Quality for Your Success

Annual Report 2010

Foreword

Dear readers,

You have in front of you our annual report for the financial year 2010. It was a very special year that can best be described with the following attributes: surprising, challenging and successful.

Surprising. A degree of scepticism seemed to be in order as we received the figures for 2009 from the trade associations BDL and VGF in the first quarter of 2010. And indeed both private fund customers and commercial industry were initially very reticent about our products. There were few grounds for optimism to germinate and the first quarter of 2010 provided every reason to believe that the economic situation in 2009 would simply continue.

But in April/May 2010 came the turnaround. Driven by a strong export sector in industry and the effect of recovery packages to stimulate the commercial sector, we were able to record increasing demand for LHI's products in the fields of financing and balance sheet and tax optimisation. Fund products in the retail sector and for family offices were also characterised by a surprisingly positive mood. It demonstrated that structural measures initiated by the federal government and its predecessors to make the labour market more flexible are beginning to have a positive effect on private households and investors in assets. We now know for certain that Germany has come through the crisis in better shape than other EU countries.

Challenging. In 2009 we were already in absolutely no doubt that, once the financial crisis had been overcome, a return to old standards and behaviour would be unthinkable. We faced up to this challenge. In the field of publicly offered funds and private placements, we resolutely placed our trust in sustainable products. The market received our solar fund very well and it was quickly placed. This trust in the product was largely determined by secure cash flows due to the Renewable Energy Law as well as the transparency of the product itself that quickly enabled non-experts to understand the investment. Precisely the area of renewable energy demonstrates that investors have completely accepted the process of product diversification that we initiated in 2008 – towards what is both easy to comprehend and makes economic sense. We were also able to arouse investors' interest with the fund product LHI Immobilienfonds Österreich I Canon-Zentrale Wien: the market's needs were fully met by long-term secure cash flow generated by letting premises to an internationally known company for a period of 15 years.

Laying the foundations for an interesting investment already in the previous year has proved to be correct. Developments in our commercial customers' sector were heavily influenced by the fact that it is impossible to finance major long-term investment projects without equity capital. LHI has not shirked the challenges posed by financing: our RElease product offers the opportunity to finance commercially-used properties both efficiently and securely. This provides us, our investors and commercial users with a win-win situation. Obviously, this only becomes possible when established ways of thinking are abandoned. Thus, we thought through the new product free of all usual patterns and thoroughly examined the product from the point of view of its "generating benefits" before the initial placement on the market. A further challenge to products for our commercial customers and for the leasing world in particular lay in the growing discussion over changed accounting methods for leased objects. Many potential tenants and also lessees were confused by the concept of "right-of-use accounting". We are therefore all the more pleased that our active participation in trade associations enabled us to defuse this subject somewhat. We have invested a great deal of time in order to offer solutions now that enable necessary investments to be financed in the future right-of-use environment in a manner that is also optimal from an accounting point of view.

Increasing regulation is an additional topic. Due to LHI's leasing activities, the German supervisory authority, BaFin, has since 2009 classified us as a financial services institute. Moreover, there are strong indications that fund products will also be subject to special regulations as part of the AIFM Guideline. At a very early stage, therefore, transparency, clear documentation of decision-making structures as well as active risk management became characteristic for our product range. We have anticipated developments and taken measures such that the whole company is prepared for the future. And it makes us proud to be able to say that LHI products already fulfil tomorrow's foreseeable requirements today.

Successful. LHI was able to continue the successful results of the previous year with a volume of new business of approximately EUR 1.25 billion. We also achieved a satisfactory value with our own funds by placing equity of EUR 55 million. The result of over EUR 3.7 million for commercial law purposes shows that we are on the right path to recovering the level of profitability of earlier years. The key factor now is that we are extremely well prepared for 2011: with the funds LHI Flugzeugturbinenfonds II MAEP and LHI Solar Deutschland III Finsterwalde-Lichterfeld that were completed at the end of the year we have products that are tailored exactly to market needs. The figures for placements in the first few weeks of 2011 show how right we were with this policy. We have established the foundations for a successful year and, although far from feeling a sense of great euphoria, can look ahead with a certain healthy optimism.

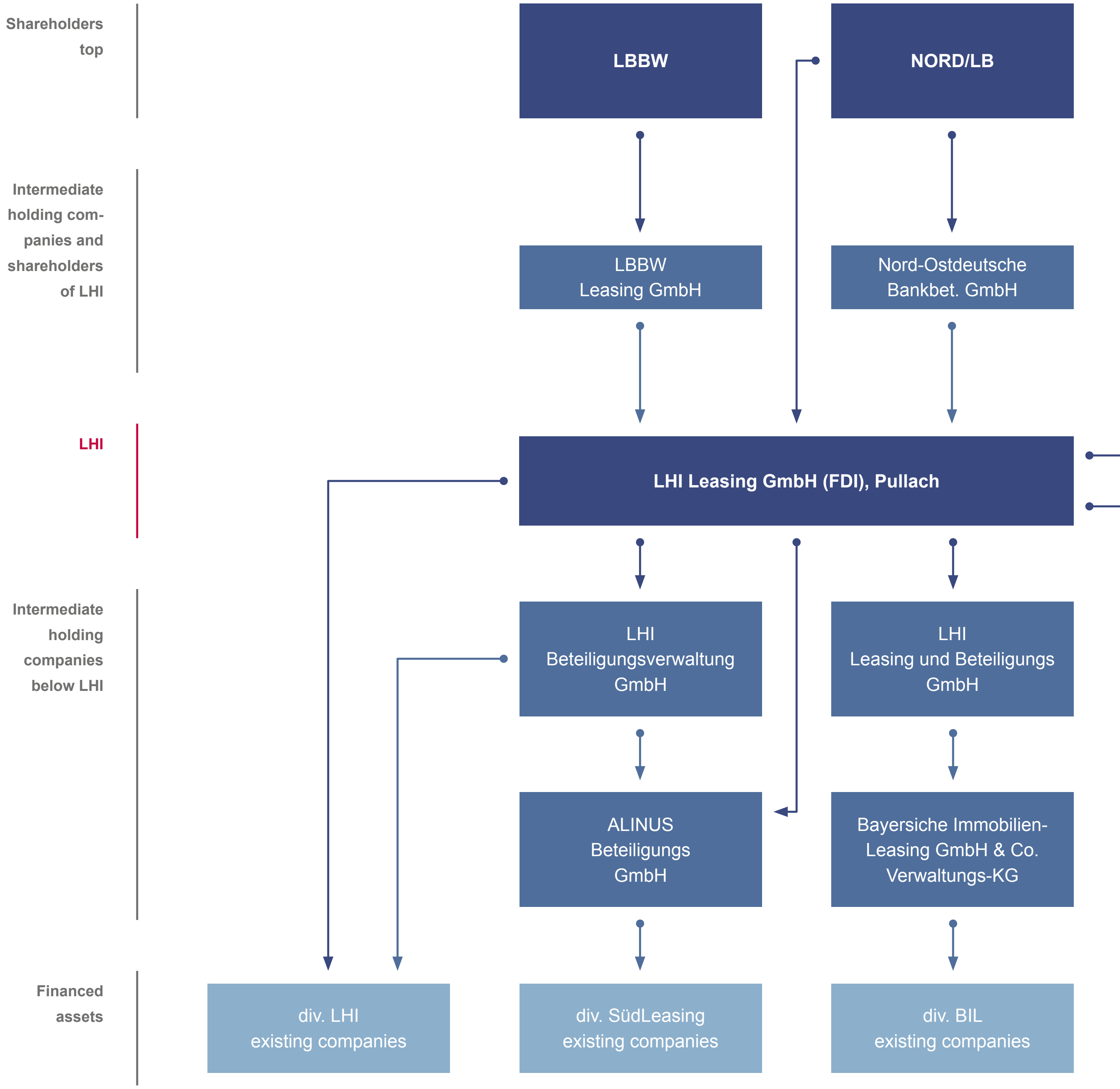
We hope that you will enjoy reading our Annual Report. Based on solid facts it documents the understanding we have of ourselves: "Quality for Your Success".

