011 was primarily due to the capitalisation of design costs and commission expenses related to the HCI Berlin Airport Center fund (EUR 2,549 thousand). Recognition of these finished services occurred in early 2012 when placement of the fund was completed (see also Note (43)).

No valuation allowances (previous year: EUR 135 thousand) were recognised for work in progress and finished services in the 2011 financial year.

(11) Trade receivables

Trade receivables are comprised as follows:

EUR '000	31.12.2011	31.12.2010
Gross trade receivables	14,902	15,351
Valuation allowances	-4,794	-1,917
Trade receivables	**10,108**	**13,434**

EUR 740 thousand of trade receivables have remaining terms to maturity of more than 5 years. All of the other trade receivables have remaining terms to maturity of up to one year.

The gross trade receivables shown include discounting for interest-free or low-interest payment extensions.

Please refer to Note (35)(b)(ii) for details on changes to valuation allowances.

(12) Receivables from related parties

Receivables from related parties are comprised as follows:

EUR '000	31.12.2011	31.12.2010
Receivables from unconsolidated subsidiaries	21	4
Receivables from other joint ventures	97	20
Receivables from related parties	**118**	**24**

Receivables from other joint ventures mainly comprise receivables from other fund companies. Valuation allowances for identifiable default risks were not necessary in 2011 or the previous year.

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

Please refer to Note (37) for further details about related parties.

(13) Other assets

Other assets are broken down as follows:

EUR '000	31.12.2011	31.12.2010
Receivables from funds	5,105	8,702
Receivables from project companies	1,456	--
Receivables from loans	1,207	1,180
Creditors with debit balances	501	209
Rental deposits	271	265
Receivables from employees	5	4
Miscellaneous	763	1,265
Receivables from former affiliated companies	--	11,454
Claims from pledged assets	--	1,115
Other financial assets	**9,308**	**24,194**
Deferred items	666	487
Receivables from other taxes	43	39
Advance payments	1	1
Other miscellaneous assets	**710**	**527**
Other assets	**10,018**	**24,721**

The receivables from funds as of 31 December 2011 include EUR 1,281 thousand (previous year: EUR 5,656 thousand) in loans paid out to fund companies, including accrued interest. In some cases the loans have final repayments connected to the sale of the investment assets held by the fund companies. Interest amounted to between 3.2 % p. a. and 3.7 % p. a. in 2011. Receivables from funds also include claims from advance distributions of dividends from secondary life insurance market funds amounting to EUR 947 thousand (previous year: EUR 1,608 thousand) and receivables from an investment company of EUR 1,453 thousand (previous year: EUR 0 thousand).

Receivables from project companies relate to receivables from two construction companies for costs paid amounting to EUR 1,456 (previous year: EUR 0 thousand).

Receivables from former affiliated companies in the previous year related 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. This receivable was derecognised in 2011 as it is considered very unlikely that there will be a claim under this obligation (please see Note [28]).

The claims from pledged assets in 2010 relate to a pledged amount of EUR 1,115 thousand deposited with a bank in connection with an obligation recognised under financial liabilities that was fulfilled in 2011.

Valuation allowances for other assets for identifiable default risks amounting to EUR 6,718 thousand (previous year: EUR 1,620 thousand) were recognised as of 31 December 2011. The increase is mainly due to a valuation allowance for loan receivables from real estate fund companies of EUR 5,691 thousand (previous year: EUR 0 thousand) and was necessitated by the business performance of these real estate fund companies.

Please refer to Note (35)(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 2011	4,522	4,786	--
31 December 2010	17,459	6,709	26

(14) 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 2011, the subscribed capital of HCI Capital AG following the cash capital increase amounted to EUR 36,963 thousand (previous year: EUR 29,354 thousand). The Company's subscribed capital is divided into 36,692,645 no-par value registered shares with a computed share in subscribed capital of EUR 1 per share (see also Note (2)).

On 31 December 2011, the additional paid-in capital in the commercial separate financial statements of HCI Capital AG amounted to EUR 83,611 thousand (previous year: EUR 79,942 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. Additional paid-in capital also increased by EUR 3,669 thousand as part of the cash capital increase on 12 May 2011 outlined above. 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 83,611 thousand in the commercial financial statements of HCI Capital AG and the subscribed capital of EUR 36,693 thousand are not available for distribution.

On 31 December 2011, the additional paid-in capital in the IFRS consolidated financial statements amounted to EUR 81,149 thousand (previous year: EUR 77,738 thousand).

The capital increase was entered in the Register of Companies (Handelsregister) on 16 May 2011. The corresponding amendment to the articles of association was made on 4 July 2011. The articles of association dated 5 July 2011 are now the valid version. The amendment to the articles of association was entered in the Register of Companies (Handelsregister) on 14 September 2010.

By way of a resolution dated 4 July 2011, the Annual General Meeting authorised the Management Board – with the approval of the Supervisory Board – to increase the subscribed capital in one or more tranches until 3 July 2016 by up to EUR 18,346,322.00 by issuing new no-par value registered shares for cash and / or contribution in kind ("Authorised Capital 2011"). 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.

The Management Board is also authorised – with the approval of the Supervisory Board – to specify further details on the capital increase and its implementation, in particular with regard to share rights and the conditions for issuing shares. The Supervisory Board is authorised to amend the articles of association in accordance with the utilisation of authorised capital.

Furthermore, the Management Board is authorised to increase subscribed capital conditionally by up to EUR 18,346,322 by issuing up to 18,346,322 new no-par value registered shares ("Conditional Capital 2011"). Conditional capital is only used under certain conditions and only if no cash is exchanged or existing shares are used. The new shares are issued at the option / conversion price determined by the Annual General Meeting's authorisation resolution passed on 4 July 2011. The new shares participate in the Company's profits as and from the start of the financial year in which they arise as a result of conversion / option rights being exercised or conversion obligations being fulfilled.

The Management Board is authorised to specify further details on the conditional capital increase. The Supervisory Board is authorised to amend the articles of association in accordance with the utilisation of conditional capital. This also applies if the authorisation granted on 4 July 2011 to issue convertible or optional bonds is not exercised during the authorisation period or if the conditional capital has not been used up before the deadlines for exercising option / conversion rights or for fulfilling conversion / option obligations expire.

(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. 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 in the 2011 financial year due to the net loss of EUR -15,066 thousand at HCI Capital AG as of 31 December 2011.

(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 of interests in HCI HAMMONIA Shipping AG of EUR 223 thousand (previous year: impairment reversal of EUR 393 thousand). Currency translation adjustments went up by EUR 668 thousand to EUR 324 thousand in the financial year and were primarily due to the change from HAMMONIA Reederei GmbH & Co. KG being accounted for under the equity method to being recognised at fair value as a financial instrument pursuant to IAS 39.

(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 2011 and 31 December 2010	**-14,532**

(15) Pension provisions

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:

	2011	2010
Discount rate	4.28	4.65 %
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 2011 amounting to EUR 3 thousand (previous year: EUR 3 thousand) were comprised as follows:

EUR '000	2011	2010
Service costs	2	2
Personnel expenses	**2**	**2**
Interest expense	1	1
Pension expense	**3**	**3**

The defined benefit obligations changed as follows:

EUR '000	2011	2010
Defined benefit obligations as of 1 January	30	27
Service costs	2	2
Interest expense	1	1
Defined benefit obligations as of 31 December	**33**	**30**

The amount of provisions is as follows:

EUR '000	31.12.2011	31.12.2010
Defined benefit obligations	33	30
Unrecognised actuarial gains	--	--
Provision	**33**	**30**

(16) Other provisions

Other provisions are comprised as follows:

EUR '000	Balance 01.01.2011	Additions	Utilisation	Reversals	Balance 31.12.2011
Interest rate risk from tax-entity relationships	2,489	--	--	2,489	--
Miscellaneous other provisions	1,459	5,599	30	121	6,907
Other provisions	**3,948**	**5,599**	**30**	**2,610**	**6,907**

The provision recognised as of 31 December 2010 for interest rate risks from obligations under the tax-entity relationships of HCI Hanseatische Capitalberatungsgesellschaft mbH in the 2002 and 2003 financial years was reversed in the 2011 financial year as it is very unlikely that the provision will be utilised.

