Annual Report 2010

The English version of the annual report and the consolidated financial statements 2010 of HMS Bergbau AG is a one-to-one translation of the annual report and the audited consolidated financial statements 2010 of HMS Bergbau AG. The English version is not audited; in the event of variances, the German version shall take precedence over the English translation.

Group Performance Indicators

Balance sheet figures	31.12.2010 EUR thousand	31.12.2009 EUR thousand	31.12.2008 EUR thousand
Total assets	26,456	28,117	23,649
Non-current assets	6,389	393	446
Current assets	20,028	27,621	23,105
Shareholders' equity	7,608	7,137	6,917
Provisions	1,476	1,549	1,669
Liabilities	17,373	19,432	15,062

Cash flow figures	2010 EUR thousand	2009 EUR thousand	2008 EUR thousand
Cash flow from operating activities	8,069	-2,881	-588
Cash flow from investment activities	-6,551	-46	-184
Cash flow from financing activities	-1,420	80	2,510
Cash and cash equivalents at the end of the period	2,286	2,279	5,090

Income statement figures	2010 EUR thousand	2009 EUR thousand	2008 EUR thousand
Sales revenues	151,720	73,709	167,821
EBIT *	2,221	437	1,467
Net profit	364	103	636

Financial Calendar

	Expected publication date
Start of the financial year	1 January 2011
2010 Annual Report	30 June 2011
Annual General Meeting	August 2011
Interim Report 2011	September 2011
End of the financial year	31 December 2011

* EBIT before extraordinary expenses and earnings

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Letter to the Shareholders

Dear Shareholders,

The global economy continues to recover. In 2010, this fact was reflected by a steep rise in demand for coal around the world. HMS Bergbau AG, an international coal supplier with operating know-how of coal mining, transport and trade, was able to greatly profit from the economic impulses and in particular from its position in Asia's key coal mining areas and the resulting access to coal whose quality meets market requirements.

Consequently, almost all earnings key figures more than doubled in financial year 2010. Sales revenue went up by 106% to EUR 151,720 thousand year on year. This soaring figure primarily resulted from the simultaneous significant increase in trading volumes and coal price increase. EBIT before extraordinary expenses went up by as much as 409% to EUR 2,221 thousand with net profit following suit, rising by an impressive 253% to EUR 364 thousand.

After a difficult 2009, these improved sales and earnings figures in 2010 picked up again on operating growth of past years. During and after the reporting period, we realised a number of cooperations and business transactions, including steam coal supply agreements with a large German power plant operator in February 2010. These agreements should and will have a strategic impact on HMS Bergbau AG's future growth.

Our international market position once again proved to be the main growth driver. In January 2010, we secured considerable trading volumes of high-quality steam coal by signing a long-term agreement with an Indonesian coal producer. We furthermore intensified our trading cooperation in Indonesia with P.T. Nusa Alam Lestari (NAL) for the export of coal with medium and high calorific values. This exclusive cooperation provides HMS with the possibility of investing in the expansion of additional NAL mining projects to further increase production capacities.

We achieved another important milestone in June 2011 – we secured access to more than 4 million tonnes of coal whose quality meets market requirements by entering into exclusive sales agreements with local Indonesian coal producers.

In May 2010, we acquired a harbour operation in South Kalimantan, Indonesia, to account for the constantly growing competition for Indonesian supply sources and the planned expansion of the value added chain from production to trade. Bulk Port Kintap is one of the most modern harbours in the region where coal is handled, mixed and stored. It enables us to process coal in a controlled environment, sell purchased coal supplies and provide transport services for third-party suppliers.

We rigorously followed our strategy by disposing of our previous investments in HMS Bergbau Polska Sp. zo.o., Katowice, Poland, and KGHM HMS Bergbau AG, Berlin, Germany. Although we will continue supplying Polish coal to Germany, we will discontinue Russian coal exports to Poland. We are strictly focusing HMS Bergbau AG's competences on our core business – particularly in Asia.

HMS Bergbau AG's Supervisory Board appointed Rüdiger Lorentz as the third Management Board member in addition to Heinz Schernikau and Sebastian Giese with effect from 1 July 2010 to handle the increased demands on management resulting from international expansion. Rüdiger Lorentz, who joined HMS Bergbau AG in 2005, has assumed responsibility for the operative trade division.

In view of the extremely successful financial year 2010, both in terms of operations and strategy, and the development of the European and especially Asian coal markets, our outlook for HMS Bergbau AG's new financial year is very positive. Incoming orders in the European market developed as expected at the beginning of 2011 and this figure even reached a new high on the Asian market. This is not just reflected in the considerable growth potential, but also the already widely spread acceptance of HMS group as a reliable business partner in Asia.

By vertically integrating business transactions and coal marketing via our harbour operation in Indonesia, we plan to increase our sales and operating margin in the long term. At the same time, we expect positive impulses from the debate on the withdrawal from nuclear energy, which is not just being held in Germany. In our opinion, an exit from nuclear energy can only be achieved with the help of coal-generated electricity.

We would like to thank all our employees and business partners for the trust they have shown in us and look forward to a continued positive and successful working relationship.

Heinz Schernikau	Sebastian Giese	Rüdiger Lorentz
CEO	CFO	COO

Heinz Schernikau, CEO

Heinz Schernikau established HMD Bergbau AG in 1995 in Berlin. He has been in the international coal trade for more than 35 years and his positions include advisor to the Board of leading coal producers in Asia and Europe. He has established extensive international contacts and places particular importance on achieving long-term business relationships, mutual trust and reliability.

Sebastian Giese, CFO

Sebastian Giese was appointed as CFO of HMS Bergbau AG in mid-July 2009. The former auditor and tax consultant has long-standing experience in business consultancy and financial audits. Prior to taking up his position on the Management Board, he worked for auditing firm Ernst & Young, where some of his duties included advising and auditing the financial statements of globally operating corporate groups.

Rüdiger Lorentz, COO

Rüdiger Lorentz became the COO of HMS Bergbau AG in 2010. He has worked for the company since 2005. He started his career in the international raw materials trade over 23 years ago and has gathered outstanding knowledge of trade in the European, Asian and US markets.

Management Talk

Management talk with HMS Bergbau AG Management Board members Heinz Schernikau (CEO), Sebastian Giese (CFO) and Rüdiger Lorentz (COO)

You have been driving your company's international expansion in Asia in recent months and implemented a number of new strategic measures. Please describe the key changes and their effects on operations.

Compared with other energy sources, coal resources are the biggest worldwide. Scientific analyses and market studies have shown that especially in Asia, the percentage of coal in global energy production will rise far above average and that hard coal will remain the most commonly used raw material for electricity production. We therefore aim to focus even more strongly on the Asian growth market.

Indonesia is one of the most important locations in our eyes as it has become one of the key global coal producers and exporters of steam coal in recent years. The quality of Indonesian coal is also excellent due to low ash and sulphur content as well as calorific values that meet market requirements. This is why we have been placing great importance on our strategic partnerships and the expansion of our Asian presence in past years. As Indonesian steam coal is mainly being exported to the Pacific region, our customer network in the fastest-growing coal import markets China and India, but also other Asian countries, will pay off in particular.

With this in mind, we also further developed our coal handling division in 2010 and acquired a harbour operation in South Kalimantan, Indonesia. At the same time, we analysed our growth potentials for opportunities to pool our core competences. Consequently, we disposed of our investments in HMS Bergbau Polska Sp. zo.o., Katowice, Poland, and KGHM HMS Bergbau AG, Germany, as we expect HMS to have better long-term perspectives and more sustainable business success in Asia than could be generated from selling Russian or Polish hard coal in Poland or from mining copper in Saxony. All in all, by focusing our core competences and establishing subsidiaries and representations in locations such as Singapore, Indonesia, Pakistan and India, we have gained optimal access to the Asian markets and have also created ideal conditions for HMS Bergbau AG's future earnings growth. In financial year 2010, 27% of our sales revenues came from business in Asia, and we plan to successively increase this figure.

…And how are you driving your business activities in Europe?
The volume of HMS group's European business transactions increased in 2010 thanks to the recovery of the global economic situation. It is not absolutely necessary to keep our own representations in producing countries such as Poland to maintain this level as well as access to coal that meets the requirements of the market. Around 73% of HMS Bergbau AG's sales revenue was generated from our European business on account of our excellent trade relationships in the East European producing countries, whereas our special focus is on supply agreements with power plant operators.