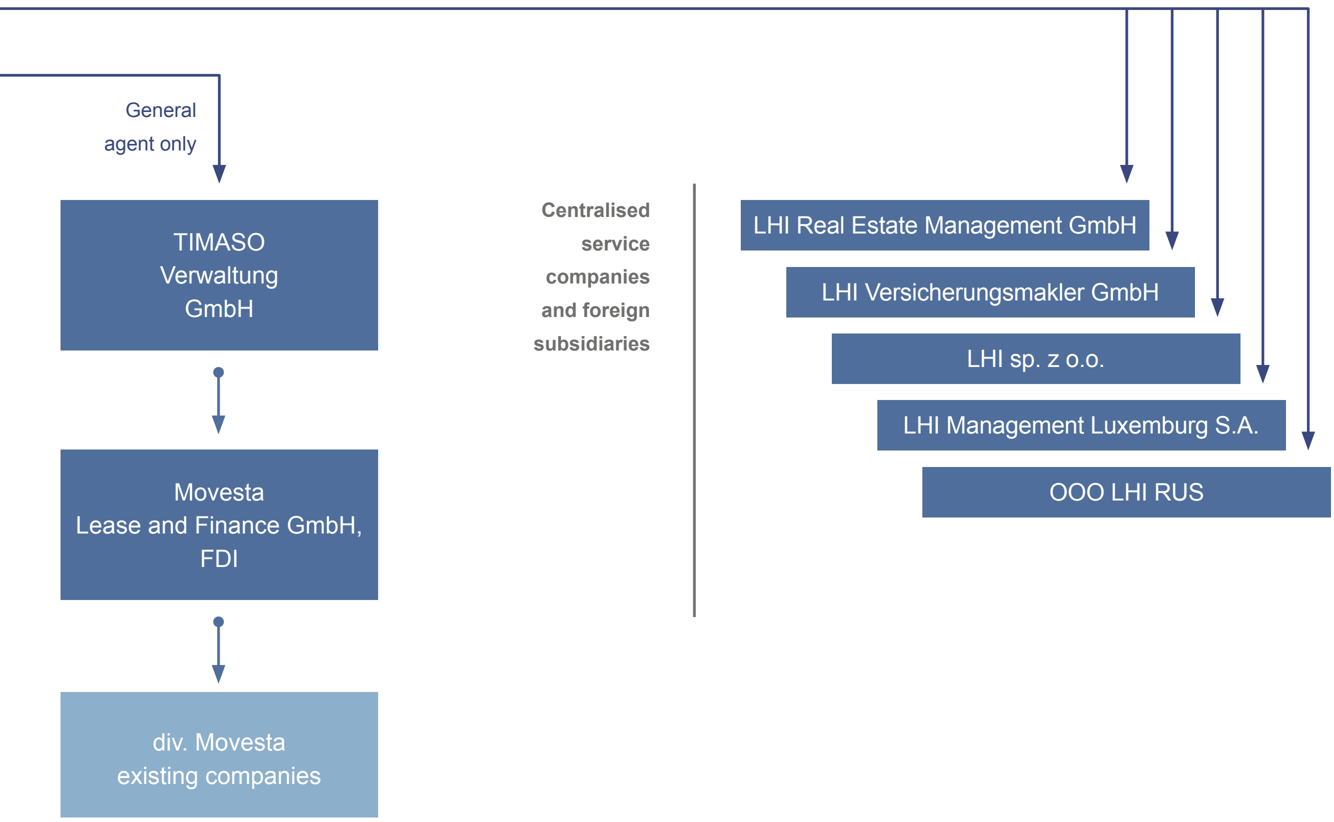
Oliver Porr
Managing director

Robert Soethe
Managing director

Heimo Koch
Managing director

Shareholder structure of LHI group




General agent only
TIMASO Verwaltung GmbH
Movesta Lease and Finance GmbH, FDI
div. Movesta existing companies
Centralised service companies and foreign subsidiaries
LHI Real Estate Management GmbH
LHI Versicherungsmakler GmbH
LHI sp. z o.o.
LHI Management Luxemburg S.A.
OOO LHI RUS

Strategy and positioning

As LHI Leasinggesellschaft für Handel und Industrie mbH was established in 1973, the company's core business was real estate leasing. In the years that followed, LHI developed to become one of the market's major providers. As evidenced by market data issued by BDL (Federal Association of German Leasing Companies e. V.), the total size of the real estate leasing market has declined considerably in the last few years. This contraction of the market led to a consolidation process in which LHI played a crucial role. Thus, Bayerische Immobilien Leasing was integrated into the company in 2002 and the real estate portfolio of SüdLeasing in 2006. In 2009 LHI's systems took over the management activities of Movesta Lease and Finance GmbH. Together with the withdrawal of traditional competitors from the real estate leasing market, LHI was steadily able to increase its market share. We observe that the market size now reached a certain low point. Although the traditional advantages of real estate leasing in terms of trade tax and commercial law off-balance sheet financing no longer exist, there are still very good reasons for choosing real estate leasing as a way of financing investments: we are thinking here of measures to optimise real estate acquisition tax in cases of foreseeable changes in groups, outsourced property management and the raising of finance through a company specialised in this field. Strategically, therefore, LHI will not give up its activities in the real estate leasing business but use the strengths it has acquired in order to continue to actively pursue new business in this market.

At the beginning of the 1980's, it was possible to generate advantages by involving private persons in project financing. This gave rise initially to LHI's private placement business. The main driving force in the field of publicly offered funds was special depreciation for investment projects in the former GDR following the reunification of Germany. This showed that private investors had a lasting interest in participating in economically necessary investments by way of a fund. Strategically, we will continue to expand the funds business sector. Our thinking here is dominated by the fact that in future not the structuring services as such will show a return, but rather the asset management services that have to be provided. LHI has therefore made a conscious decision not to get involved in every imaginable class of investment but to concentrate on the core skill of real estate, on solar and wind energy in the field of renewable energy sources, and on the aviation sector. In the aviation sector, we have developed an interesting position in the market with the niche product turbine engines. In future, we will use this know-how to expand into the business of financing whole aircraft as well. Our existing network with companies operating in this sector will help us along this route. As regards renewable energy, we see untapped potential in Northern and Central Europe especially in the field of wind energy. As regards solar energy plants, due to the reduction in the fees paid for feeding electricity into the grid, we anticipate that projects in Germany will only make limited commercial sense. We are currently making intensive efforts to open up other markets, such as the USA, in order to be able to continue to use existing know-how. LHI is one of the leading real estate companies in Germany with more than EUR 19 billion investments in real estate. We have also established a significant role in the market in Poland. We will continue to use these skills. Our main consideration in this context is not only to use our know-how in real estate but also market know-how. That is why we are seeking activities primarily in Western European core markets and in Poland.

Our skills in structuring, managing and handling leasing and fund companies have given rise to considerable know-how in the fields of accounting, financing and assets. We will emphasise this know-how in offering the services of our newly defined business segment “Solutions”. In this function, LHI will operate at the intersection between corporate finance, structured finance and working as an investment boutique. The Solutions division offers our customers individualised, tailor-made answers to their problems. Particularly in times of limited refinancing resources, it is good to know that traditionally LHI has developed opportunities to place equity shares as part of fund transactions. Seen in this way, Solutions are frequently equity-supported structures, similar to leasing, in which, apart from banks, third parties put up the finance.

To summarise therefore, LHI is more than just a leasing company, more than just an issuing company and something quite different from the corporate finance and structured finance department of a bank. We see ourselves therefore as a special company that – dedicated to quality – offers exceedingly attractive products, both to investors and to people interested in financing investments.

The fact that, as a leasing company, we have been subject to supervision by both the Federal Bank and BaFin since 2009 today gives us the competitive advantage of being familiar with regulatory requirements. We have, for instance, established a highly complex risk management system covering the whole company. Our corporate management concept fulfils all the requirements the German Banking Law makes of financial service companies. We are facing a transformation in the field of funds similar to the transformation the leasing business experienced a few years ago. Here too we anticipate that the company will face increased regulatory requirements, in the form for example of the European AIFM guideline, which it is anticipated will be implemented in national law by 2013, and additional domestic regulatory moves under the aspect of consumer protection. The fact that we are perfectly equipped to face these challenges gives us a competitive advantage that we will use. This allows us the vision of being able to develop the business segments described above into a fully integrated financial services institute.

Company history

LHI was founded on 1 October 1973 by Dr. Matthias Schmitt and the Norddeutsche Landesbank – giro centre – as the Leasinggesellschaft für Handel und Industrie mbH. The emphasis lay initially on providing finance for German food retailers' real estate investment projects. Additional business sectors of financing manufacturing equipment and structured financing were established in 1977. Two years later the Berliner Bank AG acquired 40 % of the shares in LHI from Dr. Schmitt's holding.

In the process of designing leasing projects LHI acquired considerable knowledge of accounting, the management of special purpose companies and legal and tax matters. This extensive knowledge was increasingly used in later years in developing and realising structured financing projects. Because LHI's philosophy always emphasised not just providing customers with ideas but also actively supporting the implementation of these ideas and managing the properties on a long-term basis.

Since 1981 private capital has also been involved in financing investments in the area of leasing. LHI first placed publicly offered funds by way of special depreciation opportunities in the former GDR in 1993. And in 1995 LHI celebrated its debut in the neighbouring market of Poland with its own company – over the next few years LHI sp. z o.o. grew into the largest national provider in the field of real estate leasing.