Other provisions of EUR 6,907 thousand essentially relate to provisions for compensation obligations to investors in a fund of EUR 1,950 thousand (previous year: 1,119 thousand), provisions for a probable obligation to repay previously received dividends under Sections 171 and 172(4) of the German Commercial Code (HGB) of EUR 1,829 thousand (previous year: EUR 340 thousand) and a provision for liquidity commitments by HCI of EUR 1,000 thousand (previous year: EUR 0 thousand). A provision was also recognised for existing guarantee agreements with various investors of EUR 1,004 thousand (EUR 0 thousand).

(17) 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	2011 EUR '000	2010 EUR '000	Loan currency	Interest rate in %	Final due date
Bankhaus Wölbern & Co.	4,116	3,784	USD	EURIBOR + 1.85 %[1]	[1]
Commerzbank AG	--	375	EUR	0 %	2011
HSH Nordbank AG	--	29	EUR	0 %	2011
HSH Nordbank AG	--	1,115	EUR	0 %	2011

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

In order to finance the contributions needed for 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, which had a nominal value of USD 4,750 thousand at the start of 2010.

Bankhaus Wölbern & Co. utilised the option granted to the HCI Group's financing banks under the agreement on the moratorium and intended release from contingent liabilities from 10 February 2010, namely to convert 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 31 December 2011.

Financial liabilities as of 31 December 2011 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 2011	3	--	4,116
31 December 2010	1,553	--	3,784

(18) Liabilities to related parties

Liabilities to related parties are comprised as follows:

EUR '000	31.12.2011	31.12.2010
Liabilities to unconsolidated subsidiaries	1,142	957
Liabilities to associated companies accounted for under the equity method	--	4,375
Liabilities to HCI Group executive bodies	263	777
Liabilities to related parties	**1,405**	**6,109**

Liabilities to related parties amounting to EUR 1,405 thousand (31 December 2010: EUR 3,034 thousand) have a remaining term of up to one year.

Please refer to Note (37) for further details about related parties.

(19) Other liabilities

Other liabilities are broken down as follows:

EUR '000	31.12.2011	31.12.2010
Loss assumption obligations to banks as part of the release from contingent liabilities	8,676	8,460
Derivatives measured at fair value	8,006	6,623
Liabilities to employees	3,295	2,136
Liabilities from loss assumptions pursuant to shareholder agreements	281	1,269
Liabilities to funds	748	482
Debtors with credit balances	92	302
Miscellaneous	298	976
Other financial liabilities	**21,396**	**20,248**
Liabilities from sales payments	3,761	--
Liabilities from service agreements	3,138	--
Liabilities from other taxes and other obligations to the tax office	737	637
Deferred items	59	88
Liabilities from social security contributions	22	11
Other miscellaneous liabilities	**7,717**	**736**
Other liabilities	**29,112**	**20,984**

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, as long as no dividends are paid to share-holders before the entire compensation amount has been paid. If the Annual General Meeting decides to pay dividends prior to this, any compensation amount still outstanding at this point in time will become due for payment in full as of the end of the following business year.

The year-on-year change in the value of the compensation payment was recognised as an expense under interest expenses. 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 2011 in the amount of EUR 8,676 thousand (31 December 2010: 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 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 (including interest of 8 % p. a.; shareholders' call option; cf. Note 3(c) of the notes to the consolidated financial statements). The fair value of the 16 % share in HAMMONIA Reederei GmbH & Co. KG affected by the option was higher than the current exercise price of the call option as of the reporting date of 31 December 2011. The result of this is an option with a negative value of EUR 8,006 thousand (31 December 2010: EUR 6,623 thousand).

Liabilities from sales payments relate to commission payments already made by a fund company for a fund which is in the process of being placed. Due to existing winding-up agreements, the commission payments cannot be recognised by HCI until the fund has been placed in full (see also Note (43)).

Liabilities from service agreements of EUR 3,138 thousand relate to an agreement that the HCI Group has with HAMMONIA Reederei GmbH & Co. KG, whereby a contract between the HCI Group and HCI HAMMONIA SHIPPING AG for the provision of services, controlling and management services was transferred by the HCI Group 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 1,267 thousand (previous year: EUR 1,300 thousand) was earned and recognised in profit and loss in 2011 as a result of this situation. The liability was recognised under related parties in the previous year as HAMMONIA Reederei GmbH & Co. KG was still deemed an associated company at this time.

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, all of which have terms of less than one year.

Other financial liabilities of EUR 13,766 thousand and other miscellaneous liabilities of EUR 817 thousand have remaining terms to maturity of up to one year.

Notes to the consolidated statement of operations

(20) Revenues

Revenues can be broken down as follows:

EUR '000	2011	2010 (restated)
Transport and Logistics	5,944	6,772
Real Estate	155	1,069
Energy and Commodities	--	899
Other	--	503
Sales and Design	**6,099**	**9,243**
Transport and Logistics	17,252	17,235
Real Estate	497	687
Energy and Commodities	43	36
Other	1,915	1,924
After Sales Services	**19,707**	**19,883**
Asset Management	**7,136**	**7,258**
Other remuneration	**16**	**388**
Total revenues	**32,958**	**36,771**

In the previous year the product area Renewable Energy related to HCI Energy Solar. The area Other comprises the investments in Aircraft funds, Secondary Life Insurance Market funds and HCI Deepsea Oil Explorer. The Company's internal segments, including internal reporting, were also reorganised in the year under review, with the result that revenues are recognised differently than in the previous year. Service fees from the product area Real Estate are no longer recorded under After Sales Services but are allocated instead to Asset Management.

The revenues from Asset Management include fees received by the HCI Group as part of contractual agreements in the form of advance payouts from Secondary Life Insurance Market funds. The corresponding revenues for 2011 totalled EUR 2,646 thousand (previous year: EUR 2,644 thousand).

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 the HCI Group's payment claims no longer apply and amounts already paid must be returned, revenues are not recognised – in accordance with IAS 18 – until the agreed minimum capital amount is placed. In this regard, remuneration for the design and placement of HCI Berlin Airport Center (EUR 4,127 thousand) was not recognised as of 31 December 2011 due to existing contractual agreements with the fund companies.

(21) Other operating income

Other operating income is comprised as follows:

EUR '000	2011	2010
Income from recharges of costs	1,937	779
Income from receivables previously written off	665	500
Income from the reversal of provisions	554	1,082
Income from the reduction of specific valuation allowances for receivables	465	175
Income from other services to related parties	167	255
Miscellaneous operating income	927	879
Other operating income	**4,715**	**3,670**

Income from recharges of costs relate to costs paid for fund companies that HCI has recharged to the fund companies. The increase is primarily due to the year-on-year rise in costs for the restructuring of some ship fund companies of EUR 1,121 thousand.

Income from the derecognition of liabilities is essentially due to the reversal of provisions for legal disputes of EUR 290 thousand (previous year: EUR 0 thousand).

(22) Changes in inventories

The increases in work in progress and finished services relate in particular to the costs of producing prospectuses and commissions, which resulted from services provided by sales partners with regard to finding limited liability partners for the HCI Berlin Airport Center fund. No write-downs on work in progress and finished services were necessary in 2011 (previous year: EUR 135 thousand).