Although some large energy suppliers resort to using their own raw materials procurement departments, the planned expansion of power plants in the coming years will open up new opportunities for traders such as HMS Bergbau AG. Despite the coal trade being highly transparent, we are convinced that we, as an international coal trading group with excellent access to raw materials such as steam coal, will be able to keep our market shares in the long term. We also make ongoing efforts to expand our trading activities. We are currently in talks with US coal producers about importing coal to Europe – another mainstay that will get HMS Bergbau AG one step further with regard to its global activities and diversification strategy.

The world is focusing more than ever on renewable energies after the nuclear disaster in Japan. Germany will be the first country in the world to withdraw from nuclear energy and no longer produce any nuclear power by 2022. Do you feel that these targets are at all realistic without building new coal power plants?
Firstly, we would like to say that we welcome the German government's decision to no longer produce nuclear power for safety reasons. This will not only cement the importance of coal as a primary energy source in the coming years, but coal will also gain in significance as both CO2 reduction technology for power plants and CSS technology are becoming more advanced. In our view, coal will be an indispensable power source, particularly when it comes to ensuring full grid capacities and a certain amount of base load. In addition, the Federal Institute for Geosciences and Natural Resources (Bundesanstalt für Geowissenschaften und Rohstoffe – BGR) has calculated that global coal resources will still last for around 125 to 200 years, depending on the type of coal and global economic development. In view of the world's growing population, which is going to hit 8.2 billion by 2030, new coal power plants will be a necessity. Although the percentage of coal-generated electricity is expected to drop in Europe in the long term, this will be more than offset by China's and India's growing industries.

The Italian people have also spoken out against nuclear energy. Which opportunities will this bring for HMS Bergbau in your opinion? Will wee see a comeback of coal energy and the growing importance of coal in the global energy mix?

Renewable energies will gain in importance, particularly in Europe. But decentralised energy production, especially in countries with a less developed infrastructure, will also remain a long-term political issue when it comes to energy supplies. But for some years now, all statistics have nevertheless been showing an increase in coal energy production. And this will not change in the coming decades due to this raw material's availability and reliability. Current forecasts expect for the percentage of coal in global electricity production to rise from 40% to 45% by 2030. Over the next 50 years, a primary energy mix without a large proportion of coal is unimaginable. The coal energy production industry is faced with the huge challenge of developing and maintaining clean and environmentally friendly power plants. If this is successful, we could imaging that the share of coal-generated electricity in the total energy mix will increase even further in the long run as massive amounts of this raw material are available.

By acquiring a harbour operation in South Kalimantan, Indonesia, you have covered all vertical steps of the process chain in the coal business. Although your own trade and the handling business are developing slower than planned, the acquisition has nevertheless proven to be of strategic importance and the right thing to do. What are the advantages?

Asia's hunger for energy is getting stronger all the time and can only be stilled with coal. This is why we are sharpening HMS Bergbau AG's strategic focus in this region. Anyone wishing to participate in this growth market has to secure large amounts of coal resources and further develop their own transport hubs in Asia. In our eyes, Indonesia will be one of the key producers in the coming years on account of its favourable mining conditions and central position in Asia. This is why we have deliberately chosen to expand our Asian market position in this country. The acquisition of the harbour does not just vertically expand our value added chain, but also provides us with a number of other advantages. The transport hub enables us to sift, sort and mix coal to suit customers' requirements. At the same time, the harbour gives us total control in storing, selling and transporting coal. But the most important aspects for us are acceptance in the regional markets as well as local business relationships, which are essential if we want to acquire new business and gain access to producers – even outside the region and the harbour.

We have been able to secure access to more than 4,000,000 tonnes of coal in recent years thanks to newly developed business relationships. We are also in negotiations with various Indonesian suppliers to secure coal deposits by means of exclusive marketing cooperations or joint ventures to strengthen HMS group's position in terms of raw materials supplies in the long term. We have established a German management at the Indonesian harbour as it is of great strategic importance to HMS Bergbau AG. Consequently, we expect Indonesia to take on a key role in the development of our Asian business.

Report of the Supervisory Board of HMS Bergbau AG for financial year 2010

Dear Shareholders,

In financial year 2010, the Supervisory Board of HMS Bergbau AG carried out its tasks as stipulated by law and its Articles of Association and continuously monitored and advised the Management Board in its work. We regularly obtained comprehensive information on the current economic and financial position of the group, its business performance, financial, investment and personnel planning as well as its strategic development at our regular meetings and through additional verbal and written reports submitted to us by the Management Board. This report pertains to the current earning situation, opportunities and risks and risk management. The Supervisory Board discussed all fundamentally important decisions in depth with the Management Board. We assessed in detail any business transactions requiring our approval. The Supervisory Board voted on proposals put forward by the Management Board if and when required by law or the Articles of Association.

Focal points of the meetings

In financial year 2010, the Supervisory Board of HMS Bergbau AG held five meetings. Subjects that were regularly discussed included the current business performance of the company and its subsidiaries as well as its liquidity, net assets and financial position. All resolutions required by law and the Articles of Association were passed. The Management Board informed the Supervisory Board promptly about important matters between meetings. If necessary, resolutions were passed by circular resolution.

The strategic focus of the group, company planning and the organisational structure, which has to be adjusted accordingly, including all resulting personnel changes, were at the centre of the Supervisory Board's meetings in financial year 2010. We discussed the continued reorientation of the Asian business, including the acquisition of the Indonesian harbour operation in detail. We also focused our deliberations on the planned reactivation of a Polish hard coal mine (HMS Niwka Coal Production Sp. zo.o.), the development of trade in the Polish market (HMS Bergbau Polska Sp. zo.o.) and the development of the investment in KGHM HMS Bergbau AG. Further planned investments in coal deposits were an additional subject of our discussions. We debated the Management Board's measures regarding these matters and their consequences for the company in detail. The Management Board regularly informed us about the general market performance, price and earnings forecasts as well as intended measures. The Management Board also presented to and discussed with us potential future projects. Important transactions approved by the Supervisory Board are described in the condensed company and group management report. In addition, the Supervisory Board deliberated the changes in the pension commitment for the CEO of the company.

Personnel changes

The members of the Supervisory Board did not change in financial year 2010. The actions of Dr. Hans-Dieter Harig, Dr. h. c. Michael Bärlein and Michaela Schernikau in financial year 2009 were approved by the statutory shareholders' meeting on 24 August 2010.

On 28 June 2010, the Supervisory Board resolved to appoint Rüdiger Lorentz as the new COO. He assumed his position with effect from 1 July 2010.

Annual financial statements 2010

The annual financial statements and consolidated financial statements of HMS Bergbau AG for financial year 2010 were prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB). The company's auditor in 2010, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Berlin, was appointed to audit the annual financial statements of HMS Bergbau AG and the consolidated financial statements, the condensed company and group management report and the report of the Management Board on relationships with associated companies ("dependent company report") in financial year 2010.

The auditor audited the annual financial statements of HMS Bergbau AG as well as the consolidated financial statements and the condensed company and group management report, including the accounting system, in accordance with the generally accepted German standards for auditing financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) and issued an unqualified audit opinion. The internal control system was also deemed to be effective.

All Supervisory Board members were provided with the annual and consolidated financial statements, the condensed company and group management report, the dependent company report and the corresponding audit reports in good time. We examined the documents and discussed them in detail at our meeting on 23 June 2011. Both the Management Board and auditor were present at the meeting and provided detailed answers to all questions placed by the Supervisory Board. The auditor also reported on the key points of the audit. Our own examination of the annual and consolidated financial statements as well as the condensed company and group management report did not lead to any objections and we approved the audit results. After its final inspection of all

documents, the Supervisory Board did not raise any objections and approved the annual financial statements of HMS Bergbau AG as of 31 December 2010 and the consolidated financial statements as of 31 December 2010, as prepared by the Management Board, at its meeting on 23 June 2011 . The 2010 annual financial statements have therefore been prepared and approved in accordance with Section 172 of the German Stock Corporation Act (AktG).