Dr. Schmitt, the founder of the company, sold his last remaining shares to Bankgesellschaft Berlin, the successor company to the Berliner Bank, in 1996. Norddeutsche Landesbank acquired all the shares in 2004 and was for a time the sole shareholder. LHI was however treated as a profit centre and not integrated as a company into the group. This enabled Landesbank Baden-Württemberg (LBBW) to be secured as an additional shareholder in 2006. Since then LBBW has owned 51 % of the shares and Nord/LB 49 %.

The turn of the millennium saw an extension in the company's growth strategy, so that in addition to continuous organic expansion of business, corporate acquisitions were also made. Bayerische Immobilienleasing was acquired in 2002 and the real estate leasing division of SüdLeasing was integrated into the company in 2006. Finally, the management portfolio of Movesta Lease & Finance, with which LHI had had a partnership, was acquired and incorporated into LHI's own management portfolio in 2009.

As a symbol of its continued growth, LHI moved into its new administration building in Pullach im Isartal – the modern headquarters of its success – in the same year.

Human Resources

LHI's performance is only possible thanks to the outstanding skill and dedication of our 274 employees. Our consciousness of this fact is reflected in a company and management culture that is highly oriented towards motivation.

The heart of LHI's concept and the benchmark for each individual employee is the quest to win over others through continuous peak performance and reliability. For our customers, this signifies on the one hand commercial continuity and on the other our outstanding quality as partners. LHI's concept of quality is characterised by strength through competence, openness and transparency. Our teams and every individual employee mirror these qualities, both to the outside world and within the company, because peak performance for our customers can only be understood as a joint responsibility towards each other.

This image we have of ourselves shows itself externally in our everyday work in a very strong sense of partnership. This is symbolised by the modern architecture, suffused with light, of LHI's headquarters in Pullach. It embodies our values in a variety of ways and provides our daily life together with a motivating space for all individuals to develop their own particular talents. Designed as a so-called Green Building, it conveys feelings of sustainability and creates an atmosphere of well-being. As part of this concept, nature was integrated into the architecture: the atmosphere of "green islands" and inviting coffee points on every floor promote a feeling of relaxed communication. The building's artistic features provide a sophisticated environment and inspire creativity. Art enjoys an important place as a conveyer of values and emotions, not just in our own building but also in the fact that our employees can also take advantage of art tours on offer in Munich throughout the year.

What the open office concept seeks to convey as space for personal growth is reflected throughout the whole company culture right up to the level of senior management who can be approached by all employees as intended by our "open-door" policy. LHI's senior executives see themselves as brand ambassadors exemplifying the company's values. This forms the basis of the high demands we make of ourselves in relations with LHI's most important resource: its employees.

2010 saw the development of the Leadership Compass as a code of practice to promote leadership qualities in managing oneself, our relationships, the organisation and change. It deals with both the authenticity and personal reliability of the manager and the development of added value that accrues to the organisation and its employees from a positive and constructive understanding of responsibility. This is most positively expressed in, for example, motivation by providing scope for personal fulfilment and active employee development.

LHI not only invests in its employees' specific professional development, it also cultivates soft skills and cultural enrichment. Currently, for example, the company-wide 12-up Programme lasting a whole year is in progress. The programme's purpose is to push and promote employees with potential.

But LHI's focus on the individual needs of its employees goes beyond the structure of their work into a well-adjusted work-life-balance. The following figures provide ample evidence of high human values: the fact that 60 % of our employees are women demonstrates that expertise and the ability to perform and work as a team are the key criteria at LHI. LHI also actively recognises the requirements of family life, something that is reflected not only in the fact that 20 % of jobs are part-time. Flexible working times and contacts to nursery day-centres and kindergarten in Pullach and Baierbrunn show how seriously we take a harmonious relationship between work and family life.

There are a number of individual aspects to the foundations on which the motivation, identification and loyalty of LHI's employees are based. The most important is certainly the recognition of personal performance that is defined principally in terms of remuneration. Each employee's remuneration system therefore provides for a fixed and a variable salary element. Each individual employee participates in the company's success by way of a bonus system. This monetary module completes the circle of the LHI philosophy. Our pledge to the customer – "Quality for Your Success" – fuels our employees' own drive.

LHI data

Board of management

Oliver Porr, Robert Soethe, Heimo Koch

Supervisory board

LBBW: Joachim E. Schielke (chairman),
Ingo Mandt, Rudolf Zipf
NORD/LB: Eckhard Forst (deputy chairman),
Dr. Jürgen Allerkamp, Martin Hartmann

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Operating figures

	31.12.10 kEUR	31.12.09 kEUR
Balance sheet total	161,496	142,781
Shareholders' equity	46,598	41,139
Result from ordinary operations	5,340	690
Net income	3,700	628
Equity ratio	28.8%	28.9%
Financial result	6,310	60
New business	1,240,000	2,260,000
Investments managed	26,220,000	22,540,000
Equity managed	1,254,000	1,216,000
Total investors	20,470	19,849
Employees	274	281

Business Development Report

Overall economic development

The international economy recovered considerably in 2010. The German economy is experiencing a robust upturn. Following a decline of 4.7 % in gross domestic product in the previous year, 2010 saw an increase of 3.6 %.

Germany is on the right road to a complete recovery from the downturn in output following the economic crisis. The expansion is not only driven by an increase in exports. The domestic economy is also reviving. Both private consumer spending and investment by companies increased markedly. Although economic indicators suggest that the pace of economic recovery slowed in the last quarter of 2010, indices of the business mood remain at a very high level. Incoming orders in industry are pointing in an upward direction. The debt crisis in the European Union remains a source of uncertainty.

Since the pace of international economic expansion lost some of its tempo in the second half of 2010, foreign trade is contributing less to the increase in the gross domestic product. It is also to be assumed that the considerable dynamism of investments in plant and equipment will not be sustained and that construction investments will also increase more slowly.

Domestic demand will determine the pace of economic expansion. The basic monetary conditions are believed to be favourable. The situation on the labour market has improved considerably. The rate of unemployment was 7.7 % in 2010 (8.2 % in 2009). Given the improved employment prospects, private consumption could develop into the main driving force in the economy in the next few quarters. The inflation rate stood at 1.1 % in 2010 and is forecast to increase to 1.6 % and 2.0 % respectively in 2011 and 2012.

The economic recovery will slow the increase in the country's budget deficit. Due above all to an expansionary financial policy, at 3.8 % the deficit rate in 2010 is distinctly higher than in 2009 (3,0 %). The federal government has announced a new course that is more focussed on the requirements of the pending brake on public debt.

(The above data was obtained chiefly from the online portal of the German Federal Statistical Office [situation on 04.02.2011] and the Economic Report of 16.12.2010 of the Economic Institute of the University of Kiel.)

Developments in the leasing industry

According to forecasts, the leasing market in Germany shrank by 1 % in 2010 and generated new business of EUR 40.5 billion. Of this, EUR 37.9 billion is accounted for by new business with movable goods. This represents an increase of 2.6 %. Real estate leasing increased slightly in 2009 to EUR 3.9 billion (contracted business). The new business sector was however influenced by a major transaction of over EUR 1 billion carried out by LHI. Without the influence of large individual transactions, a value of only EUR 2.6 billion was achieved in 2010 (-35.1 %).

Following a considerable decline in the previous year, the whole leasing market has recovered, chiefly in the second half of the year. The economic upturn only reached the leasing market with a certain time lag. One reason for this is that companies have largely financed their investments from their own cash flow.

The structure of leased properties remained largely unchanged in 2010. The largest sector is represented by road vehicles (which includes both private cars and commercial vehicles) with a share of new business of 64.3 %. This is followed by manufacturing equipment (11.5 %) and office and IT equipment (8.0 %). In spite of a decline in private leasing where the demand for new vehicles has declined due to the car-scrapping premium in 2009, the largest sector, road vehicles, increased by 3.5 %.

The structure of leasing customers has barely changed in comparison with the previous year. The majority of customers come from the service sector (33.9 %), followed by the manufacturing industry (22.5 %). In 2010, the new leasing business with these customer groups increased in 2010 by 3.8 % and 13.7 % respectively. In third and fourth place are customers in the commercial sector (13.5 %) followed by the transport and telecommunications sectors (11.1 %).

Over the last few years, the public sector has increased its share to 4.2 % compared with 2.8 % in 2009.

(The above data was obtained amongst other sources from the BDL [Federal Association of German Leasing Companies] Trend Report I-IV/2010 issued in February 2011 and a press release issued by the BDL in November 2010.)

In the financial year 2010 the market for closed funds was able to recover some of the ground it had lost during the last few years. The volume of equity placed increased from EUR 5.1 billion in the previous year to EUR 5.8 billion (13 %) versus the previous year. Almost all asset classes recorded increases. German real estate funds achieved a particular standing with an increase of 46 % accompanied by high volume. Energy funds (+52 %) and private equity models (+73 %) were also highly sought after. The volume accounted for by investments in ships remains at its traditionally high level, of which a considerable part was generated by capital increases of existing structures. Contrary to this trend, investments in foreign real estate showed a decline. The life insurance fund business declined to zero. The trend to transparent products that started already in 2009 remains strong.