(23) Cost of purchased services

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

(24) Personnel expenses

Personnel expenses were made up as follows:

EUR '000	2011	2010
Salaries	18,727	17,801
Social security contributions	2,266	2,285
Other social security costs	334	404
Personnel expenses	**21,327**	**20,490**

The Group had an average of 251 employees in 2011 (2010: 261 employees).

Employer contributions to statutory pension schemes are included in social security contributions. Contributions of EUR 64 thousand (previous year: EUR 108 thousand) were also paid into support funds.

Personnel expenses of EUR 21,327 thousand include severance payments of EUR 1,474 thousand and current obligations to pay salaries until the expiry of employment contracts amounting to EUR 1,209 thousand for employees whose employment contracts were terminated as part of Group-wide personnel measures at the HCI Group in September 2011.

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

Depreciation, amortisation and impairment is as follows:

EUR '000	2011	2010
Amortisation of intangible assets	154	568
Depreciation of property, plant and equipment	337	339
Depreciation, amortisation and impairment	**491**	**907**

(26) Other operating expenses

Other operating expenses are comprised as follows:

EUR '000	2011	2010 (restated)
Legal, audit and consulting costs	5,093	6,902
Bad debts	5,002	1,845
Rent and lease expenses	3,031	2,986
General business costs	1,405	1,489
Postage, telecommunications and IT expenses	1,399	1,455
Expenses from guarantee agreements	1,004	--
Advertising costs	941	971
Expenses from legal disputes	928	1,619
Travel, entertainment and representation costs	615	515
Costs to be recharged to funds	418	154
Voluntary benefits	194	222
Supervisory Board remuneration and attendance fees	150	322
Human resource procurement	103	161
Training costs	95	98
Service charges for the moratorium	--	2,625
Miscellaneous expenses	1,544	1,320
Other operating expenses	**21,921**	**22,684**

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 (38) 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.

Expenses from guarantee agreements relate to expenses arising from probable claims by individual investors in connection with guaranteed returns for their contributions paid.

(27) Results of associated companies and joint ventures accounted for using the equity method

The results are as follows:

EUR '000	2011	2010
HAMMONIA Reederei GmbH & Co. KG	1,147	10,472
eFonds Solutions AG	-558	-2,748
Ship ordering companies	-145	224
Results of companies accounted for under the equity method	**444**	**7,948**

The results of associated companies and joint ventures accounted for under the equity method came in at EUR 444 thousand (previous year: EUR 7,948 thousand). Of this, EUR 1,147 thousand (previous year: EUR 10,472 thousand) was generated by HCI's investment in HAMMONIA Reederei GmbH & Co. KG, corresponding to HCI's share of the earnings generated by HAMMONIA Reederei GmbH & Co. KG in the first half of 2011. As outlined in Note 3(c), HAMMONIA Reederei GmbH & Co. KG is no longer included as of 30 June 2011 following the loss of significant influence. As a result, no income and expenses for this investment have been recognised under this item since then. In the previous year, the Company had recognised income from impairment reversals for the investment in HAMMONIA Reederei GmbH & Co. KG amounting to EUR 6,344 thousand.

The results of associated companies and joint ventures accounted for under the equity method include expenses relating to eFonds Solutions AG of EUR -558 thousand (previous year: EUR -2,748 thousand). This includes the negative pro rata result for eFonds Solutions AG in 2011 totalling EUR -691 thousand (previous year: EUR -1,065 thousand). In addition to this, the inclusion of NORDCAPITAL GmbH as a further shareholder by way of a capital increase at eFonds Solutions AG reduced the HCI Group's share in eFonds Solutions AG from 29.19 % to 22.60 %. The purchase price paid for the new shares as part of this capital increase made it necessary to update the estimated value of the shares held by the HCI Group in eFonds Solutions AG on the basis of the current market transaction. This led to an impairment reversal of EUR 554 thousand for these shares, which was recognised in profit or loss. Following updated impairment testing, impairments of EUR 421 thousand were made as of 31 December 2011.

In addition to this, the results of associated companies and joint ventures accounted for under the equity method include a negative result for ordering companies amounting to EUR -145 thousand (previous year: EUR 224 thousand).

(28) Financial result

The financial result is comprised as follows:

EUR '000	2011	2010 (restated)
Interest income from the reversal of provisions	2,489	--
Interest income from receivables	991	794
Interest income from bank deposits	108	62
Other interest income	285	343
Interest income	**3,873**	**1,199**
Interest expenses from the discounting of receivables	-367	-1,745
Interest expenses for loss assumption obligations to banks	-216	--
Interest expenses for liabilities to banks	-149	-945
Interest expenses for other financial liabilities	-56	-209
Interest expenses for liabilities to other investments	-21	-23
Interest expenses for pension provisions	-1	-1
Other interest expenses	-220	-633
Interest and similar expenses	**-1,030**	**-3,556**
Valuation allowances for loans and financial receivables	-5,973	-2,076
Income as a result of changing from the equity method to measurement at fair value	12,398	--
Expenses from measuring the interests in HAMMONIA Reederei GmbH & Co. KG at fair value through profit and loss	-7,205	--
Result from other investments	-2,015	2,376
Expenses from liability risks	-1,850	-340
Measurement of call option	-1,383	-6,623
Expenses from other obligations	-1,000	--
Investment income from funds	262	265
Foreign exchange result	-158	332
Other investment income	42	-388
Gains from the derecognition of financial liabilities pursuant to IAS 39	--	23,489
Expenses for the first-time recognition of loss assumption obligations to banks	--	-8,460
Losses from the disposal of assets held for sale pursuant to IFRS 5	--	-665
Miscellaneous financial result	-229	329
Other financial result	**-7,111**	**8,239**
Financial result	**-4,268**	**6,562**

Interest income includes income generated from reversing a provision for interest liabilities of EUR 2,489 thousand, which was created for the financial years from 2002 onwards as part of tax-entity relationships. This provision was reversed as of 30 June 2011 as it is considered very unlikely that it will be utilised. In this regard, a receivable from former affiliated companies of EUR 11,454 thousand was also derecognised, which was offset by the derecognition of liabilities in the same amount.

The valuation allowance for loans and financial receivables essentially relates to loans to real estate fund companies. The valuation allowance for the loan receivables was necessitated by the business performance of these real estate fund companies.

Income from the deconsolidation of associated companies of EUR 12,398 million resulted from the re-measurement at fair value (IAS 28.18 et seq. and IAS 39.43) of the HCI Group’s interests in HAMMONIA Reederei GmbH & Co. KG in connection with the classification of these interests as investments as of 30 June 2011 (see Note (3)(c)).

Please see Notes (3)(c), (4)(f) and (9) for information on the allocation of these interests to the categories “measured at fair value through profit and loss” and “available for sale” as well as on the subsequent measurement of these interests. Expenses from the measurement of these interests though profit and loss correspond overall to the change in fair value since the interest was designated as a financial instrument pursuant to IAS 39 as of 30 June 2011. An impairment for the 16 % interest in HAMMONIA Reederei GmbH & Co. KG classified as available for sale was recognised through profit and loss following objective indications during the second half of 2011 that the interests had been impaired as a result of developments on the shipping market.

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 the current strike price of the option as of the reporting date of 31 December 2011. The result of this is an option with a negative value of EUR 8,006 thousand. The year-on-year change in value of EUR 1,383 thousand was recognised as an expense under other financial result in 2011.

The result from investments is primarily attributable to the valuation allowance for investments of EUR 2,114 thousand (previous year: EUR 1,957 thousand).

Expenses from liability risks are essentially due to HCI Capital AG’s probable obligation to repay previously received dividends under Sections 171 and 172(4) of the German Commercial Code (HGB) to creditors of insolvent real estate and ship fund companies for which the HCI Group is registered as a limited liability trustee. For the purpose of providing an appropriate presentation in the consolidated financial statements, these expenses will be reported under financial result from 2011 onwards. They were recognised under other operating expenses in 2010 and have been restated for comparison purposes.