On 22 June 2011, the Management Board proposed to carry HMS Bergbau AG's net profit of EUR 1,625,822.45 forward to new account. We also examined and approved this proposal.

The dependent company report prepared by the Management Board indicates that HMS Bergbau AG did not incur any disadvantage from the legal transactions with associated companies stated therein and received appropriate compensation. This report was also audited by the auditor, who issued the following audit opinion:

„After dutifully examining and assessing the dependent company report, we confirm that
1. the actual information provided therein is correct, and
2. that the services provided by the company were appropriate for the legal transactions stated therein."

Our own audit of the dependent company report also did not lead to any objections and we therefore approved the auditor's audit. After finalising our own audit, we therefore did not raise any objections against the Management Board's declarations at the end of the dependent company report.

There were no conflicts of interest between the members of the Supervisory Board during the reporting period.

The Supervisory Board would like to thank the Management Board and all employees for their commitment in financial year 2010 .

Berlin, June 2011

Dr. Hans-Dieter Harig
Chairman of the Supervisory Board

Members of the Supervisory Board during the reporting period
Dr. Hans-Dieter Harig, Chairman
Dr. h. c. Michael Bärlein, Deputy Chairman
Michaela Schernikau, Member

Investor Relations

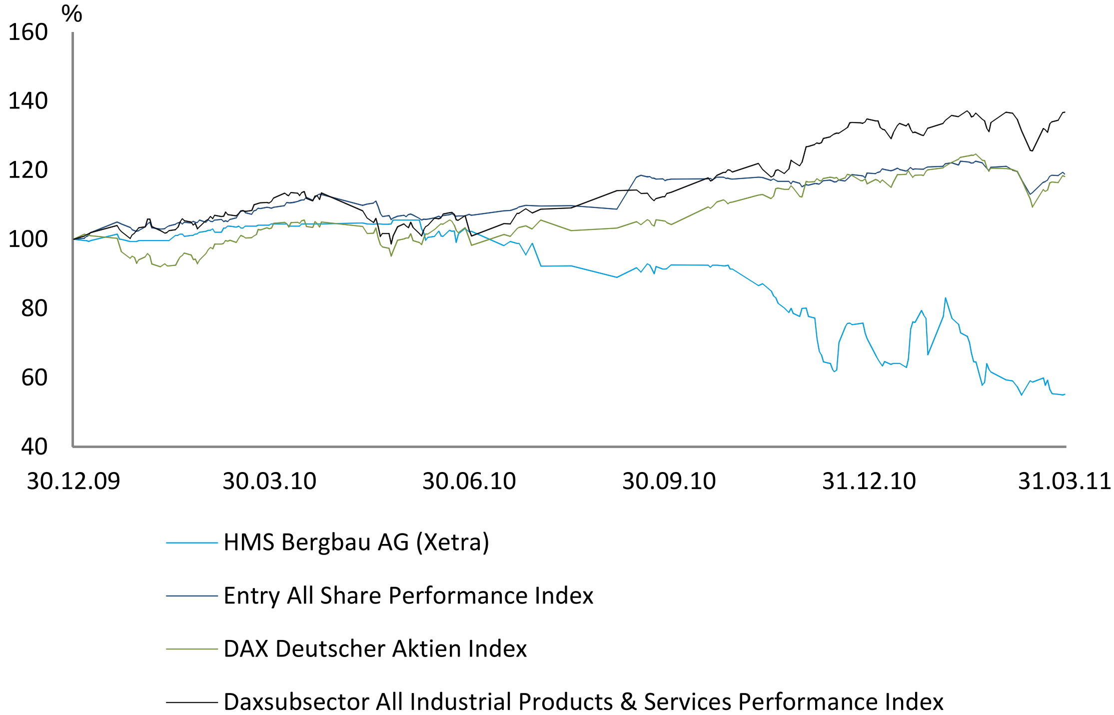
General developments in the capital markets

In 2010, the continuing global economic recovery was reflected in the positive performance of German share indices.

Within just one year, the lead index DAX rose by 16% (previous year: 23.8%) from 5,957 points to 6,914 points. The sector index Daxsubsector All Industrial Products & Services outperformed the DAX and went up by 34.8% during the same period (previous year: 29.9%). Securities on the Entry Standard increased by 19.2% (previous year: 20.3%).

The stock market's positive performance in 2010 was temporarily slowed down by the events in Japan in the first quarter of 2011 and the still ongoing debate on nuclear energy and future energy supplies. This put a short stop to the indices' positive performance in January, February and March. The DAX dropped by 5.8% until mid-March, then recovered and travelled back north to 7,041 points by the 31 March reporting date, corresponding to a rise of 1.8%. The Daxsubsector All Industrial Products & Services and the Entry All Share Performance Index fell by 6.8% and 5.2% respectively until mid-March just to rise again at the end of the quarter, closing with a plus of 1.5% and a slight loss of 0.3% respectively.

Performance of selected indices since 2010



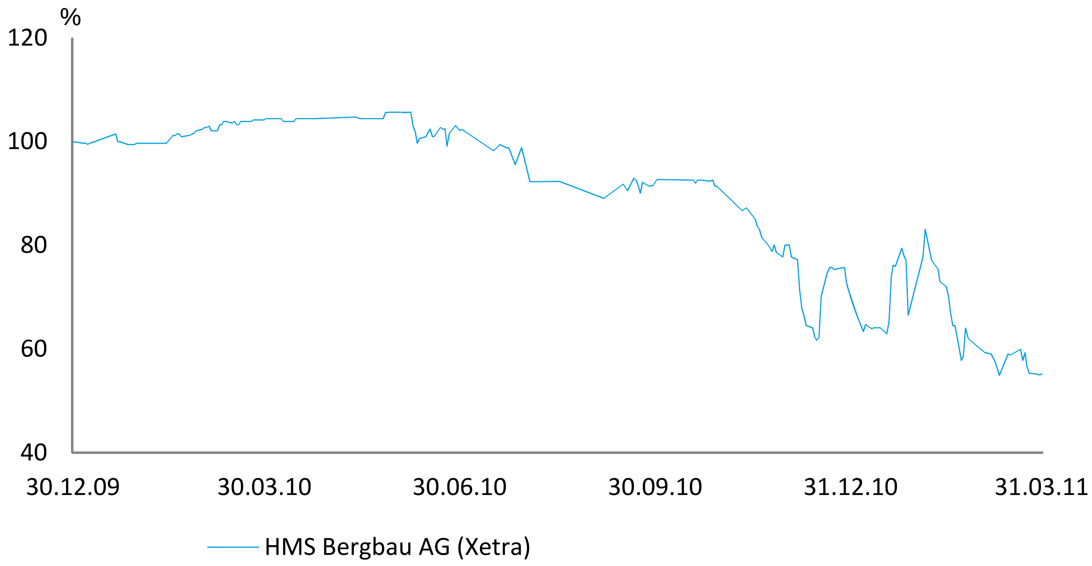
Source: Deutsche Börse AG; Ariva.de; HMS Bergbau AG

HMS share performance

Although the stock market environment was positive throughout 2010, the HMS share did not manage to keep up its stable development, which it had been displaying since it was first listed in 2008. The share closed at EUR 16.85 at the end of December 2009, reached its high of EUR 17.80 in May 2010 and registered at EUR 12.00 at the end of trading in December 2010 – a 28.8% drop within the year. The pressure was still on for the HMS share in the first quarter of 2011, leading to another 22.5% decrease (closing price on 31 March 2011: EUR 9.30).

The share’s average daily trading volume in Xetra trading went up to 788 shares in 2010 (2009: 260 shares).

HMS share performance since 2010



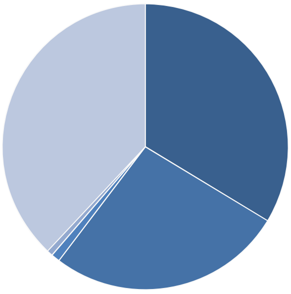
Source: Deutsche Börse AG; Ariva.de; HMS Bergbau AG

Shareholder structure

The share capital of HMS Bergbau AG is comprised of 4 million shares with a nominal value of EUR 1.00 each and therefore amounts to EUR 4.0 million.