(Amongst other sources, the above data was obtained from a press release issued by the Association of Closed Funds [VGF Verband Geschlossene Fonds e. V.] on 08.02.2011.)

Development of the business and the asset, financial and income situation

LHI has been a financial services institute since 25.12.2008 and as such is required to prepare its accounts in accordance with the German Banking and Financial Institutes Accounting Regulation (abbreviated in German to “RechKredV”). The appropriate performance indices are assessed below.

In 2010 LHI profited from the overall recovery of the economy. The commercial sector’s financing and structuring requirements began to pick up speed. Demand for capital investment products also increased considerably in an environment of low interest rates. LHI was able to participate in this development with its fund and structuring products and after EUR 0.6 million in the previous year once more achieved a considerable net profit of EUR 3.7 million.

The interest result was positive with EUR 0.8 million (EUR 1.7 million). As anticipated, income from investments declined from EUR 13.8 million to EUR 2.8 million. Extraordinary influences had caused a boost in last year’s income from investments. The commission result doubled from EUR 6.9 million to EUR 13.8 million. Highly favourable new business in the fund sector above all led to a considerable increase here. Other operating income remained more or less at the previous year’s satisfactory level with EUR 35.6 million (EUR 37.9 million). This modest decline is due to the revival of the business situation, since during the reporting period activity was again concentrated more on the commission result.

Due to increasing regulatory obligations, the planned major reduction in the number of employees was not fully implemented. Nevertheless, fixed personnel costs were reduced as a result of targeted measures and only moderate salary adjustments. The positive trend of the company’s results once more gave rise to claims to variable salary components in 2010 (EUR 1.9 million). As a result, personnel expenses increased by EUR 1.3 million. Other administrative expenses declined by EUR 0.8 million. Following the heavy expenses incurred in the previous year only modest devaluations of investments and contingencies for fund structures were necessary. In this context a contingency item of EUR 1.7 million was established for one individual fund. Other operating expenses declined in total by EUR 12.2 million. The extraordinary loss of EUR 0.1 million is due to the phased change in pension reserves as a result of new accounting regulations.

The principle items on the asset side of the balance sheet are other assets of EUR 81.4 million (previous year: EUR 61.9 million) and receivables due from customers with a value of EUR 63.9 million (previous year: EUR 57.9 million). This compares on the liabilities side with, amongst other items, reserves and accrued liabilities of EUR 44.0 million (previous year EUR 42.5 million), liabilities of EUR 39.9 million (previous year EUR 25.3 million) due to banks and securitised liabilities of EUR 25.1 million (previous year EUR 25.1 million).

Shareholders’ equity was EUR 46.6 million (previous year: EUR 41.1 million) on the cut-off date. This increase results from the profit generated in 2010 and a profit-neutral tied revenue reserve established in connection with the new Law to Modernise Accounting Rules (BilMoG). Since both the total balance sheet (+ EUR 18.6 million) and the shareholders’ equity (+ EUR 5.5 million) increased, the equity ratio remains almost unchanged at 28.9 % (previous year: 28.8 %). The increase in the balance sheet amount is due chiefly to financing on the cut-off date of a fund structure during the placement period.

LHI has not entered into any long-term liabilities. The company financed its current business with its own resources, the use of credit lines provided by its two shareholders and a bearer debenture.

LHI has provided interim financing for fund structures and investor models. It was possible to place major equity tranches during the financial year. The resources tied up are constantly monitored by means of a rolling liquidity forecast. The company’s asset situation is well-ordered and its ability to meet payment obligations assured at all times.

Risk report

The aim of LHI's risk management is to ensure the company's continued and sustained success through suitable procedures to support the identification, evaluation and monitoring of risks. The risks that the company is required to assume in order to ensure its success are coordinated by means of risk management. From an organisational and operating point of view, the risk management function is divided between the departments organisation, compliance, internal audit and corporate risk management. The board of management is responsible for overall risk management.

The organisation department is responsible for organising the company's structure and processes as well as for defining and introducing efficient processes. Since the fourth quarter of 2010 a compliance committee has handled questions connected with the subject of compliance. Apart from the board of management, the departments legal affairs, organisation, corporate risk management and internal audit are represented on the compliance committee. The internal audit department carries out independent checks in all areas of the company.

Corporate risk management (risk management in the strictest sense of the word) is responsible for calculating the capacity to bear risks, risk monitoring throughout the company and regular risk reporting.

A risk committee consisting of the board of management and the managers of the internal audit, accounting/controlling and risk management departments meets at regular intervals to ensure the capacity to bear risks.

Decentralised risk managers from all departments in the company are responsible for identifying risks and present ad hoc reports, at least however once a quarter, directly to the risk management department. The risk management department is involved in new business processes.

The risk management department summarises all risks in the existing portfolio and in new business and monitors as an independent unit reporting directly to the board of management the company's (long-term) capacity to bear risks, taking account of the resources available to cover risks and contingency reserves in the balance sheet.

Types of risk

LHI has carried out a categorisation of risks suited to its business model according to which risks are assessed, managed and monitored.

Company default and market price risks

Investments

The category "investments" includes projects in which LHI had a stake with its own funds on the balance sheet cut-off date and that are to be placed. Every investment is analysed with respect to the risk it entails and receives an individually calculated risk value before a commitment is made to the business partner.

LHI uses a value-at-risk procedure adapted to the needs of its business model in order to determine the risk value. The value-at-risk calculations are based on a consolidated multi-accounting period spread of losses that uses the probability distributions of future cash flows and residual values. The risk value takes account of notional risk costs and, where appropriate, a tied risk contingency for each individual investment.

The risks arising from investments are included in the risk-bearing capacity calculation.

Financial investments

The category "financial investments" includes both short term and long-term financial investments.

Short-term capital investments are coordinated and monitored every month by an investment committee made up of the managers of the treasury, accounting/controlling and risk management departments. Coordination takes place by way of an annual value-at-risk based on a classical mean-variance approach.

Long-term capital investments are coordinated and monitored by means of a value-at-risk that takes account of the long-term nature of the investment. The value-at-risk calculation is carried out analogously to the investment. The value-at-risk is based on a consolidated spread of risk derived from a simulation of possible cash flow and possible residual value developments. Notional risk costs as well as, where appropriate, tied risk contingencies are taken into account.

The risks of both short-term and long-term capital investments are consolidated in an appropriate manner and included in the risk-bearing capacity calculation.

Special purpose companies
LHI establishes and acquires a stake in special purpose companies in order to isolate risks.

The risks in these investments are limited to the loss of the capital invested. The risk consists in the fact that the customer defaults and that the property does not sustain its value.

The risks are assessed, coordinated and monitored by way of standardised LHI rating procedures. They are included in the risk-bearing capacity calculation.

Liquidity risks

LHI requires interim financing in order to implement part of its commitment. This gives rise to a liquidity risk as a result of payment obligations that possibly cannot be met on the due date (liquidity risk in the narrowest sense of the word). There is a risk when interim financing is extended or fresh interim financing provided that financing will have to be concluded at worse conditions.

Liquidity risks are coordinated and monitored on an ad hoc basis but at least every fourteen days by the accounting and risk management departments. The board of management considers every liquidity situation of every project decision requiring considerable liquidity.

Liquidity is coordinated by means of a detailed liquidity plan. This includes all the major liquidity requirements of the coming 12 months and takes account of available credit lines within the group, from shareholders and other lenders.

Commitments for which interim financing is provided can also be held over a longer period by means of a conservative valuation and available credit lines. Seen from today’s perspective therefore, there is no market liquidity risk.

Liquidity risks have so far been evaluated apart from the risk-bearing capacity calculation.

Operational risks

LHI summarises risks identified in the fields of information technology (IT), human resources, process flows as well as external events.

The most important risk in the field of information technology relates to the functionality of the systems used and possible damage caused by a loss of data. Precautions have been taken to ensure the trouble-free operation of the systems and IT security. Appropriate plans have been developed to deal with emergency situations, including the required back-up procedures.

LHI counters risks arising from errors or malicious actions on the part of employees by a variety of measures as part of its internal control system. Our internal audit department verifies compliance issues as a part of its audit plan.

In evaluating operational risks, risk values are determined largely on the basis of expert assessments and taken account of in the risk-bearing capacity calculation.

Other risks

Product structures
LHI summarises the risks arising from contingent liabilities, conceptual risks, legal risks etc. in the risk category product structure risks. Risks arising from contingent liabilities arise largely in connection with LHI’s guarantees or warranties. Conceptual risks might arise as a result of changes in the tax or legal environment. “Legal risks” covers ongoing or pending cases of litigation.