Expenses from other obligations relate to an external obligation of HCI to provide an amount totalling EUR 1,000 thousand to two ship companies to prevent insolvencies. As this payment commitment is expected to be utilised in 2012, resulting in a cash outflow, a provision for this amount was recognised, since any payment made is not regarded as recoverable.

(29) 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	2011	2010
Current tax income / expense in Germany	714	80
Current tax income / expense abroad	-39	89
Current tax income / expense	**675**	**169**
Deferred tax income / expense arising from temporary differences in Germany	451	-1,663
Deferred tax income / expense arising from temporary differences abroad	76	0
Deferred tax income / expense arising from temporary differences	**527**	**-1,663**
Deferred tax income / expense arising from tax loss carryforwards in Germany	-121	927
Deferred tax income / expense arising from tax loss carryforwards abroad	0	0
Deferred tax income / expense arising from tax loss carryforwards	**-121**	**927**
Income tax income / expense	**1,081**	**-567**

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 consolidated net result before tax in accordance with IFRS can be reconciled with income taxes as reported in the statement of operations:

EUR '000	2011	2010
IFRS net result before income taxes	-13,985	4,442
Group tax rate in %	32.28 %	32.28 %
Expected tax income / expense	**-4,514**	**1,434**
Differences in tax rates	-663	-1,834
Changes in tax rates	19	0
Permanent differences	2,775	2,757
Changes in the recognition of deferred taxes	2,963	4,221
Current and deferred income taxes for previous years	-52	263
Non-deductible business expenditure	780	1,260
Tax-free income	-244	-8,571
Additions and deductions for trade tax	-130	-39
Other effects	147	-58
Tax income / expense as reported in the statement of operations	**1,081**	**-567**

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 carryforwards 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 carryforward.

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 2011 financial year result principally from various valuation allowances and impairments for investments and loans that are not reported for tax purposes in Germany. These were counteracted by the effect of recognising the interests in HAMMONIA Reederei GmbH & Co. KG under IAS 39. In 2010 this item mainly consisted of the call option granted to the co-shareholders of HAMMONIA Reederei GmbH & Co. KG which was not taken into account for tax purposes in Germany.

Changes in the recognition of deferred taxes largely refer to an amount of EUR 2,452 thousand (previous year: EUR 4,265 thousand) resulting from the non-recognition of deferred taxes on loss carryforwards as well as an amount of EUR 524 thousand (previous year: EUR 0 thousand) for temporary differences.

Income taxes for previous years comprise EUR 225 thousand (previous year: EUR -107 thousand) for current taxes and EUR -276 thousand (previous year: EUR 370 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	31.12.2011 Deferred tax assets	31.12.2011 Deferred tax liabilities	31.12.2010 Deferred tax assets	31.12.2010 Deferred tax liabilities
Intangible assets	25	212	134	195
Property, plant and equipment	--	--	2	--
Investments	62	617	62	612
Work in progress and finished services	530	2	--	7
Receivables and other assets	50	11,160	39	10,826
Pension provisions	--	1	--	1
Trade payables and provisions	3,438	--	3,978	--
Other liabilities	167	12	104	4
Temporary differences	4,272	12,004	4,319	11,645
Loss carryforwards	4,818	--	4,697	--
Total	9,090	12,004	9,016	11,645
Offsetting	-8,452	-8,452	-8,170	-8,170
Carrying amount	638	3,552	846	3,475

Deferred tax assets on temporary differences and tax loss carryforwards are recognised to the extent that their recoverability is probable in the near future. In the 2011 and 2010 financial years, no deferred tax assets were recognised for temporary differences and tax loss carryforwards for corporation tax purposes in the amounts of EUR 28,504 thousand and EUR 38,352 thousand respectively, and for trade tax

purposes in the amounts of EUR 53,566 thousand and EUR 77,771 thousand respectively, since it is not considered probable that sufficient taxable earnings will be generated in the near future for these amounts. As a result of the capital increase carried out, tax loss carryforwards in the 2011 financial year fell by EUR 13,113 thousand for corporation tax purposes and by EUR 21,969 thousand for trade tax purposes in accordance with Section 8c of the German Corporation Tax Act (KStG).

The ability to carry forward tax losses in Germany is not currently subject to any legal restrictions.

Current and deferred taxes for transactions relating to the capital increase amounted to EUR 275 thousand (previous year: EUR 154 thousand).

(30) Earnings per share

Basic earnings per share were calculated as follows:

		01.01.–31.12.2011	01.01.–31.12.2010
Group share of the net result for the period	EUR '000	-15,066	5,009
Weighted average number of shares issued	In thousands	33,660	26,098
Earnings per share for the reporting period	**EUR**	**-0.45**	**0.19**

There were no diluted instruments in 2011, meaning that diluted and basic earnings per share are the same.

The diluted earnings per share for the 2010 financial year are calculated as follows:

		01.01.–31.12.2010
Group share of the net result for the period	EUR '000	5,009
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
Earnings per share for the reporting period	**EUR**	**0.19**

Notes to the consolidated cash flow statement

(31) 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.

(32) Other non-cash transactions

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 1,267 thousand (previous year: EUR 1,300 thousand) was earned and recognised in profit and loss in 2011 as a result of this situation.

In 2010, the HCI Group granted the co-shareholders of HAMMONIA Reederei GmbH & Co. KG a call option on half of its interests held in HAMMONIA Reederei GmbH & Co. KG, which was available to be exercised in full and at any time as of 30 June 2011. For this reason, it must be classified under IAS 28 as a potential voting right. Due to the loss of its significant influence here, the HCI Group's interest in HAMMONIA Reederei GmbH & Co. KG of 32 % can no longer be recognised as an investment in an associated company under IAS 28.18 as of 30 June 2011 but rather as a financial instrument in accordance with IAS 39 and it must be measured at its fair value on this date. The difference between the carrying value under IAS 28 and the fair value at the time that the equity method and classification under IAS 39 no longer applied was recognised in profit and loss in the amount of EUR 12,398 thousand. The interests in HAMMONIA Reederei GmbH & Co. KG are recognised under other investments as of 30 June 2011. The expenses from measuring the interests in HAMMONIA Reederei GmbH & Co. KG at fair value through profit and loss came to EUR 7,205 thousand as of 31 December 2011 (see also Notes (3)(c), (9) and (28)).

Notes on segment reporting

(33) Basis of presentation

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 Sales and Design, 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:

- Sales and Design – 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.

The Company's internal segments, including internal reporting, were reorganised and managed in 2011. The previous year's figures have been restated as follows so that they can be compared with this year's:

Personnel expenses totalling EUR 592 thousand were reassigned from the Sales and Design segment to the Asset Management segment. EBIT in the Sales and Design segment for 2010 improved by EUR 592 thousand as a result.

The Group company HCI Real Estate Asset Management GmbH (cf. Note [36]) was reallocated from the After Sales Services segment to the Asset Management segment. This led to a corresponding transfer of revenues of EUR 1,961 thousand and personnel expenses and material costs of EUR 852 thousand. Other operating income in After Sales Services also increased as a result, due to payment reconciliations of EUR 118 thousand with Asset Management. Overall, EBIT in the After Sales Services segment for the 2010 financial year fell by EUR 991 thousand. Assets totalling EUR 6,310 thousand were also reallocated to the Asset Management segment as of 31 December 2010.

The restatement of figures outlined above resulted in an improvement of EUR 399 thousand in EBIT in the Asset Management segment for the 2010 financial year. Besides this, segment assets went up by EUR 6,310 thousand as of 31 December 2010. EBIT improved further due to a change in the recognition of expenses from liability risks under Sections 171 and 172(4) of the German Commercial Code (HGB) to creditors of insolvent real estate totalling EUR 340 thousand (cf. Note [28]). Overall, the restatement of the previous year's figures led to higher EBIT of EUR 739 thousand.