39.76% of shares are in free float. The shareholder structure of HMS Bergbau AG was as follows on 31 December 2010:

Shareholder structure on 31 December 2010



31.90 %	-	ERAG Energie & Rohstoff AG
26.69 %	-	LaVo Verwaltungsgesellschaft mbH
0.98 %	-	Michaela Schernikau
0.67 %	-	Heinz Schernikau
39.76 %	-	Free float

Source: HMS Bergbau AG

Investor relations activities

The Management Board of HMS Bergbau AG once again far exceeded the requirements of the Entry Standard in financial year 2010. All communications were conducted transparently in both German and English language. The Management Board plans to further expand the company's capital market activities in 2011. Contacts with financial journalists, investors and analysts will be cemented so as to convince more institutional investors and private shareholders of HMS Bergbau AG's business model and future prospects.

Statutory shareholders' meeting

The 2010 statutory shareholders' meeting was held on 24 August 2010 at the business premises of HMS Bergbau AG in Berlin. All points on the agenda were approved with a 100% majority by the shareholders. They voted on the appropriation of net profits, the approval of the actions of the members of the Management Board and Supervisory Board and the appointment of the auditor of the financial statements for financial year 2010 as well as the proposed amendments to the Articles of Association to conform with current legislation regarding the Act on the Implementation of Investor Rights (Aktionärsrechterichtlinienumsetzungsgesetz).

The 2011 statutory shareholders' meeting will take place in August 2011.

Key capital market data as of 31 December 2010

Basic data	
ISIN / SIN	DE0006061104 / 606110
Share symbol	HMU
Bloomberg ticker code	HMU GY
Reuters code	HMUG.DE
Market segment / transparency level	Open Market / Entry Standard
Designated sponsor / listing partner	Close Brothers Seydler Bank AG
Investor relations	GFEI Aktiengesellschaft
Share capital in EUR	4,000,000
Number of outstanding shares	4,000,000
Free float (%)	39,76

Performance data as of 31.12.2010 (in EUR)	
Share price on 30.12.2009 (Xetra closing price)	16.85
Share price on 30.12.2010 (Xetra)	12.00
Highest price 2010 (28.05.2010)	17.80
Lowest price 2010 (15.12.2010)	10.39
Market capitalisation on 30 December 2010	48,000,000

Total performance 2010 (%)	
HMS Bergbau AG	-28.8
DAX	16.1
Daxsubsector All Industrial Products & Services	34.8
Entry All Share Performance Index	19.2

Performance data as of 31.03.2011 (in EUR)	
Share price on 30.12.2010 (Xetra closing price)	12.00
Share price on 31.03.2011 (Xetra)	9.30
Highest price Q1 2011 (24.01.2011)	13.38
Lowest price Q1 2011 (11.03.2011)	9.25
Market capitalisation on 31 March 2011	37,200,000

Total performance Q1 2011 (%)	
HMS Bergbau AG	-22.5
DAX	1.8
Daxsubsector All Industrial Products & Services	1.5
Entry All Share Performance Index	-0.3

Highlights

Highlights during the reporting period

January 2010

HMS Bergbau AG signs exclusive agreement with Indonesian coal producer

HMS Bergbau AG signed an exclusive agreement with an Indonesian coal producer. The company will secure a considerable annual trading volume for steam coal with this long-term contract. This is a further step towards securing large, high-quality coal resources. This cooperation supplies coal with a low ash and sulphur content, a characteristic which is increasingly gaining in importance within the industry on account of strict environmental laws around the world.

February 2010

Important agreements are signed with large German power plant operator

In February 2010, HMS Bergbau AG signed steam coal supply agreements with a large German power plant operator. The initial trading volume was around 400,000 tonnes. When calling the tender, the contractor placed particular importance on the high quality and a correspondingly high calorific value of the coal and also focused on cost efficiency.

May 2010

HMS Bergbau AG acquires a harbour operation in Indonesia

In May 2010, HMS Bergbau AG acquired a harbour operation in Indonesia. Bulk Port Kintap in South Kalimantan is one of the most modern harbours in the region where coal is handled, mixed and stored. Its maximum capacity totals several million tonnes per year.

July 2010

HMS Bergbau AG expands Management Board

The Supervisory Board of HMS Bergbau AG appointed Rüdiger Lorentz as the third Management Board member with effect from 1 July 2010. Mr. Lorentz, born in 1963, joined HMS Bergbau AG in 2005. His last position was as Director of the trade division. He is now responsible for the management of the trade division, a task he took over from CEO Heinz Schernikau.

July 2010

HMS Bergbau AG and P.T. Nusa Alam Lestari intensify cooperation in Indonesia

In July 2010, HMS Bergbau AG and P.T. Nusa Alam Lestari (NAL) intensified their trade cooperation for the export of coal with medium and high calorific values from Sumatra, Indonesia. The objective of the cooperation agreement is the long-term and exclusive cooperation in connection with the new NAL mining projects MuaraBungo and Sinarma. HMS Bergbau AG will invest in expanding the new NAL mines to further increase their production capacities.

September 2010

Significant earnings growth in the first half of 2010 / publication of interim report

HMS Bergbau AG closed the first six months of financial year 2010 with a significant rise in sales and earnings. Sales went up by 113.2% and EBIT by an above-average 337.8% year on year.

After the reporting period

January 2011

HMS adds wood pellets to service portfolio

In January 2011, HMS Bergbau AG entered into a long-term and exclusive cooperation with Europe's largest wood pellet producer, German Pellets GmbH. The goal of the cooperation is for HMS Bergbau AG to contribute and use all of its sourcing options and become the exclusive distributor of German Pellets wood pellets, an environmentally friendly and sustainable energy source, to new industrial customers.

June 2011

Focus on the Asian coal growth market and reorganisation of investments

HMS Bergbau AG will increasingly focus on the Asian coal growth market. Plans are to continuously increase the activities of the subsidiaries and representations in Singapore, Indonesia, Pakistan and India to benefit to an even greater extent from rising coal exports in Asia.

At the same time, the company pooled it's know-how. Whilst HMS Bergbau AG will continue transporting Polish coal to Germany, it will stop exporting Russian coal to Poland. The company also decided not to invest into any more copper projects. In line with this strategic focus, HMS Bergbau AG disposed of its investments in HMS Bergbau Polska Sp. zo.o., Katowice, Poland, and KGHM HMS Bergbau AG, Berlin, Germany.

June 2011

Expanding presence in the Asian market through long-term marketing agreements worth over 4,000,000 tonnes of coal

In June 2011, HMS Bergbau AG secured access to high-quality coal by signing two long-term, exclusive marketing agreements with local Indonesian coal producers. The company plans to market the first coal deliveries in Asia as from August 2011. By securing access to more than 4,000,000 tonnes of coal in Indonesia, HMS achieved another important milestone on the way to implementing its Asia strategy. It aims to continuously expand the activities of its subsidiaries and representations in Singapore, Indonesia, Pakistan and India in the medium term.

Group Management Report

1. Overview

HMS Bergbau AG is a respected and independent coal trading company based in Germany. Our core business is the international purchasing and selling of coal products. We supply major power plants and other industrial customers worldwide. HMS group, which mainly expanse to Asia, compiles individual transport and logistical solutions for customers as well as develops own coal resources. In addition, HMS is developing environmental technologies, in particular concerning underground CO_2 capture and storage (CCS technology).

The following table shows the HMS group structure as of 31 December 2010:

	HMS Bergbau AG	Berlin, Germany
100%	HMS Niwka Coal Production Sp. z o.o.	Katowice, Poland
100%	HMS PT. HMS Bergbau Indonesia	Jakarta, Indonesia
51%	HMS Bergbau AG Oil & Gas Division	Berlin, Germany
100%	HMS Bergbau AG Iron Ore & Metals Division	Berlin, Germany
100%	HMS Bergbau AG Coal Division	Berlin, Germany
25.1%	KGHM HMS Bergbau AG	Berlin, Germany

Our business model takes into consideration current trends and especially long-term developments in the international raw materials markets. It is based on:

- **Price developments:** Highly volatile price developments can result in fluctuating margins at all stages of the value added chain. Vertical integration of mining, handling and transport can provide long-term competitive advantages, particularly when taking into account current and expected future price increases. This effectively counteracts market fluctuations.