The risk value is evaluated individually depending on the circumstances of the case. LHI refers to both empirical values and expert assessments in this context.

The category is also included in the risk-bearing capacity calculation.

Summary of the risk situation

Taking account of the current resources available to cover risks and contingency reserves shown in the balance sheet, the company is able to bear the risks valued on the basis of the situation on 31 December 2010.

Outlook/forecast

The marked economic recovery in 2010, albeit somewhat weakened, will be continued into 2011. The international economy continues to gain momentum. On the other hand, the risks of inflation are increasing with the high money supply, particularly in the USA. In the short-term this can lead to a considerable increase in the level of interest rates. This would affect the refinancing side of LHI's product structures. Moreover, interest spreads between fund products and government bonds could narrow still further. On the other hand, increasing rates of inflation will lead to a growth in demand for fixed assets. Invitations to invest in real estate or other assets would then become more prominent again.

The main priority for LHI must be the rapid structuring and placement of its equity products. Long holding periods considerably increase the risks of changes in interest rates. Moreover, the transformation from a provider of finance to a solver of problems will play a crucial role.

In concrete terms, the implementation of at least ten fund models in a variety of asset classes is foreseen. Moreover, additional structures especially intended for institutional investors are in preparation. The current product pipeline is positive and establishes a good basis for success in the business segment "structured equity/investment models".

The placement of equity tranches deriving from structures developed in 2009 and 2010 will be one of the key aspects of the equity sales departments. The sales figures for current structures in fields of renewable energy, and aviation are very good. It is anticipated that placement will be completed very soon. The sale of share certificates in the private equity structure introduced in 2009 should increase as a result of the positive development of the asset's value.

An additional key aspect will be new activities in existing areas of business. In addition to the integration of management jobs acquired in 2010, there are fresh signs of assignments as a corporate service provider. LHI's strong position in the field of management is to be consolidated still further.

Its traditionally extensive skill in designing new business models offers LHI excellent opportunities to prepare tailor-made solutions to its customers' financing issues. The new approach of increasingly developing solutions to financing issues that may be supported over the whole life cycle offers new turnover opportunities.

In the field of local authorities/PPP, following the end of the federal government's economic stimulus programmes increased demand for alternative financing possibilities is to be anticipated. LHI is currently involved in a number of tenders with promising prospects of success. The winners of many tenders will be announced in 2011. The management of LHI therefore regards the business prospects of this area as very positive.

No major projects are foreseen in LHI's IT landscape. Improvements due to regulatory requirements or to enhance the client acceptability of IT applications will be carried out as part of ongoing operations. Our payment transactions system will also be converted to the European standard SEPA.

Following the initiation of the "Road Map" in the MaRisk requirements in 2009, additional details were implemented during the reporting period. In 2011, essentially only follow-up work or the inclusion of new requirements is planned.

Foreign activities continue to be concentrated on Poland. Following its initial successes, LHI sp. z o.o. will increasingly offer special financing facilities for new and established properties. After completion of a test phase, LHI sp. z o.o. will assume additional services in the management of German special purpose companies and the acquisition of suitable properties for real estate funds.

The relevant relationship of risks and opportunities will be thoroughly examined, particularly as regards key risks, before new transactions are concluded or new markets and products entered. LHI's Business Code and its risk management provide the basis for this.

Following its successful turnaround, LHI plans a continued improvement of its results in 2011. The income situation will continue to improve in the following years.

Annual Financial Statements on 31 December 2010

Balance sheet

	EUR	Previous year kEUR
Assets		
1. Cash reserves		
Cash on hand	3,489.38	7
2. Receivables due from banks		
Other receivables	3,499.97	37
3. Receivables due from customers	63,874,607.62	57,882
thereof: from financial services institutions EUR 1,611,855.00 (previous year: kEUR 1,217)		
4. Shares and other non-fixed interest securities	0.00	3,841
5. Investments	9,300,100.75	9,250
thereof: in financial services institutions EUR 1,875.00 (previous year: kEUR 5)		
6. Shares in affiliated companies	2,700,411.41	5,495
7. Intangible assets	375,689.86	268
8. Property, plant and equipment	3,548,209.32	3,786
9. Other assets	81,385,586.57	61,930
10. Accruals and deferrals	304,332.31	285
Total assets	**161,495,927.19**	**142,781**

	EUR	EUR	Previous year kEUR
Liabilities and shareholders' equity			
1. Liabilities due to banks			
a) Due at one day's notice	63,165.32		1
b) With agreed maturity or notice period	39,853,699.26		25,333
		39,916,864.58	25,334
2. Liabilities to customers		1,350,121.27	4,884
thereof: to financial services institutions			
EUR 416,500.00 (previous year: kEUR 0)			
3. Securitised liabilities			
Debentures issued		25,094,750.00	25,134
4. Other liabilities		3,968,694.56	3,183
5. Deferred items		530,335.74	564
6. Reserves and accrued liabilities			
a) Pension reserves and reserves for similar obligations	5,397,124.46		4,638
b) Accrued taxes	5,528,550.00		7,921
c) Other reserves and accrued liabilities	33,111,502.99		29,984
		44,037,177.45	42,543
7. Shareholders' equity			
a) Subscribed capital	40,000,000.00		40,000
b) Other revenue reserves	1,894,852.45		443
c) Retained earnings	4,703,131.14		696
		46,597,983.59	41,139
Total liabilities and shareholders' equity		**161,495,927.19**	**142,781**
1. Contingent liabilities			
Liabilities arising from guarantees and warranty contracts		230,403,086.90	251,618
2. Other obligations			
Placement and underwriting obligations		26,748,130.00	44,810

Profit and Loss Account

	EUR	EUR	EUR	Previous year kEUR
1. Interest income from				
credit and money market transactions		1,966,555.40		3,138
2. Interest expense		1,531,135.81		1,473
			435,419.59	1,665
3. Regular income from				
a) Investments		2,531,202.02		12,825
b) Shares in affiliated companies		303,172.34		960
			2,834,374.36	13,785
4. Income from profit pools, profit pooling or partial profit pooling agreements			398,216.18	581
5. Commission income		17,739,697.32		10,910
6. Commission expenses		3,971,943.12		4,004
			13,767,754.20	6,906
7. Other operating income			35,646,074.28	37,877
8. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	19,832,989.57			18,505
ab) Social security, pension				
and other benefit costs	3,543,275.82			3,621
thereof: for pension costs EUR 996,298.38 (previous year: kEUR 999)				
		23,376,265.39		22,126
b) Other administrative expenses		14,517,561.53		15,346
			37,893,826.92	37,472
9. Depreciation and value adjustments of intangible assets and property, plant and equipment			688,252.15	418
10. Other operating expenses			7,725,962.02	19,922
11. Write-offs and value adjustments of accounts receivable and certain securities and additions to reserves in the credit business			707,067.01	301
12. Write-offs and value adjustments of investments, shares in affiliated companies and securities treated as fixed assets			713,419.87	1,982
13. Expenses of loss transfers			12,864.69	29
14. Result from ordinary operations			**5,340,445.95**	**690**
15. Extraordinary expenses = extraordinary result			130,868.00	0
16. Taxes on income		1,162,652.66		39
17. Other taxes, unless shown under item 10		347,303.87		23
			1,509,956.53	62
18. Net income			**3,699,621.42**	**628**
19. Profit brought forward from previous year			696,244.02	68
20. Withdrawals from other earned surplus			307,265.70	0
21. Retained earnings			**4,703,131.14**	**696**

Annexe

Fixed assets schedule

Costs of acquisition in EUR	Brought forward 01.01.10	Additions	Reclassification	Disposals	Situation on 31.12.10
Investments	11,402,547.35	1,028,450.28	2,179,679.34	3,053,139.55	11,557,537.42
Shares in affiliated companies	5,606,477.11	498,186.26	-2,179,679.34	535,024.34	3,389,959.69
Intangible assets	3,497,004.97	115,688.33	56,415.90	0.00	3,669,109.20
Property, plant and equipment	4,715,970.38	498,639.49	-56,415.90	60,184.88	5,098,009.09
Total	**25,221,999.81**	**2,140,964.36**	**0.00**	**3,648,348.77**	**23,714,615.40**

Depreciation in EUR	Brought forward 01.01.10	Unscheduled depreciation	Financial year	Disposals	Situation on 31.12.10
Investments	2,152,868.89	135,167.78	0.00	30,600.00	2,257,436.67
Shares in affiliated companies	111,296.19	578,252.09	0.00	0.00	689,548.28
Intangible assets	3,229,435.26	0.00	63,984.08	0.00	3,293,419.34
Property, plant and equipment	930,236.58	0.00	624,268.07	4,704.88	1,549,799.77
Total	**6,423,836.92**	**713,419.87**	**688,252.15**	**35,304.88**	**7,790,204.06**