(34) Segment information

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 886 thousand as of 31 December 2011 (previous year: EUR 875 thousand) is not allocated to segment assets.

The segment assets of the Sales and Design segment include interests in associated companies and joint ventures accounted for under the equity method of EUR 794 thousand (previous year: EUR 1,351 thousand). The segment assets of the Asset Management segment include interests of EUR 930 thousand (previous year: EUR 26,971 thousand). HAMMONIA Reederei GmbH & Co. KG was no longer accounted for as an associated company under the equity method as of 30 June

2011 and the investment was reclassified under other investments (cf. Note [4(iv)]). HAMMONIA Reederei GmbH & Co. KG is still assigned to the Asset Management segment; however, from this point onwards no income or expenses were recognised for HAMMONIA Reederei GmbH & Co. KG in the results of associated companies and joint ventures accounted for under the equity method.

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	31.12.2011	31.12.2010
Segment assets	**65,253**	**66,625**
Cash and cash equivalents	21,009	18,265
Other assets and receivables	6,396	15,964
Deferred taxes	638	846
Intangible assets	1,409	1,382
Securities	1,530	1,753
Property, plant and equipment	1,016	1,059
Other investments	497	316
Group assets	**97,749**	**106,210**

The geographic division of revenues according to the location of the Group company provides the following information:

EUR '000	2011	2010
Germany	31,545	35,324
Abroad	1,413	1,447

No division of segment assets has been made due to the insignificant figures from other countries.

Other disclosures

(35) 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:

	Loans and receivables		Available-for-sale assets		Financial instruments measured at fair value	
EUR '000	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Securities and other investments	--	--	29,114	16,691	16,230	--
Trade receivables	10,108	13,434	--	--	--	--
Receivables from related parties	118	24	--	--	--	--
Other financial assets	9,303	24,191	--	--	--	--
Cash and cash equivalents	21,009	18,265	--	--	--	--

The following table shows how the carrying values of financial liabilities are allocated to measurement categories pursuant to IAS 39:

	Fair value through profit or loss		Financial liabilities at amortised cost	
EUR '000	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Financial liabilities	--	--	4,119	5,337
Trade payables	--	--	5,577	6,927
Liabilities to related parties	--	--	1,405	1,734
Other financial liabilities	8,006	6,623	13,857	11,489

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:

	Financial assets					
	Loans and receivables		Available for sale		Financial instruments measured at fair value	
EUR '000	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Securities and other investments	--	--	29,114	16,691	16,230	--
Trade receivables	10,108	13,434	--	--	--	--
Loans granted	1,403	6,618	--	--	--	--
Cash and cash equivalents	21,009	18,265	--	--	--	--
Other financial receivables	8,018	17,597	--	--	--	--

	Financial liabilities			
	Fair value through profit or loss		At amortised cost	
EUR '000	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Loans	--	--	4,528	5,541
Trade payables	--	--	5,577	6,927
Derivatives	8,006	6,623	--	--
Other financial liabilities	--	--	14,852	13,019

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.

EUR '000	31.12.2011 Carrying value	31.12.2011 Fair value	31.12.2010 Carrying value	31.12.2010 Fair value
Financial assets measured at cost or amortised cost				
Other investments	11,355	11,355	14,938	14,938
Trade receivables	10,108	10,108	13,434	13,434
Loans granted	1,403	1,558	6,618	6,718
Other financial receivables	8,017	8,017	17,597	17,597
Financial liabilities measured at cost or amortised cost				
Loans	4,528	4,528	5,541	5,541
Trade payables	5,577	5,577	6,927	6,927
Other financial liabilities	14,852	14,852	13,019	13,019

The financial assets and liabilities measured at fair value are allocated to the IFRS 7 fair value hierarchy levels as of 31 December 2011 as follows:

	Fair value measurement as of 31.12.2011			
EUR '000	Total	Level 1	Level 2	Level 3
Financial assets				
Other investments	16,230	--	--	16,230
Securities	1,530	1,530	--	--
Financial liabilities				
Other financial liabilities	8,006	--	--	8,006

The allocations as of 31 December 2010 were as follows:

	Fair value measurement as of 31.12.2010			
EUR '000	Total	Level 1	Level 2	Level 3
Financial assets				
Securities	1,753	1,753	--	--
Financial liabilities				
Other financial liabilities	6,623	--	--	6,623

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:

	2011					2010
	From subsequent measurement					
EUR '000	At fair value	Currency translation	Valuation allowances	From disposal	Net result	Net result
Loans and receivables		3	-10,954		-10,951	255
Available-for-sale financial assets	12,398		-5,717	55	6,736	-1,500
Available-for-sale assets measured at fair value though profit or loss	-3,602				-3,602	
Financial liabilities at fair value through profit or loss	-1,383				-1,383	-6,623
Financial liabilities measured at amortised cost		-146			-146	-23,951
Total	**7,413**	**-143**	**-16,671**	**55**	**-9,346**	**-16,083**

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.

The loss from the disposal of available-for-sale financial assets of EUR 55 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 comprises exchange rate gains of EUR 146 thousand from the measurement of trade payables, liabilities to banks and other financial liabilities.

(ii) Disclosures on derivative financial instruments

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 a period of four years. The strike price is EUR 7,750 thousand plus the standard market interest rate as and from 1 April 2011.

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 2011, the option has a negative fair value of EUR 8,006 thousand.

(b) Management of financial risk

The HCI Group has a centralised interest and currency management system in place. 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 2011 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 Wölbern. 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 net exposure to foreign currency risks in USD as of 31 December 2011:

		Change in currency position	
EUR '000	Carrying value	in the event of devaluation 10 %	in the event of appreciation of 10 %
Cash and cash equivalents	1,007	915	1,119
Trade receivables	1,102	1,003	1,226
Other financial assets	2,536	2,332	2,849
Trade payables	-2	-2	-2
Financial liabilities	-4,116	-3,733	-4,562
Other financial liabilities	-220	-208	-255
Total exposure to currency risks in USD, translated into EUR thousand	**307**	**307**	**375**

The other financial result for the financial year would have been EUR 0 thousand lower (EUR 68 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 41 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 an EUR 14 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 27 thousand (previous year: EUR 19 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	2011	2010
Balance as of 1 January	1,917	967
Additions	3,645	1,917
Utilisation	-302	--
Amounts released	-466	967
Balance as of 31 December	**4,794**	**1,917**

Valuation allowances for receivables from related parties changed as follows:

EUR '000	2011	2010
Balance as of 1 January	--	3,305
Additions	3	--
Utilisation	--	3,305
Amounts released	--	--
Balance as of 31 December	**3**	**--**

Valuation allowances for other financial assets changed as follows:

EUR '000	2011	2010
Balance as of 1 January	3,430	6,114
Additions	6,718	1,620
Utilisation	--	3,804
Amounts released	--	500
Balance as of 31 December	**10,148**	**3,430**

Financial assets which were not impaired as of the balance sheet date – but were overdue – can be broken down as follows:

EUR '000	Carrying value	Of which payment deferred as of the balance sheet date	Of which neither impaired nor overdue as of the balance sheet date	Of which not impaired as of the balance sheet date and overdue within the following time bands					
				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 11	10,108	467	3420	23	13	31	154	222	924
31 Dec 10	13,434	2,127	7,798	177	61	62	992	310	723
Loans granted									
31 Dec 11	1,489	--	1,378	39	--	--	--	--	116
31 Dec 10	6,618	--	1,117	122	--	--	--	164	5,174
Other financial receivables									
31 Dec 11	8,037	28	4,697	--	--	--	--	--	15
31 Dec 10	17,597	89	15,951	12	8	--	--	--	1,465

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, HCI 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 HCI 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 31.12.2011	Cash flows 2012			Cash flows 2013			Cash flows 2014			Cash flows 2015 and later		
		Interest	Principal	Total	Interest	Principal	Total	Interest	Principal	Total	Interest	Principal	Total
Non-derivative financial liabilities													
Loans[1)]	4,116	--	--	--	--	--	--	--	--	--	178	3,938	4,116
Loss assumption obligation	8,676	--	--	--	--	--	--	--	--	--	--	12,500	12,500
Derivative financial liabilities													
Derivatives	8,006	--	8,006	8,006	--	--	--	--	--	--	--	--	--
Financial liabilities	11,613	--	9,775	9,775	--	1,046	1,046	--	1,046	1,046	--	--	--

1) The conditions of the loan with the bank Wölbern have not yet been finalised.