- **Internationalisation of the markets:** The raw materials markets are continuing to grow closer as a result of international trade and improved logistics. This also increases competition.

- **Investment requirements:** Investing in our own resources is vital to promoting vertical integration within the value added chain and to enable future supplies to cover the growing demand for energy.

Our strategy of vertical integration, i.e. covering the entire value added chain from mining to logistics to customer deliveries, therefore rests on the following basic principles:

- **Strong trade business:** The foundation for our future growth and success as a business is the further expansion of our trade with long-term, solid supplier and customer relationships as well as strong contributions to value.

- **Growth:** We aim to sustainably generate adequate growth through vertical integration and the resulting long-term competitive advantages.

- **Company culture:** To continue being an attractive employer in the competition for qualified staff, which is expected to successfully implement the set strategies, company culture is performance-oriented but ethical.

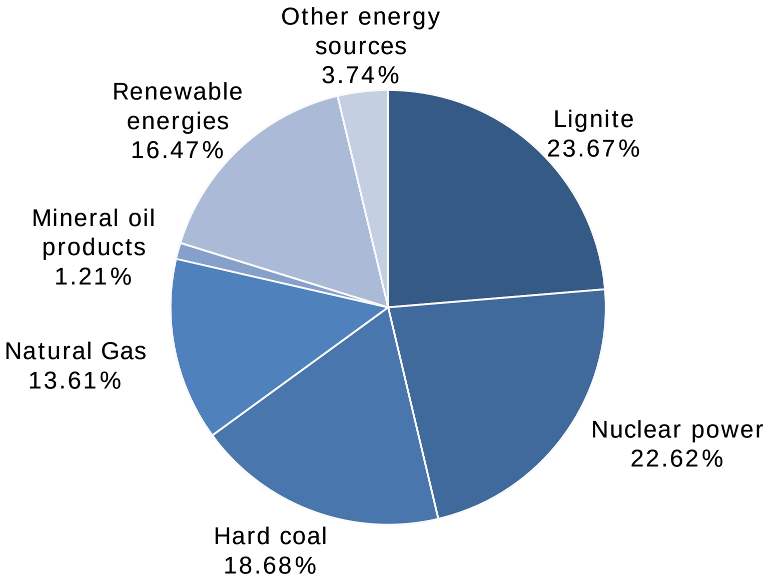
2. Business and economic environment

The German economy recovered surprisingly quickly from the economic and financial crisis and closed 2010 with significant growth. According to the Federal Statistical Office, gross domestic product (GDP) rose by 3.6% after a 4.7% drop in 2009. Overall economic development was once again based on foreign trade developments and rising domestic demand. Following negative growth rates in 2008 and 2009, price-adjusted exports rose by 14.2% and imports were up 13.0%. Domestic investments in machinery were up 9.4% year on year (previous year: -22.6%), while construction spending rose by 2.8% (previous year: –1.5%). Consumer spending was also up in 2010. Price-adjusted private consumer spending was up 0.5% year-on-year (previous year: -0.2%) and government spending was up 2.2% (previous year: 2.9%). Employment figures were up 0.5% against the previous year to 40.5 million, a new all-time high. All this made Germany Europe's "growth driver" with total growth of 1.8% in 2010.

As announced by the German Energy and Water Association (Bundesverband der Energie- und Wasserwirtschaft – BDEW), primary energy consumption in Germany rose by 4.6% to 14,057 PJ (479.6 million t SKE) as against 2010. This was due to the economic recovery as well as the cold weather at the beginning and end of the year. Absolute growth as against 2009 was 622 PJ (21.3 million t SKE).

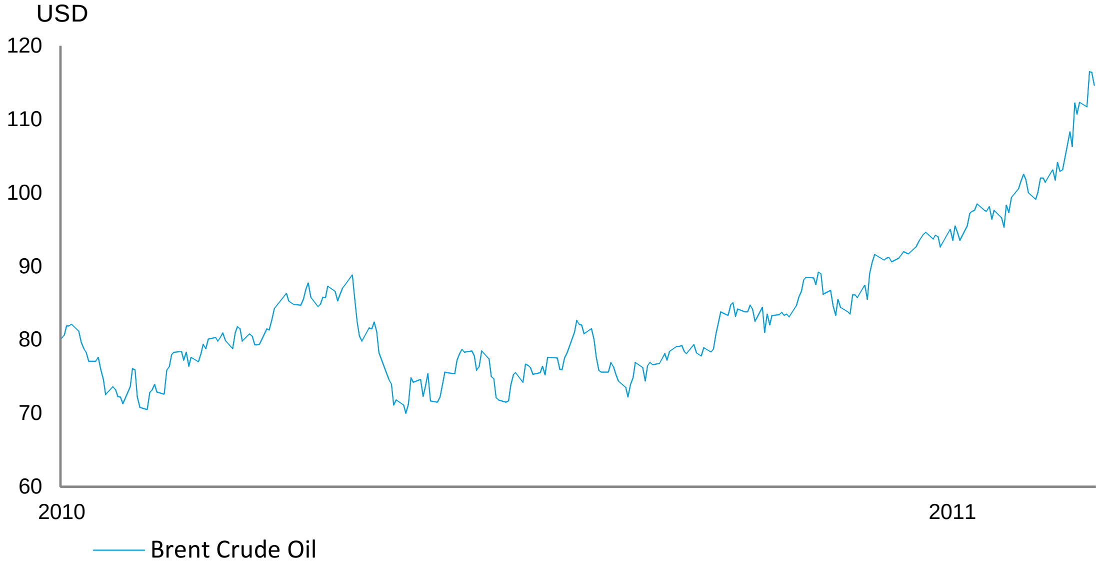
According to information provided by the German Energy Agency (Deutsche Energie-Agentur – dena), Germany's gross electricity generation totalled 620.8 TWh in 2010. This is based on a wide range of energy sources. Renewable energies are playing an ever increasing role in addition to fossil fuel sources – natural gas, hard coal and lignite – as well as nuclear power.

Almost 80% of the energy currently generated in Germany comes from fossil and nuclear energy sources, with lignite dominating (147 billion kWh), followed by hard coal (116 billion kWh) and nuclear power (140 billion kWh). Most energy sources need to be imported given the limited domestic energy reserves. Some two-thirds of all hard coal needed to meet domestic supply is imported – mainly from South Africa, Russia and Australia.



Graph: Gross electricity generation in Germany according to energy sources (source: Deutsche Energie-Agentur (dena))

Crude oil prices rose, mainly due to the economic recovery. In particular fast-growing economies in Asia with their high demand made a significant contribution to price increases. Oil prices went up from USD 62 in 2009 to an average of USD 79 per barrel of Brent crude in 2010. At the beginning of 2011, oil prices rose significantly above USD 120. The events in Libya, which has the greatest oil reserves in Africa after Nigeria, played a key role in this steep rise.



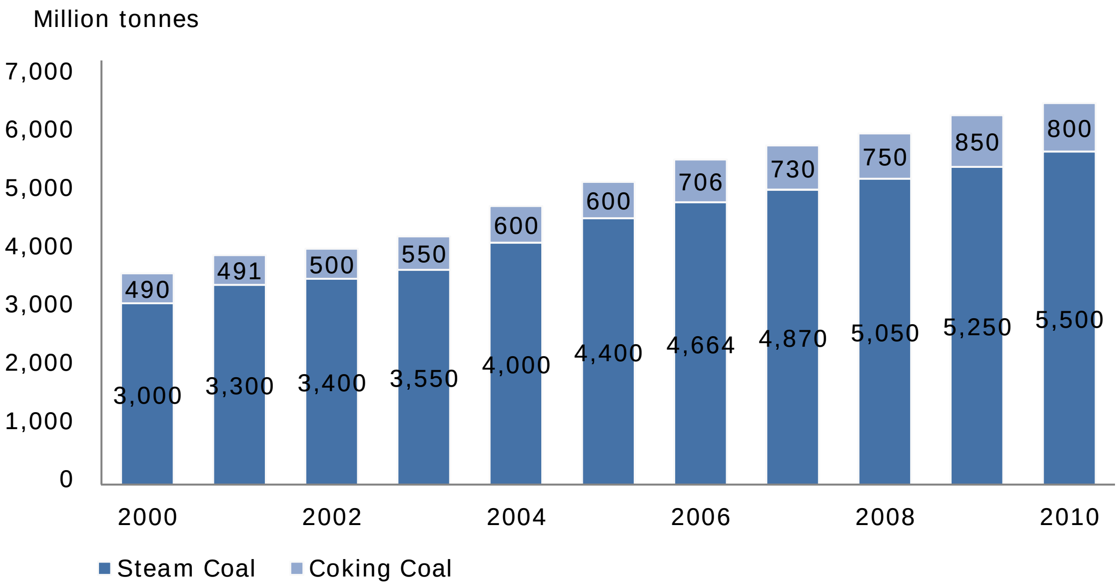
Source: ARIVA.DE AG

Although coal power generation will only play a minor part in the future, global demand for steam coal rose. Demand in Asia, particularly in China, further intensified competition and more than compensated for last year's decline on the seaborne coal market. The economy and society as a whole have a responsibility to ensure a reliable supply of raw materials in these times of intense demand fluctuations and increased financing costs. This also provides HMS Bergbau AG with a great business challenge.