Book value in EUR	31.12.10	Previous year
Investments	9,300,100.75	9,249,678.46
Shares in affiliated companies	2,700,411.41	5,495,180.92
Intangible assets	375,689.86	267,569.71
Property, plant and equipment	3,548,209.32	3,785,733.80
Total	**15,924,411.34**	**18,798,162.89**

Information on liabilities in EUR

Liabilities	Total amount				thereof with a residual term of
		up to 3 months	3–12 months	1–5 years	more than 5 years
Due to banks	39,916,864.58	39,916,864.58	0.00	0.00	0.00
(previous year)	(25,333,786.20)	(25,333,786.20)	(0.00)	(0.00)	(0.00)
Securitised liabilities	25,094,750.00	25,094,750.00	0.00	0.00	0.00
(previous year)	(25,133,856.25)	(133,856.25)	(0.00)	(25,000,000.00)	(0.00)
Due to customers	1,350,121.27	1,324,045.14	0.00	26,076.13	0.00
(previous year)	(4,883,706.52)	(2,883,706.52)	(2,000,000.00)	(0.00)	(0.00)
Other	3,968,694.56	3,968,694.56	0.00	0.00	0.00
(previous year)	(3,182,591.74)	(3,182,591.74)	(0.00)	(0.00)	(0.00)
Total	**70,330,430.41**	**70,304,354.28**	**0.00**	**26,076.13**	**0.00**
(previous year)	**(58,533,940.71)**	**(31,533,940.71)**	**(2,000,000.00)**	**(25,000,000.00)**	**(0.00)**

I. General information on the annual financial statements

1. Preliminary comments

The annual financial statements of LHI Leasing GmbH (hereafter abbreviated to LHI) for the period ending on 31.12.2010 were prepared for the first time in accordance with the new commercial law accounting rules that were implemented in German law by the Law to Modernise Accounting Rules (abbreviated in German to “BilMoG”).

Using options provided for in article 67 section 8 page 2 of the Introductory Law to the German Commercial Code (abbreviated in German to “EGHGB”), the previous year’s figures were, wherever necessary, not adjusted.

LHI carries out commercial financial services within the meaning of § 1 section 1a no. 10 of the German Banking Law. The annual financial statements for the period ending on 31.12.2010 were therefore prepared in accordance with the provisions of §§ 340 ff. of the Commercial Code in conjunction with the Banking and Financial Services Institutes Accounting Regulation (abbreviated in German to “RechKredV”).

The previous year’s figures (shown in brackets) have been added for comparative purposes.

Due to the requirements of the Commercial Code in the form of the Law to Modernise Accounting Rules, the accounting and valuation rules used in the previous year were not continued in every respect. Essentially, the conversion to the new regulations in commercial law gave rise to the following changes:

- Short-term receivables in foreign currencies were reported at the average spot rate on the financial statements cut-off date.
- Assets in connection with a current value model and the corresponding commitments were offset.
- Future price and cost increases were included in the calculation of accrued liabilities. Moreover, accrued liabilities of more than one year were discounted with an average market interest rate of the past seven years published by the German Federal Bank appropriate to the residual period. Necessary additions to accrued liabilities as a result of the initial application of § 253 of the Commercial Code are shown in the statement of income under the item “extraordinary expenses”.
- Short-term liabilities in foreign currencies were reported at the average spot rate on the financial statements cut-off date.

2. Individual presentation of accounting and valuation methods

a) Cash reserves and receivables due from banks

Cash reserves and receivables due from banks were shown at their nominal value.

b) Receivables due from customers

In accordance with § 256a of the Commercial Code, short-term receivables denominated in foreign currencies were converted with the average spot rate on the financial statements cut-off date. Profits and losses arising on conversion were shown in the statement of income as “other operating income” or “other operating expenses”.

c) Shares and other non-fixed interest securities

In accordance with § 246 section 2 sentence 2 of the Commercial Code, marketable investment fund shares acquired as part of current value models for employees were offset against the corresponding amounts of the underlying liabilities. The acquisition costs of the offset assets were kEUR 2,058, the current value of the assets kEUR 2,036 and the amount of the offset liabilities due for payment kEUR 2,036. The current value was calculated using the market value of the investment fund shares on the balance sheet cut-off date. The company has not guaranteed that the capital will be maintained.

d) Investments and shares in affiliated companies

Investments and shares in affiliated companies were valued at the lower of their costs of acquisition or attributed value.

e) Intangible assets and property, plant and equipment

Intangible assets acquired for a consideration and property, plant and equipment are shown at their costs of acquisition less scheduled, use-related and unscheduled depreciation.

Scheduled depreciation was calculated on a straight-line basis; the depreciation period was based on the customary useful life in an operating environment. Low value items with a total value of more than EUR 0.1 million (EUR 1.3 million) were capitalised in the year of acquisition and depreciated over five years.

f) Other assets

Other assets are shown at the lower of their cost of acquisition or attributed value.

g) Accruals and deferrals

The accruals and deferrals include outgoings representing expenses attributable to a certain period after the balance sheet cut-off date. These items will all be released into next year's statement.

h) Liabilities

The liabilities are valued with the amounts due for payment. In accordance with § 256a of the Commercial Code, liabilities up to a year denominated in a foreign currency were converted at the spot exchange rate on the cut-off date of the financial statements.

i) Deferred items

Deferred items will be released into income as planned on a straight-line basis.

j) Reserves for pensions and similar obligations

The method used to value direct pension obligations in the financial year was adapted to the changed requirements of § 253 section 1 of the Commercial Code. Instead of the going-concern method for tax purposes as stipulated by § 6a of the Income Tax Law used previously, the internationally recognised Projected Unit Credit Method was applied.

The calculations are based on the following actuarial assumptions:

Interest rate	5.15 % p.a.
Trend of wages and salaries	1.6 % p.a. in 2011, 2.25 % and 3.0 % p.a. from 2012
Pensions trend	2.25 % p.a. or 6.0 % every 3 years and 1.75 % p.a.

The average market interest rate provided by the Federal Bank arrived at over a residual period of 15 years was used as an across-the-board actuarial interest rate for discounting purposes.

Mortality and invalidity probabilities were based on the 2005 G mortality tables developed by Professor Dr. Klaus Heubeck.

k) Other reserves and accrued liabilities

Reserves and accrued liabilities reflect a rational commercial judgement of the likely amount that will be required.

l) Shareholders' equity

The shareholders' equity complies with the provisions of the company's articles of association.

m) Deferred taxes

To the extent permitted by § 274 of the Commercial Code, deferred taxes were established for timing differences between the commercial and fiscal balance sheet rates that will probably be reversed in the future.

n) Interest result

Interest relating to the current financial year is included on a pro rata basis.
Interest on swap transactions is shown gross.
The interest portion of the addition to the pension reserves of kEUR 378 is shown for the first time in 2010 under interest expenses, as required by § 277 section 5 sentence 1 of the Commercial Code. In the previous year this was shown as a personnel expense.

o) Current income from investments and shares in affiliated companies

Dividends were posted as income in the year the distribution was made.

p) Commission result

The result from commissions includes one-time fees and commissions for capital procurement, each received after the service has been provided in full.
Commission expenses are shown as expenses in accordance with the services used.

q) Other operating income

Other operating income includes in particular management and agency fees that are invoiced annually.

r) General administrative expenses

General administrative expenses are shown in accordance with the causation principle in the accounting period to which they relate.

s) Other operating expenses

The other operating expenses include mainly additions to reserves for pending losses. These are established in accordance with rational commercial judgement in so far as the need arises.

t) Write-offs and value adjustments of accounts receivable and certain securities as well as additions to accrued liabilities in the credit business

This position includes value adjustments of receivables.

II. Explanations of the annual financial statements

Accounts receivable due from customers and liabilities due to customers include transactions conducted as part of current leasing business and LHI's customer relationships specific to certain business models and, on the assets side, particularly interim financing arrangements within the LHI group.

The other assets reported include mainly receivables due from the fiscal authorities, near-liquid resources and the resale of held shares. The liabilities due to banks result from current financing of LHI by its two shareholder banks.

Receivables and other assets include liabilities in foreign currencies of kUSD 5,995 (kUSD 9,239).

The liabilities include a total amount of liabilities in foreign currencies of kUSD 13,902 (kUSD 7,690).

1. Assets

a) Receivables due from banks

The receivables due from banks are kEUR 3 (kEUR 37) and have a residual term of less than 3 months.

b) Accounts receivable due from customers

The receivables due from customers include receivables of kEUR 2,811 (kEUR 1,193) due from affiliated companies and kEUR 19,830 (kEUR 20,012) due from associated companies.

On the financial statements cut-off date LHI had granted subordinated loans and capital contributions of approximately EUR 3.5 million (EUR 4.2 million) to IFRS special purpose companies.