The table includes all instruments held by the Company as of 31 December 2011 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 2011. 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.

Trade payables of EUR 5,577 thousand and other financial liabilities of EUR 17,527 thousand are due in 2011.

(iv) Market price risk

With regard to the interests in HAMMONIA Reederei GmbH & Co. KG measured at fair value through profit or loss, HCI is exposed to a measurement risk as a result of changes in charter rates. Please refer to Note (4)(m).

(v) 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.

	31.12.2011	31.12.2010
Equity in EUR thousand	41,809	46,142
Equity ratio in %	42,8	43,4
Net financial assets in EUR thousand	18,420	14,681

Net financial assets are calculated as the difference between financial liabilities and cash, cash equivalents and securities. The year-on-year increase in net financial assets of EUR 3,739 thousand in 2011 is mainly attributable to the cash capital increase in May 2011.

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 (14)(a) for disclosures on authorised capital.

(36) Material subsidiaries and joint ventures

As of 31 December 2011, the Company had the following material subsidiaries and joint ventures:

Subsidiaries	Group share	Segment
HCI Hanseatische Capitalberatungsgesellschaft mbH, Hamburg	100 %	Sales and Design
HCI Vertriebsgesellschaft mbH, Hamburg	100 %	Sales and Design
HSC Hanseatische Sachwert Concept GmbH, Hamburg	100 %	Sales and Design
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
HCI Treuhand für Vermögensanlagen GmbH & Co. KG, Hamburg	100 %	After Sales Services
Verwaltung HCI Treuhand GmbH, Hamburg	100 %	After Sales Services
HCI Vermögensanlage GmbH & Co. KG, Hamburg	100 %	Sales and Design
HCI Vermögensanlage Verwaltung GmbH, Hamburg	100 %	Sales and Design
HCI Concept GmbH & Co. KG, Hamburg	100 %	Sales and Design
HCI Concept Verwaltung GmbH, Hamburg	100 %	Sales and Design
MK Management GmbH, Hamburg	100 %	Asset Management
HCI Immobilien Consult GmbH, Hamburg	100 %	Sales and Design
HCI Real Estate Asset Management GmbH, Bremen	100 %	Asset Management
Verwaltung HCI Treuhand für Vermögensanlagen GmbH, Hamburg	100 %	Asset Management
Hanseatische Immobilien Management GmbH, Bremen	100 %	Asset Management
HCI Hanseatische Capitalberatung für Beteiligungen GmbH, Hamburg	100 %	Sales and Design
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 Beteiligungsgesellschaft mbH & Co. KG, 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
HCI Real Estate Finance I GmbH & Co. KG, Hamburg	100 %	Holding / Other
HCI Real Estate Finance I Verwaltungsgesellschaft mbH, Hamburg	100 %	Holding / Other
29 Unternehmergesellschaften für Immobilienfonds	100 %	After Sales Services
Joint ventures		
5 Bestellergesellschaften (Kommanditgesellschaften)	50 %	Asset Management
Associated companies		
eFonds Solutions AG, Hamburg	22,60 %	Sales and Design

Use is made of the exempting provisions in accordance with Section 264(3) of the German Commercial Code (HGB) for HCI Hanseatische Capitalberatungsgesellschaft mbH, HSC Aufbauplan Management GmbH, HCI Beteiligungsgesellschaft GmbH & Co. KG, HCI Hanseatische Beteiligungstreuhand GmbH, HCI Immobilien Consult GmbH, HCI Vermögensanlage GmbH & Co. KG, HCI Concept GmbH & Co. KG, HCI Asset GmbH, Nautica GmbH & Co. KG, HCI Treuhand für Vermögensanlagen 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).

(37) 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.

As part of the cash capital increase, MPC Münchmeyer Petersen Capital AG and Mr. Jochen Döhle entered into an agreement to pool their voting rights for their voting shares of 25.58 % each in HCI Capital AG.

HSH Nordbank AG has been classified as a related party since 19 August 2010 due to the voting rights acquired. Following the cash capital increase carried out in 2011, according to information made available to the Company, HSH Nordbank AG now only holds 19.9 % of the interests in HCI Capital AG and is therefore no longer classified as a related party.

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. This agreement resulted in a liability to MPC Münchmeyer Petersen Capital AG as of 31 December 2011 amounting to EUR 428 thousand.

HCI Capital AG issued a placing commitment in December 2009 worth USD 16,950 thousand to MPC Münchmeyer Petersen Capital AG in connection with a fund. Fulfilling this commitment was associated with a number of conditions. HCI was released from this commitment as part of an agreement made in March 2011.

The HCI Group also made a commitment to MPC Capital AG to pay USD 2.3 million in the form of equity or debt to a joint investment company under specified conditions, and already made a payment of USD 410 thousand under this commitment in 2011. A corresponding receivable has been shown under other financial assets in this regard.

(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.

HCI Capital AG also refunded Döhle ICL Beteiligungsgesellschaft mbH EUR 48 thousand in costs paid by the latter.

(c) Relationships to HSH Nordbank AG

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. It was recognised as of 31 December 2011 at its fair value of EUR 8,676 thousand under other liabilities (31 December 2010: EUR 8,460 thousand).

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 2011 and 2010 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)	31.12.2011	31.12.2010
Receivables from associated companies and joint ventures	118	20
Liabilities to associated companies and joint ventures	476	5,332

Statement of operations (in EUR '000)	2011	2010
Cost of purchased services	320	300
Results of associated companies and joint ventures	444	7,948

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 320 thousand (previous year: EUR 300 thousand) in commission expenses for the HCI Group.

In the 2011 financial year there were no other significant trade relationships between associated companies and joint ventures and the HCI Group.

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 option could be exercised at any time as of 30 June 2011, the result of which was a loss of significant influence over HAMMONIA Reederei GmbH & Co. KG. As a result, the interests in HAMMONIA Reederei GmbH & Co. KG were no longer to be recognised as interests in associated companies in accordance with IAS 28.18 but instead as a financial instrument pursuant to IAS 39 (cf. Notes (3)(c) and (28)). 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 2011, resulting in a negative value for the option of EUR 8,006 thousand (previous year: 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 in the previous year. The amounts are gradually recognised through profit or loss as services are provided. A total of EUR 1,267 thousand (previous year: EUR 1,300 thousand) was earned and recognised in profit and loss in 2011 as a result of this situation. The purchase price, which could not be realised on the reporting date as a result of this situation, was recognised under other miscellaneous liabilities due to HAMMONIA Reederei no longer being accounted for under the equity method (previous year: liabilities to related parties) and came to EUR 3,138 thousand (previous year: EUR 4,375 thousand).