International market

In 2010, seaborne coal trade rose by 5% from 859 million tonnes to 900 million tonnes. While steam coal trade only rose slightly from 658 million tonnes to 660 million tonnes, the trade in coking coal shot up by 39 million tonnes (20%), from 201 million tonnes to 240 million tonnes. In 2010, lower demand in the Atlantic market for steam coal was again offset by healthy demand from Asia.

International coal output went up again in 2010, rising by 300 to 400 million tonnes to approximately 6.5 billion tonnes.



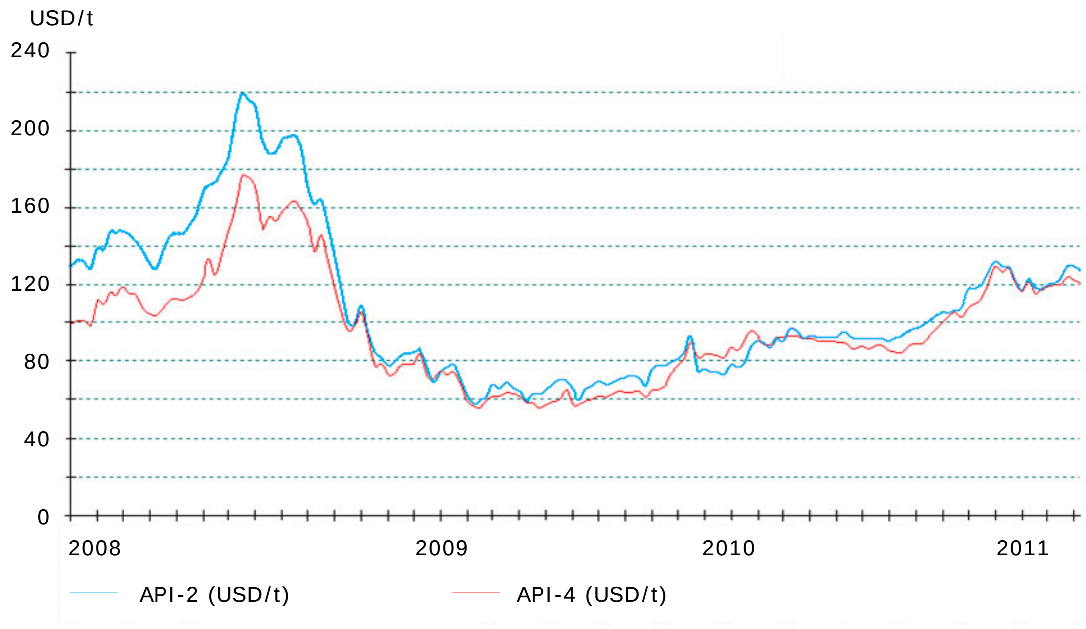
Source: Verein der Kohleimporteure

According to analyses by the Working Group on Energy Balances (Verein Arbeitsgemeinschaft Energiebilanzen), the 15% rise in the use of hard coal for industrial purposes in Germany in 2010 was mainly due to the approximately 37% rise in the use by the iron and steel industry. Total hard coal consumption rose from 50.1 million tonnes to 57.8 million tonnes. The previous year's significant fall in consumption was largely offset by the economic recovery of the German industry and is reflected in the utilisation of transport and logistics capacities and in German imports. Germany imported a total of 43.9 million tonnes of hard coal in 2010, almost 6 million tonnes (14%) more than in the previous year (38.3 million tonnes).

In 2010, the general and global economic recovery led to a continuous rise in the two key coal price indices (API2 – CIF ARA and API4 – FOB Richards Bay). Both indices rose steadily in the course of 2010; however, they were still down on the high prices set in 2008. Freight rates remained at between USD 10 to USD 20 per tonne for the benchmark route Richards Bay to Rotterdam.

Following a relatively stable 2009, market volatility increased slightly in 2010. The price for coal (API2 – CIF ARA price) rose from approximately USD 75 per tonne in January to approximately USD 131 per tonne in December. The following chart shows the price developments of the two most important price indices API2 and API4 during the past three financial years. The first quarter of 2011 shows increased volatility, which was mainly caused by the natural disasters in Australia and Japan.

API-2 CIF ARA and API-4 FOB South Africa weekly from January 2008 to March 2011



Source: Argusmedia.com

Volatile demand and price developments in the international coal market have fully confirmed HMS group's principle of not taking on any significant risky coal transactions. Although rising markets offer considerable gains, competitors suffered huge losses in weak periods. By employing a "back to back" trade policy, i.e. entering into purchasing and sales agreements at the same time, and by carefully selecting reliable business partners, HMS, on the other hand, recorded significant profits in financial year 2010. We fundamentally believe in reliable and long-term cooperation with our customers and suppliers.

Trade

In 2010, HMS group's trading volumes rose due to the improvements in the international economic environment. HMS group also recorded significant rises in the Asian trade, which delivered significant earnings in the year under review and plans to increase its share in the coming years. The group company HMS Indonesia distinguished itself on the Asian market and won new customers. Local management focused in particular on winning and retaining local suppliers, which have proven to be a competitive advantage in the demand-driven Asian market. A focus was also placed on developing long-term, reliable logistics solutions to ensure flexible supplies in the future.

HMS group plans to continue expanding its trade in hard coal in the coming years with focus on:

- India and Pakistan with supplies being sourced from South Africa and Indonesia,
- China with supplies being sourced from Indonesia and Russia,
- Rest of Asia with supplies being sources from Indonesia, and
- Germany, the Benelux countries and Scandinavia with supplies being sourced from Russia, Poland, South Africa, Indonesia, Columbia and the USA

The expansion of Asian business relations with supplies being sourced from Indonesian mines was pushed forward by our representation in Singapore as well as the further development of international and local management in Indonesia. This is expected to strengthen our network with large customers and SMEs in the world's fastest-growing coal import markets China and India as well as other Asian countries.

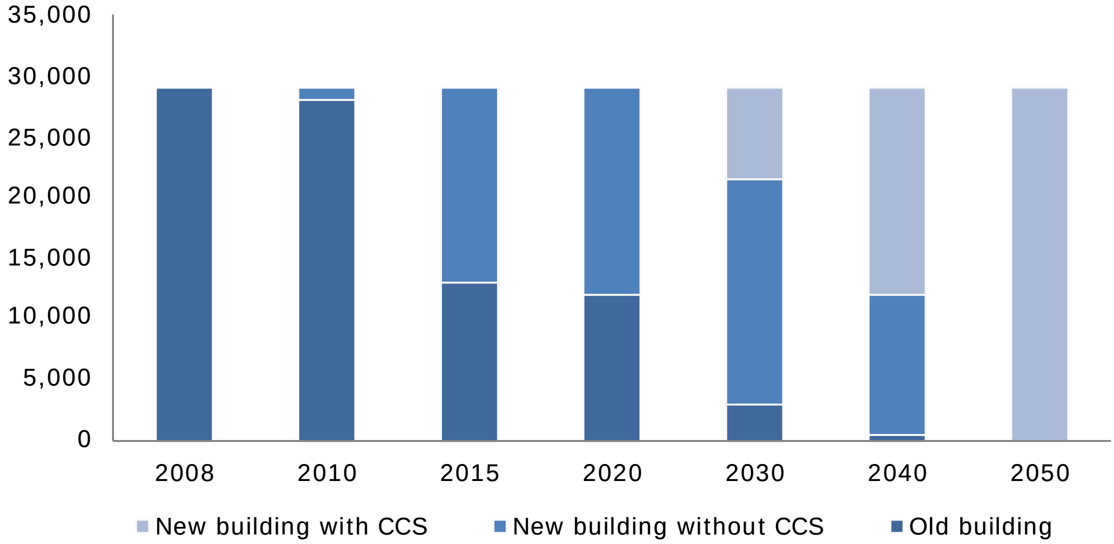
As a result of the strategic alignment and the focus on particular markets, HMS sold its investments in HMS Polska in the fourth quarter of 2010. Once again, HMS Polska failed to achieve its intragroup targets and was not profiting from the markets' positive trend. The company was sold as the future prospects of the company's business model – selling hard coal in Russia from Russian or Polish mines – are not likely to contribute to a sustainable increase in company value.