The classification by residual term of the amount reported in the balance sheet is as follows:
- Receivables due in less than 3 months
  EUR 7,880,331.28 (EUR 11,505,871.94)
- Receivables due in 3 to 12 months
  EUR 46,745,479.32 (EUR 33,324,143.11)
- Receivables due in 1 to 5 years
  EUR 0.00 (EUR 160,650.00)
- Receivables due in more than 5 years
  EUR 9,157,497.02 (EUR 12,800,432.77)
- Receivables with an indefinite time limit
  EUR 91,300.00 (EUR 91,300.00)

c) Investments and shares in affiliated companies

Investments and shares in affiliated companies are listed in a share ownership list as of 31.12.2010 that is included in the notes to the financial statements.

d) Intangible assets and property, plant and equipment

The composition and development of the fixed assets are shown in the fixed asset schedule included in the Notes to the financial statements.

Total operating and office equipment used by the company itself is valued at EUR 2.5 million (EUR 2.3 million).

e) Other assets

The other assets include essentially cash pooling balances of kEUR 40,373 (kEUR 36,020), interim financing of shares and equity for re-sale of kEUR 36,109 (kEUR 10,351) and total receivables of kEUR 4,811 (kEUR 15,467) due from the fiscal authorities arising from deductible taxes.

f) Deferred taxes

Deferred taxes on the assets side result from reserves for pensions and pending losses and were deducted from deferred taxes on the liabilities side due to different valuations in the commercial and fiscal financial statements of investments in partnerships. Using the option provided for in § 274 section 1 sentence 2 of the Commercial Code, non-offsettable deferred taxes on the assets were not capitalised.

Deferred taxes were calculated using a tax rate of 24.9 %. In addition to 15.0 % corporation tax and 5.5 % solidarity surcharge, the specific company trade rate of 15.8 % was also included in this calculation.

The effect on income of the change in deferred taxes is kEUR 61.

2. Liabilities and shareholders' equity

a) Liabilities to banks

kEUR 17,311 (kEUR 5,333) of the liabilities to banks relate to liabilities to shareholders.

b) Liabilities to customers

The liabilities to customers include liabilities of kEUR 765 (kEUR 1,579) to associated companies and kEUR 0 (kEUR 4) to affiliated companies.

c) Securitised liabilities

In 2009 LHI issued a bearer bond with a total nominal value of kEUR 25,000. The contract matures on 28.02.2011.

d) Other liabilities

The other liabilities relate to liabilities to the fiscal authorities.

The remaining terms of the liabilities may be found in the attached liabilities schedule.

e) Pension reserves and reserves for similar liabilities

The pension reserves relate to individual commitments to managing directors and employees of LHI.

Due to the revaluation carried out in accordance with the Law to Modernise Accounting Rules, an appraisal revealed a shortage in the reserve of kEUR 1,963. Use is made of the option provided for in article 67 section 1 sentence 1 of the Introductory Law to the Commercial Code to make up the difference over 15 years.

Using the option to make up the difference by way of regular instalments, an amount of kEUR 131 was added to the pension reserve in financial year 2010. This amount is reported in the extraordinary result. Accordingly, the shortage in the reserve was kEUR 1,832 on 31.12.2010.

f) Accrued taxes and other reserves and accrued liabilities

The accrued taxes include accruals of EUR 1.8 million (EUR 2.3 million) for corporation tax, EUR 0.3 million (EUR 0.5 million) for trade tax and EUR 3.5 million (EUR 3.3 million) for other foreign taxes on income.

The other reserves and accrued liabilities on 31.12.2009 include reserves of kEUR 3,841 for the LHI employees' current value model. In the current financial year 2010 these were netted against the asset items shares and other non-fixed interest securities of kEUR 2,036 on 31.12.2010.

The other reserves and accrued liabilities relate chiefly to contingency reserves, bonuses, other personnel costs and outstanding invoices.

g) Revenue reserves

Deferred taxes of kEUR 1,759 were reclassified to the revenue reserves without impacting income in connection with the initial application of the Law to Modernise Accounting Rules (§ 67 section 1 sentence 3 of the Commercial Code Introductory Law).

3. Information on the balance sheet

EUR 32.4 million (EUR 5.4 million) of the amounts reported in the balance sheet relate to affiliated companies.

Contingent liabilities

Liabilities arising from guarantees and warranty contracts

Liabilities arising from guarantees
- "Saxony Decree"
  EUR 120.0 million (123.6 million)
- Cash pooling credit facility
  EUR 50.0 million (EUR 50.0 million)
- Interim financing of various building projects
  EUR 16.3 million (EUR 33.3 million)
- Shareholders' credit order
  EUR 14.2 million (EUR 14.2 million)
- JVA Gräfentonna
  EUR 0.9 million (EUR 0.9 million)
- Polska
  EUR 0.9 million (EUR 0.0 million)
- Other bonds
  EUR 0.1 million (EUR 0.2 million)

LHI assumed the absolute guarantee vis-à-vis local authority tenants in accordance with the "Saxony Decree". The local authorities have declared that they will not insist on a rent reduction in the event of total or partial destruction or accidental loss of the building. The special purpose companies have released the local authorities from all disadvantages arising from this waiver. LHI for its part guarantees the deeds of release. The buildings are adequately insured against damage caused by natural hazards. Loss of rent guarantees for two years' rent have also been issued. LHI may only be made liable under these guarantees should it take longer than two years to restore a building or should the risk of its loss not be insured. For these reasons, it is currently considered unlikely that the guarantee will ever be exercised.

One of the shareholder banks has provided an overdraft facility of EUR 50 million for internal group cash pooling purposes. LHI has assumed a guarantee for this facility of the same amount. The cash pooling is managed solely on the basis of cash surpluses. LHI manages liquidity, so that it is unlikely that the guarantee will be used.

LHI is co-liable for a nominal amount of up to EUR 16.3 million (EUR 33.3 million) in connection with the interim financing of two building projects. The loans are secured on the properties being financed. LHI establishes reserves for pending losses for any fluctuations in value exceeding this amount. It is currently unlikely that they will be used.

LHI has accepted a credit order of EUR 14.2 million (EUR 14.2 million) to refinance the special purpose company for investments as part of a stake in the Wachstumsportfolio USA. The loan is secured by the financed investment portfolio. LHI establishes reserves for pending losses. It is unlikely that any additional liability will arise.

Liabilities under warranty contracts:
- Liquidity guarantees
  EUR 27.3 million (EUR 27.3 million)
- Other guarantees
  EUR 0.7 million (EUR 2.1 million)

The rent surpluses accumulated in a structured financing project in ten years are invested in the LHI Group. LHI has undertaken to keep this accumulated liquidity available in order to service the loans. LHI is responsible for the coordination of liquidity within the group. The obligations under the liquidity guarantee are counter-financed by highly rated bonds with matching maturities, so that it currently appears that the guarantee will not be exercised.

Other obligations

Placement und underwriting commitments
Guarantees in foreign currencies are converted at medium spot rate on the financial statements cut-off date.

The following placement guarantees had been given on 31.12.2010:
- Private Equity III
  EUR 20.1 million (EUR 25.4 million)
- Wachstumsportfolio USA
  EUR 3.8 million (EUR 10.9 million)
- Campus Pullach
  EUR 1.9 million (EUR 0.0 million)
- LHI Solar Deutschland III
  EUR 0.9 million (EUR 0.0 million)
- Automotive (Germany)
  EUR 0.0 million (EUR 8.5 million)

The Private Equity III, Campus Pullach und LHI Solar Deutschland III funds are currently being placed. The value of the funds and the sales figures are currently developing according to plan. An exercise of the guarantee is unlikely or will only be temporary. The amount guaranteed by the Wachstumsportfolio USA was considerably reduced in 2009 and 2010. A further reduction by the remaining amount is currently being discussed. An exercise of the guarantee is therefore not anticipated.

4. Contingent liabilities, other financial commitments and off-balance sheet transactions

The total amount of other financial transactions is EUR 81.1 million, of which EUR 1.3 million relates to affiliated companies.

Additions to amounts guaranteed/outstanding payment obligations

Additions of EUR 7.6 million (EUR 7.6 million) to the amounts guaranteed (liability capital) beyond the subscribed amounts had been recorded in the commercial register on 31.12.2010. LHI could only be called upon to honour these liability amounts were the current tenant to leave and it not be possible to dispose of the property without incurring a loss. For this reason, LHI checks the creditworthiness of the customer and the quality of the property both beforehand and at regular intervals thereafter. It is currently unlikely therefore that these commitments will have to be honoured.

Payments of EUR 2.1 million (EUR 2.6 million) in connection with investments and shares in affiliated companies have not yet been requested. Of this amount, EUR 2.0 million (EUR 2.1 million) relate to limited liability companies. The special purpose companies' capital is not used for financing purposes so that there is currently no indication that this money will be requested. There is no necessity to pay the full amount.