(f) Relationships to related persons

Balance sheet (in EUR '000)	31.12.2011	31.12.2010
Liabilities to HCI Group executive bodies	263	777

Statement of operations (in EUR '000)	2011	2010
Personnel expenses	1,418	1,946
Other operating expenses	150	322

In the 2011 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	667	--	667
Dr Andreas Pres	396	--	396
Dr Oliver Moosmayer	355	--	355
Total	**1,418**	**--**	**1,418**

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**

Bonuses are based on the HCI Group's IFRS consolidated net result before tax. Only contractually fixed minimum bonuses were payable in the 2010 financial year. Due to contractual agreements with the members of the Management Board, there were no entitlements to a minimum bonus in 2011.

Over the past year, total remuneration for the Management Board of HCI Capital AG amounted to EUR 1,418 thousand (previous year: EUR 1,946 thousand).

The Management Board members did not subscribe to any fund interests in the 2011 financial year (previous year: EUR 60 thousand).

The former members of the Management Board received a total of EUR 87 thousand (previous year: EUR 0 thousand) in other remuneration in 2011. This breaks down as follows:

EUR '000	Remuneration in 2011
Harald Christ	28
Dr Rolando Gennari	38
Wolfgang Essing	20
Total	**87**

Remuneration of the Supervisory Board amounted to EUR 135 thousand in the 2011 financial year (previous year: EUR 270 thousand). There were also expenses for meeting attendance fees in the amount of EUR 15 thousand (previous year: EUR 52 thousand). The year-on-year decrease is due to the members of the Supervisory Board forgoing half of their entitlement for 2011.

(38) Contingencies and other financial commitments

As of 31 December 2011, the Company had the following contingencies and other financial commitments:

	31.12.2011			31.12.2010		
	EUR '000	EUR '000	USD '000	EUR '000	EUR '000	USD '000
Guarantees and other commitments	**45,728**	31,706	18,134	**30,076**	23,026	9,434
Placement and equity capital guarantees	**--**	--	--	**12,668**	--	16,950
of which for funds not yet in distribution	--	--	--	**--**	--	--
Future payments under operating leases	**3,996**	3,996	--	**6,230**	6,230	--

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.

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 either. 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 conducts 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, the HCI Group may be liable for a number of funds in accordance with Sections 171 and 172(4) of the German Commercial Code (HGB). In this case, distributions which lead to a failure to meet the liability contributions might have to be paid back by the HCI Group 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 71 million. As a result of market developments in 2011 and the resulting economic trends and consequences for the fund companies affected, the liability risk under Sections 171 and 172(4) of the German Commercial Code (HGB) was more clear than in the previous year to the extent that a specific total amount can be disclosed. In the previous year, the risk was quantified within a range of EUR 21 to 40 million, based on the information available at the time of preparation of the financial statements. There were also provisions for this liability risk of EUR 1,829 thousand in the 2011 financial year (previous year: EUR 340 thousand). Please refer to Note (16).

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 (see Note [16]). 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.

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 2011	1,832	2,164	--
31 December 2010	2,070	4,160	--

(39) 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-capital.de.

(40) Mandatory disclosures of transactions in securities or investments pursuant to sections 15a and 21 et seq. of the german securities trading act (WpHG)

At the time of preparation of the consolidated financial statements, HCI Capital AG had received the following current notifications with regard to the mandatory disclosure of investments pursuant to Section 21 WpHG:

Shareholder	Date	Type of change (threshold in %)	New share in voting rights
Döhle ICL Beteiligungsgesellschaft mbH, Hamburg	15.06.2011	Exceeding threshold of 50	52.26 (an attributable share of 27.04 % due to a pooling agreement on voting rights with MPC Münchmeyer Petersen Capital AG)
Beteiligungs- und Verwaltungsgesellschaft Peter Döhle mbH, Hamburg	15.06.2011	Exceeding threshold of 50	52.26 (an attributable share of 25.44 % due to a pooling agreement on voting rights with MPC Münchmeyer Petersen Capital AG)
Mr. Jochen Döhle, Germany	15.06.2011	Exceeding threshold of 50	52.26 (an attributable share of 25.44 % due to a pooling agreement on voting rights with MPC Münchmeyer Petersen Capital AG)
Peter Döhle-Schifffahrts-KG, Hamburg	15.06.2011	Exceeding threshold of 50	52.26 (an attributable share of 25.22 % due to a pooling agreement on voting rights with MPC Münchmeyer Petersen Capital AG)
MPC Münchmeyer Petersen Capital AG, Hamburg	14.06.2011	Exceeding threshold of 50	51.15 (an attributable share of 25.58 % due to a pooling agreement on voting rights with the Döhle Group)
Commerzbank AG, Frankfurt	15.06.2011	Undercutting thresholds of 15, 10, 5, 3	2.18
HSH Nordbank AG, Hamburg	19.08.2010	Undercutting thresholds of 3, 5, 10, 15	19.90
MPC Münchmeyer Petersen & Co. GmbH, Hamburg	14.06.2011	Exceeding threshold of 50	52.26 (indirectly held by MPC Münchmeyer Petersen Capital AG and a pooling agreement on voting rights with the Döhle Group)
Corsair III Investments International S.á.r.l., Luxembourg (Luxembourg)	16.06.2011	Exceeding threshold of 50	52.26 (indirectly held by MPC Münchmeyer Petersen Capital AG and a pooling agreement on voting rights with the Döhle Group)

Commerzbank AG has made a commitment as an issuing bank to subscribe for the new shares under the condition that it offers them to the shareholders of HCI. As a result, the threshold exceeded 20 % at times.

According to the share register, the Döhle Group holds 25.58 % of the interests in HCI Capital AG, contrary to the voting rights listed above. MPC Münchmeyer Petersen AG also holds 25.58 % of the interests in HCI Capital AG.

The Company did not receive any other notifications.

(41) Supervisory board and management board

The Supervisory Board of HCI Capital AG 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		• CCC Machinery GmbH, Hamburg (Member of the Advisory Board) • Euro Vital Pharma GmbH & Co. KG, Hamburg (Member of the Advisory Board, until May 2011)
Udo Bandow Deputy Chairman Banker Hamburg	• Aramea Asset Management AG, Hamburg (Chairman of the Supervisory Board) • Donner & Reuschel AG, Hamburg and Munich (Deputy Chairman of the Supervisory Board, until April 2011) • HANSAINVEST Hanseatische Investment-Gesellschaft mbH, Hamburg (Honorary Member of the Supervisory Board) • Fondsbörse Deutschland Beteiligungsmakler AG, Hamburg (Honorary Chairman of the Supervisory Board)	• 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-Siftung, Hamburg (Deputy Chairman of the Management Board)
Jochen Thomas Döhle Businessman in the shipping industry, Hamburg	• EUROGATE Geschäftsführungs-GmbH & Co. KGaA, Hamburg (Member of the Supervisory Board) • EUROKAI Kommanditgesellschaft auf Aktien, Hamburg (Member of the Supervisory Board) • SPLOSNA PLOVBA d.o.o., Portoroz, Slovenia, (Member of the Supervisory Board)	• Kurt F.W.A. Eckelmann GmbH, Hamburg (Member of the Administrative Board) • Deutsche Schiffsbank AG, Bremen and Hamburg (Administrative Board) • J.J. Sietas KG Schiffswerft GmbH & Co., Hamburg (Administrative Board)
Stefan Viering Businessman, Barsbüttel	• Nimos Immobilienprojekt AG, Vienna, Austria (Chairman of the Supervisory Board)	
Karl Gernandt Businessman, Hamburg	• KLU, Kühne Logistics University, Hamburg (Chairman of the Supervisory Board) • Holcim (Deutschland) AG, Hamburg (Member of the Supervisory Board) • Hapag Lloyd AG, Hamburg (Deputy Chairman of the Supervisory Board) • Hapag-Lloyd Holding AG, Hamburg (Deputy Chairman of the Supervisory Board)	• Kühne + Nagel International AG, Schindellegi, Switzerland (President of the Administrative Board) • Kühne Holding AG, Schindellegi, Switzerland (Delegate of the Administrative Board)

Alexander Stuhlmann Lawyer, Hamburg	• alstria office REIT-AG, Hamburg (Chairman of the Supervisory Board) • Capital Stage AG, Hamburg (Deputy Chairman of the Supervisory Board) • LBS Bausparkasse Schleswig-Holstein-Hamburg AG, Hamburg (Member of the Supervisory Board) • EURO-AVIATION Versicherungs-AG, Hamburg (Chairman of the Supervisory Board)	• 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) • Ludwig Görtz GmbH, Hamburg, (Member of the Administrative Board) • Otto Dörner 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 (until end of May 2011)

Please refer to Note (37) for details on the remuneration of Management Board and Supervisory Board members.