Raw materials production
We continued implementing a strategy of gaining our own raw materials reserves in 2010. We succeeded in further developing the value added chain vertically by signing exclusive marketing contracts with Indonesian mine operators. We are negotiating with various suppliers in Indonesia to secure access to exclusive marketing rights of reserves by entering into joint ventures or cooperations or to obtain new licenses, thus ensuring that the group has sufficient raw materials at its disposal in the long term.

The application for a license for reopening a closed Polish mine continues to look positive, despite more delays. We expect to receive this mining license in 2011. As there were delays in obtaining the approval of all national and local bodies, it was not possible to keep to the original schedule. It will be possible to increase production in Poland to approximately 2.1 million tonnes per year within three to four years after receiving the license. In the reporting period, HMS Niwka Sp. zo.o. in turn only carried out preliminary work for this project.

Logistics
To face the increasing competition for supplier sources in Indonesia as well as continuing the planned expansion of the value added chain from production to trade, HMS group again further expanded the handling division in 2010. A harbour operation was acquired in South Kalimantan, Indonesia, in 2010 to provide transport services to third parties and to process and sell purchased and perspective own coal inventories in a controlled manner. The acquisition of a harbour operation with associated mixing and storage facilities will enable HMS group to sieve, sort or mix coal to suit customers’ requirements while maintaining the best-possible control over the entire process in the future.

Research and development
The global environmental drive for reducing greenhouse gases is a long-term challenge for the energy industry. The German coal power station park could reduce its CO_2 emissions by approximately 82% by 2050 if marketable CCS technology was to be introduced in 2020 and if the power plants were converted between 2030 and 2050. The following graphic highlights the conversion of the German coal power plant park to CO_2 capture technology and the resulting rise in demand for storage facilities. HMS Bergbau AG Oil & Gas Division started a project for the subterraneous storage of CO_2 in the State of Mecklenburg-Vorpommern to participate in the technological development of emissions reduction. Although the German government has postponed passing a law on CSS technology until 2017 for the time being, we are convinced that there will be no other alternative in the long run. We will therefore continue exploring the subject of CO_2 storage on our own accord. At present, we are examining the suitability of the aquifer structure in which the CO_2 is to be stored.



Source: Verein der Kohleimporteure

Employees

HMS group participates intensively in the international competition for qualified employees. We therefore aim for long-term employment relationships between staff and HMS group. Company management continues to focus on on-going employee development – together with highly specialised and continuing training – to reach the company's strategic goals. Suitable new candidates have already been employed, especially in the Asian market, with plans for more in the future. Risks resulting from employee fluctuations are accounted for with planning for successors and substitutes. An employee training concept was developed and implemented, particularly for new employees.

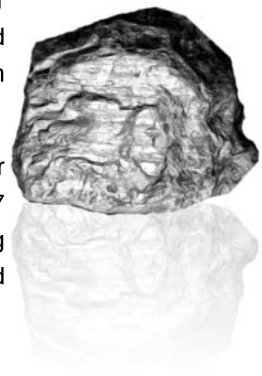
3. Results of operations

Results of operations of HMS group in financial year 2010 compared to the previous year were as follows:

	2010		2009		Change	
	€ thousand	**%**	**€ thousand**	**%**	**€ thousand**	**%**
Sales = Total performance	**151,720**	**100**	**73,709**	**100**	**78,011**	**>100**
Cost of materials	145,987	96	70,041	95	75,946	>100
Personnel costs	1,472	1	990	1	482	49
Depreciation	338	0	64	0	274	>100
Other operating costs ./. other operating earnings	1,803	1	2,173	3	-370	-17
Taxes (excluding income taxes)	2	0	20	0	-18	-91
Operating costs	**149,601**	**99**	**73,288**	**99**	**76,313**	**>100**
Operating earnings	**2,119**	**1**	**421**	**1**	**1,698**	**>100**
Earnings from investments and financial result	-756		-125		-631	<-100
Earnings before income taxes	**1,363**		**296**		**1,067**	**>100**
Income taxes	776		193		583	>100
Extraordinary expenses	223		0		223	-
Minority interests	7		21		-14	-67
Annual result (excluding minority interests)	**371**		**124**		**247**	**>100**

Personnel costs rose by EUR 482 thousand as against the previous year. This rise was due to the additions to pension provisions and new employees in the areas of trade in Asia, a harbour operation and finance.

Other expenses less other earnings are mainly contributable to HMS Bergbau AG, as the group's earnings situation is largely determined by that of HMS Bergbau AG. Other expenses less other earnings decreased, mainly as a result of the EUR 223 thousand decrease in legal and consulting costs as well as the EUR 291 thousand reduction in selling costs, which corresponded to the dropping sales in Poland.



The decline in the financial result is reflected in the company's use of its credit line for financing trade. Furthermore, the financial result contains the balance of EUR 207 thousand of interest expense from pension obligations and the income from the pledging of plan assets. Investment income was mainly the result of the EUR 89 thousand appreciation in value of the investment in KGHM HMS Bergbau AG, Berlin.

Only HMS Bergbau AG incurred significant income tax expenses.

4. Net assets

Net assets of HMS group compared to the previous year were as follows:

	31.12.2010		31.12.2009		Change	
	€ thousand	**%**	**€ thousand**	**%**	**€ thousand**	**%**
Assets						
Fixed assets	6,389	24	393	1	5,996	>100
Investories	1,814	7	459	2	1,355	>100
Receivables	15,153	57	16,652	59	-1,499	-9
Cash and cash equivalents	2,286	9	2,279	8	7	0
Other assets	814	3	8,335	30	-7,521	-90
	26,456	**100**	**28,118**	**100**	**-1,662**	**-6**
Capital						
Equity	7,608	29	7,137	25	471	7
Non-current liabilities	1,991	8	2,552	9	-561	-22
Current liabilities	16,857	64	18,429	66	-1,572	-9
	26,456	**100**	**28,118**	**100**	**-1,662**	**-6**

The rise in non-current assets was due to the acquisition of a harbour operation in Indonesia. Inventories were the result of prepayments made for coal deliveries (EUR 1,814 thousand). As of the reporting date, the HMS group had no own coal inventories.

Receivables all related to trade receivables from power plant operators in Germany and customers in Asia. The decline against the previous year mainly originated from the sale of the investment in HMS Polska, including its receivables, shortly before the end of 2010. The resulting decline was only partially offset by the rise in trade receivables. In addition, other assets as of 31 December 2010 included a receivable from the group's shareholders (EUR 2,415 thousand) resulting from the sale of a receivable resulting in neither profit or loss.

The decline in other assets was mainly due to the payment of a receivable reported last year. In addition, the plan assets for pension obligations were offset against the related pension provision in accordance with the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

Non-current liabilities included pension obligations and a EUR 1,500 thousand promissory note loan, which matures at the end of 2012. The decline resulted from the offsetting of the plan assets covering the pension obligation. The company has current liabilities to suppliers and to banks for financing trade.