Investors' rights to terminate and to tender

- Right to tender
  EUR 18.2 million (EUR 18.2 million)
- Right to terminate
  EUR 0.0 million (EUR 91.3 million)

The rights to tender include three main rental guarantee obligations.

LHI's investors are entitled to terminate or have a right to tender after 10 or 15 years. In this case the special purpose companies would have to procure substitute loans in order to pay out the investors' capital should the lessees not exercise their option rights on the property. The special purpose companies' risk lies in the fact that they might not be able to arrange the required amount of outside financing.

The financing banks generally provide "goodwill declarations" that they will increase the loans at the required time. The present rental agreements are framed in such a way that increased interest and repayment expenses can be covered by the graduated rents.

As with all leasing commitments, there is also a risk of default on the part of the tenants. For this reason premises are only let to tenants of proven creditworthiness. It can therefore be assumed that the rights to terminate and to tender will not be exercised.

Liability exemptions

LHI has exempted a number of employees from liability in connection with their functions in the special purpose companies.

LHI has also exempted a fund company from claims by third parties based on the investment structure and/or the prospectus.

There are currently no indications that would give rise to the expectation that these liability exemptions will be exercised.

Leasing relationship

A leasing contract for an office property is subject to the risk of a residual term of almost 19 years with a fixed annual leasing payment of EUR 2.8 million (EUR 2.7 million). This situation has advantages however in that the owner has no obligations and has complete flexibility after the leasing period has expired.

5. Profit and Loss Account

Since the company's activities are predominantly domestic and the domestic markets do not differ from each other in any essential respects, a geographical distribution of the items on the profit and loss account has been dispensed with.

The commission income of EUR 17.7 million (EUR 10.9 million) relates principally to fees received for the preparation of fund and investor models, financing and reorganisation concepts, payment and placement guarantees and commissions for procuring outside and equity financing.

Other operating income of EUR 35.6 million (EUR 37.9 million) includes principally income from management fees of EUR 16.1 million (EUR 16.2 million) and business procurement fees of EUR 4.8 million (EUR 6.2 million) as well as a contribution of EUR 6.6 million (EUR 10.6 million) from the results of cash pooling. The other operating income includes realised exchange gains of kEUR 315 and unrealised income of kEUR 308 from foreign currency conversion.

The other operating expenses of EUR 7.7 million in the financial year (EUR 19.9 million) relate chiefly to the expenses of EUR 4.4 million (EUR 14.6 million) for contingency reserves. The other operating expenses include realised exchange losses of kEUR 63 and unrealised losses of kEUR 385 from foreign currency conversion.

The extraordinary expenses relate to additions (1/15) to the pension reserves required by the Law to Modernise Accounting Rules.

III. Other information

LHI employed an average of 274 (281) people in 2010, composed of 3 (3) managing directors, 1 (1) general manager and 270 (277) salaried and managerial staff.

The parent company is Landesbank Baden-Württemberg with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. The group financial statements it prepares are published in the electronic Federal Gazette "Bundesanzeiger" in Cologne.

Board of management

Oliver Porr,
Managing director of LHI Leasing GmbH
Munich

Robert Soethe,
Managing director of LHI Leasing GmbH
Rain

Heimo Koch,
Managing director of LHI Leasing GmbH
Leinfelden-Echterdingen

Supervisory board

Joachim E. Schielke,
Member of the board of Landesbank Baden-Württemberg
Chairman

Dr. Gunter Dunkel, until 31.12.2010,
Chairman of the board of NORD/LB
Deputy chairman

Eckhard Forst, from 01.01.2011,
Member of the board of NORD/LB
Deputy chairman

Dr. Jürgen Allerkamp,
Chairman of the board of Deutschen Hypotheken Bank

Dr. Peter A. Kaemmerer,
Chairman of the board of Landesbank Baden-Württemberg

Dr. Bernhard Walter, until 30.04.2010,
Lawyer

Rudolf Zipf, from 01.07.2010,
Member of the board of Landesbank Baden-Württemberg

Martin Hartmann, from 01.01.2011,
Managing director

Fees paid to the managing directors and members of the supervisory board

The total remuneration paid to the active members of the board of management in the financial year 2010 was kEUR 1,186. Total reserves of kEUR 1,877 had been provided for pension obligations due to former members of the board of management on 31.12.2010. Regular pension payments of kEUR 189 were made in the financial year.

LHI's supervisory board received total remuneration of kEUR 75 (kEUR 77) during the financial year.

LHI did not conduct any transactions with related companies and persons at conditions not in line with those of the rest of the market.

Investments in large limited liability companies exceeding 5 % of the voting rights:

ELGOL Verwaltung GmbH & Co. Anlagen-Vermietungs-KG,
Pöcking

INTENA Leasing GmbH,
Pullach i. Isartal

Ulla Grundstücksverwaltungs- GmbH & Co. Vermietungs-KG,
Pullach i. Isartal

RATIS Beteiligungs GmbH & Co. Mobilienleasing KG,
Pullach i. Isartal

The auditors charged total fees of kEUR 317 in financial year 2010, of which kEUR 135 relate to the audit of the annual financial statements including the fee for the group financial statements, kEUR 9 to other certification services and kEUR 173 to other services.

IV. Appropriation of results

The board of management transferred EUR 307,265.70 from other earned surplus to retained earnings in preparing the financial statements.

The board of management proposes that an amount of EUR 4,000,000.00 should be distributed from the retained earnings of EUR 4,703,131.14.

Pullach i. Isartal, 25 February 2011

Oliver Porr
Managing director

Robert Soethe
Managing director

Heimo Koch
Managing director

Auditor’s certificate

Bestätigungsvermerk des Abschlussprüfers

Wir haben den Jahresabschluss – bestehend aus Jahresbilanz, Gewinn- und Verlustrechnung sowie Anhang – unter Einbeziehung der Buchführung und den Lagebericht der LHI Leasing GmbH, Pullach i. Isartal, für das Geschäftsjahr vom 1. Januar bis 31. Dezember 2010 geprüft. Die Buchführung und die Aufstellung von Jahresabschluss und Lagebericht nach den deutschen handelsrechtlichen Vorschriften liegen in der Verantwortung der Geschäftsführung der Gesellschaft. Unsere Aufgabe ist es, auf der Grundlage der von uns durchgeführten Prüfung eine Beurteilung über den Jahresabschluss unter Einbeziehung der Buchführung und über den Lagebericht abzugeben.

Wir haben unsere Jahresabschlussprüfung gemäß § 317 HGB unter Beachtung der vom Institut der Wirtschaftsprüfer festgestellten deutschen Grundsätze ordnungsmäßiger Abschlussprüfung vorgenommen. Danach ist die Prüfung so zu planen und durchzuführen, dass Unrichtigkeiten und Verstöße, die sich auf die Darstellung des durch den Jahresabschluss unter Beachtung der Grundsätze ordnungsmäßiger Buchführung und durch den Lagebericht vermittelten Bildes der Vermögens-, Finanz- und Ertragslage wesentlich auswirken, mit hinreichender Sicherheit erkannt werden. Bei der Festlegung der Prüfungshandlungen werden die Kenntnisse über die Geschäftstätigkeit und über das wirtschaftliche und rechtliche Umfeld der Gesellschaft sowie die Erwartungen über mögliche Fehler berücksichtigt. Im Rahmen der Prüfung werden die Wirksamkeit des rechnungslegungsbezogenen internen Kontrollsystems sowie Nachweise für die Angaben in Buchführung, Jahresabschluss und Lagebericht überwiegend auf der Basis von Stichproben beurteilt. Die Prüfung umfasst die Beurteilung der angewandten Bilanzierungsgrundsätze und der wesentlichen Einschätzungen der Geschäftsführung sowie die Würdigung der Gesamtdarstellung des Jahresabschlusses und des Lageberichts. Wir sind der Auffassung, dass unsere Prüfung eine hinreichend sichere Grundlage für unsere Beurteilung bildet.

Unsere Prüfung hat zu keinen Einwendungen geführt.

Nach unserer Beurteilung aufgrund der bei der Prüfung gewonnenen Erkenntnisse entspricht der Jahresabschluss der LHI Leasing GmbH, Pullach i. Isartal, den gesetzlichen Vorschriften und vermittelt unter Beachtung der Grundsätze ordnungsmäßiger Buchführung ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage der Gesellschaft. Der Lagebericht steht in Einklang mit dem Jahresabschluss, vermittelt insgesamt ein zutreffendes Bild von der Lage der Gesellschaft und stellt die Chancen und Risiken der zukünftigen Entwicklung zutreffend dar.

München, den 28. Februar 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Bögle) (Löffler)
Wirtschaftsprüfer Wirtschaftsprüfer

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft
WIRTSCHAFTS-PRÜFUNGS-GESELLSCHAFT
SIEGEL
München

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