Dr Ralf Friedrichs and Dr Andreas Pres (until the end of May 2011) were members of the Supervisory Board of eFonds Solutions AG in the 2011 financial year. Dr Oliver Moosmayer is also a member of the Supervisory Board of Fondsbörse Deutschland Beteiligungsmakler AG.

(42) Auditor's fees

The auditor's fees recognised as an expense in the consolidated financial statements amounted to EUR 394 thousand in the 2011 financial year (previous year: EUR 639 thousand) and are comprised of the following items:

Type of service	2011	2010
Audit of financial statements	353	445
Other testation and valuation services	25	3
Tax advisory services	--	74
Other services	16	117

The fees for the audit of financial statements include expenses of EUR 75 thousand in connection with the audit of the 2010 consolidated financial statements.

(43) Events after the balance sheet date

The HCI Group completed placement of the real estate fund HCI Berlin Airport Center in early 2012. Due to existing winding-up agreements, it was not possible to recognise revenues from the fund until an agreed minimum capital amount had been reached. Full placement of the fund in financial year 2012 resulted in revenues of EUR 4.3 million, of which EUR 4.1 million came from placements in 2011. After deducting the total cost of purchased services of EUR 2.6 million, the result was a positive earnings contribution before taxes of around EUR 1.7 million.

At the same time that the consolidated financial statements and management report of HCI Capital AG and the Group for the 2011 financial year were being prepared, the HCI Group discovered that a large international shipping company was in financial difficulty. According to the information available to us, this company has already implemented measures in an effort to restructure and ensure that it remains solvent. The HCI Group is unable to assess whether the measures taken are sufficient and suitable for the company to restructure successfully and maintain its solvency. The HCI Group does not have any direct business relationships with the company. In our estimation, HCI ship funds could be affected by this situation if they have entered into charter agreements with this company. At present, it is not possible to assess whether and to what extent there could be an indirect impact on the value of the HCI Group's assets and on its future cash flows and financial performance.

Apart from the events outlined here, there were no events of significance for the financial performance, cash flows and financial position of the HCI Group in the 2012 financial year.

The consolidated financial statements were prepared by the Management Board on 20 March 2012 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 22 March 2012.

Hamburg, 20 March 2012

HCI Capital AG

Dr Ralf Friedrichs

Dr Oliver Moosmayer

» Successful ship investments require co-operation. Strong partners and a stable network are important factors for success. Together with our partners, we are gathering speed once more. «

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.”

Hamburg, 20 March 2012

HCI Capital AG

Dr Ralf Friedrichs

Dr Oliver Moosmayer

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the HCI Capital AG, Hamburg, comprising consolidated statement of operations, consolidated statement of comprehensive result, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the notes to the consolidated financial statements, together with the report on the position of the Company and the Group for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. 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 § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and 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 net assets, financial position and results of operations 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement / articles of incorporation) and give a true and fair view of the net assets, financial position and results of operations 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 opportunities and risks of future development.

Hamburg, 22 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Heckert	Tauchen
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

The HCI Group completed its financial restructuring in 2011 and, in doing so, created a solid basis for the future development of the Company. In view of the ongoing difficulties in the market, which were again reflected in the industry's figures and in the HCI Group's placement result in 2011, this represented an important step forwards. As a result of the successful release from contingent liabilities and the conversion of bank liabilities into equity back in 2010, the HCI Group had already reached a key milestone towards eliminating significant risks caused by the financial and economic crisis and substantially strengthening the Company's capital base. This meant that all of the conditions were fulfilled to bring the HCI Group's financial reorganisation to a successful conclusion by means of the capital increase of EUR 11 million in May 2011, thereby further bolstering its financial basis. Based on this, the HCI Group is now equipped with a capital and liquidity base that has considerably improved the Company's position in comparison with its competitors as well. The executive management has also taken additional important steps to adapt the Company to the realities of the persistently weak market environment. Although 2011 began with hopes of a clear recovery on the markets – in particular for container shipping, but also for closed-end funds – there was a sharp deterioration in the underlying conditions of the HCI Group's industry and business as a result of the culminating public financing crisis in the USA and Europe. The executive management responded to this downturn and established a cost-cutting programme of around EUR 10 million for 2012 to enable the HCI Group to generate a positive operating result despite lower revenues in a persistently weak market environment.

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 initiated the right measures to overcome the challenges posed by the change in market conditions.

The Supervisory Board of HCI Capital AG held a total of six meetings in 2011. 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 2010
- Discussion of the quarterly reports and the Semi-Annual Report for 2011
- Risk management report
- Corporate planning and strategic direction
- Passing a resolution on the capital increase of 7,338,529 new shares

All Supervisory Board members participated in the significant meetings. A total of 12 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 23 January 2012. For further details, please see the declaration on corporate governance.

At the Annual General Meeting on 4 July 2011, KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, was appointed as auditor of the annual financial statements and consolidated financial statements for the financial year from 1 January 2011 to 31 December 2011. Where so instructed, this also includes an auditor's review of interim financial reports prepared prior to the Annual General Meeting in 2012.

KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified auditor's opinion on the annual financial statements of HCI Capital AG to 31 December 2011 and on 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). In addition to 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), a Group management report was prepared. The auditor also issued an unqualified auditor's opinion on the 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 16 January 2012) and the financial statements were discussed in detail with the auditors (on 22 March 2012). The full Supervisory Board was informed in detail of the findings at its next meeting on 22 March 2012. 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 22 March 2012. 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 2011 financial year.

Hamburg, 22 March 2012

Dr John Benjamin Schroeder, Chairman of the Supervisory Board

Impressum

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Disclaimer

Forward-looking statements

These documents include certain forward-looking statements and information about future developments that are based on the opinions of the HCI Capital AG Management Board and on assumptions and information available to HCI Capital AG at present. Words such as “expect”, “estimate”, “assume”, “intend”, “plan”, “should”, “could”, “project” and similar terms pertaining to the Company are indicative of such forward-looking statements, which are subject to a degree of uncertainty.

Many factors can lead to the actual results of the HCI Group diverging significantly from the forecasts made in such forward-looking statements.

HCI Capital AG is under no obligation to the public to update or correct forward-looking statements. All of the forward-looking statements are subject to various different risks and uncertainties, as a result of which actual figures may deviate from expectations. The forward-looking statements reflect the point in time at which they were made.

Clarkson Research Services Limited

Clarkson Research Services Limited (“CRSL”) has not reviewed the context of any of the statistics or information contained in the commentaries and all statistics and information were obtained by HCI from standard CRSL published sources. Furthermore, CRSL has not carried out any form of due diligence exercise on the information, as would be the case with finance-raising documentation such as initial public offerings (IPOs) or bond placements. Therefore, reliance on the statistics and information contained within the commentaries will be at the risk of the party relying on the information and CRSL does not accept any liability whatsoever for relying on the statistics or information.

Translation from German

In case of conflict between the English and the German texts, the German text shall prevail.