5. Financial position

Cash and cash equivalents developed as follows in financial year 2010:

	2010 € thousand
1. Cash flow from current operating activities	8,069
2. Cash flow from investment activities	-6,551
3. Cash flow from financial activities	-1,420
4. Cash and cash equivalents at the end of the period	
Changes of cash and cash equivalents affecting payment	98
Other changes of cash and cash equivalents	-89
Cash and cash equivalents at the start of the period	2,278
Cash and cash equivalents at the end of the period	2,286
5. Composition of cash and cash equivalents	
Cash and cash equivalents	2,286

The positive cash flow from current operating activities mainly reflected the efforts to reduce net working capital (current assets less current liabilities). The negative cash flow from investment activities was the result of the acquisition of a harbour operation in Indonesia and was financed without the need for additional loans. The negative cash flow from financing activities was due to the repayment of a EUR 1,500 thousand promissory note loan as well as the cash inflow from additions to equity of EUR 80 thousand from the other shareholder of HMS Bergbau AG Oil & Gas Division.

6. Information on the consolidated financial statements of HMS Bergbau AG

HMS Bergbau AG is the parent company of HMS group. It is responsible for the central control functions – strategy, finance, accounting/controlling – and all important trading activities. The majority of trade agreements are conducted via the company. The activities of HMS Bergbau AG are therefore a key factor for the situation of the entire HMS group.

The annual financial statements of HMS Bergbau AG are prepared in accordance with German Commercial Law (HGB) and the German Stock Corporation Act (AktG). The following table provides an overview :

	31.12.2010		**31.12.2009**		**Change**	
	€ thousand	**%**	**€ thousand**	**%**	**€ thousand**	**%**
Assets						
Fixed assets	7,314	27	677	4	6,637	>100
Inventories	1,811	7	173	1	1,638	>100
Non-current receivables	0	0	1,357	7	-1,357	-100
Current receivables	15,957	59	15,455	80	502	3
Cash and cash equivalents	2,050	8	1,652	9	398	24
Other assets	31	0	27	0	4	15
	27,163	**100**	**19,341**	**100**	**7,822**	**40**
Capital						
Equity	8,431	31	7,204	37	1,227	17
Non-current liabilities	1,991	7	2,548	13	-557	-22
Current liabilities	16,741	62	9,589	50	7,152	75
	27,163	**100**	**19,341**	**100**	**7,822**	**40**

	2010		2009		Change	
	€ thousand	**%**	**€ thousand**	**%**	**€ thousand**	**%**
Sales = Total performance	**147,329**	**100**	**56,346**	**100**	**90,983**	**>100**
Cost of materials	142,042	96	53,894	96	88,148	>100
Personnel costs	1,312	1	882	2	430	49
Depreciation	31	0	32	0	-1	-3
Other operating costs ./. other operating earnings	1,609	1	958	2	651	68
Taxes (excluding income taxes)	2	0	1	0	1	100
	144,996	**98**	**55,767**	**100**	**89,229**	**>100**
Operating result	**2,333**	**2**	**579**	**1**	**1,754**	**>100**
Earnings from investments and financial result	-107		-3		-104	
Earnings before income taxes	**2,226**		**576**		**1,650**	
Extraordinary earnings	-223		0		-223	
Income taxes	776		195		581	
Annual result	**1,227**		**381**		**2,008**	

Net assets

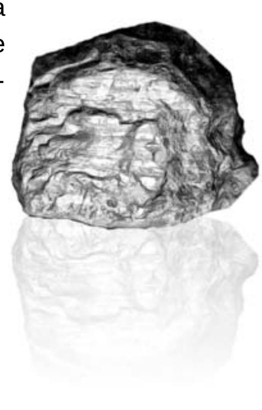
As HMS Bergbau AG engages in trading activities, its net assets are mainly influenced by receivables from customers and current trade liabilities to banks.

Net assets are also impacted by implementing the central control functions and pursuing the group's strategic goals, but also to a large extent by the issuing of a EUR 6,698 thousand loan to the Indonesian HMS company to finance the acquisition of a harbour operation.

Inventories of EUR 1,811 thousand were the result of prepayments for future deliveries, which were financed by customer prepayments.

Non-current liabilities related to a EUR 1,500 thousand promissory note loan as well as a EUR 491 thousand pension provision. The decline in pension provisions resulted from the offsetting with the corresponding plan assets as required by the BilMoG as well as the adverse adjustment on account of changed assumptions.

The equity ratio of HMS Bergbau AG was 31.0% on 31 December 2010.



Financial position

The financial position of HMS Bergbau AG also reflects the company's functions. Trade financing within the scope of current operating activities amounted to EUR 5,527 thousand as of 31 December 2010. In the financial year, EUR 1,500 thousand was redeemed from long-term base debt financing. This resulted in remaining long-term financing of EUR 1,500 thousand. To finance the acquisition of a harbour operation in Indonesia, the company issued a EUR 6,698 thousand long-term loan to its Indonesian subsidiary. Other receivables within the group of EUR 477 thousand mainly resulted from loans used for financing other subsidiaries.

Results of operations

Ordinary trading activities are a major influence on results of operations of HMS Bergbau AG. The rise in gross profit was mainly due to the conclusion of higher-margin transactions in Asia. The rise in personnel costs was primarily the result of the addition of pension provisions, the expansion of the Management Board and new staff. The decline in the other operating result mainly originated from higher transport and trade costs. Subsidiaries did not transfer any profits or losses in 2010. Earnings from investments and financial result were mainly generated by interest expenses in connection with trade financing as well as the interest effect from the accounting of pension provisions in accordance with the BilMoG and were compensated for with intergroup interest income.

7. Events after the balance sheet date

The 25.1% share of HMS Bergbau AG in KGHM HMS Bergbau AG was sold in the first half of 2011. HMS decided not to participate in a capital increase of the company but to sell its investment instead and concentrate on its core competence coal and the future market Asia. A retroactive consideration dependent on the project's success was agreed on in addition to a fixed purchase price that has already been paid.

We are not aware of any other events of particular importance for the company's net assets, financial position and results of operations after the balance sheet date.

8. Risks and opportunities

The Management Board of HMS Bergbau AG is responsible for the group risk management. It is integrated in all operational processes at HMS group. Future opportunities and risks are identified, classified, evaluated, controlled and monitored as part of business operations. It is our policy to only assume risks if they also bring with them significant opportunities for generating earnings. If possible, risks should be minimised or transferred to third parties. Opportunities are assessed for their earnings potential.

The following sections describe opportunities and risks that could have significant impact on the company’s net assets, financial position and results of operations:

Price fluctuations

HMS group’s traditional business, coal trading using “back to back” contracts and index-based purchasing and sales agreements, does not affect the contractually-agreed margins of individual transactions. If, on the other hand, fixed prices are agreed upon, like in the case of small numbers of spots, such as individual transactions in Asia, price risks could occur. We evaluate such risks on a daily basis as part of our risk management system, taking into account current forward prices and expected volatility. Against the background of an expansion of trading activities in Asia, the company will therefore stand by its principle of not assuming any significant risks when purchasing or selling goods and services and eliminate such risks before signing the contract. We will continue our attempts to realise genuine “back to back” transactions with top rated suppliers and customers.

Financial risks

Exchange rate and interest rate fluctuations can have a significant impact on HMS group’s earnings. Our financial risk management therefore mainly aims at using currency futures to hedge currency risks. We also try to eliminate currency differences when financing, purchasing and selling. The group companies must evaluate and if necessary hedge all currency risks. Changes to interest rates, in other words risks from interest-bearing liabilities, as well as a risk premium and currency-specific differences are accounted for as financing costs including in the assessment of each transaction. Variable interest rates are exchanged for fixed interest rates, if this is sensible in the long term with regard to risk management, and after assessing all possible scenarios.

HMS remains liable for the sold subsidiary HMS Polska’s liabilities to banks, which totalled EUR 5.4 million as of the reporting date. This liability will continue even after the purchasers refinancing. The risk of a claim has been assessed as low; there is also a right of recourse against the acquirer of the shares.

Business partner credit rating and counterparty risk

Credit risks arise from our business relationships with customers and rose as a result of the increase in the share of business partners in Asia. Here, our risk management aims to suitably hedge endangered transactions or hedge our receivables if this is economically viable. Our use of letters of credit also hedged payment promises made prior to delivery. In addition, risks from the failure to perform or the poor performance of deliveries may arise, risks which are not completely passed on to customers. Attempts are made by risk management to face these risks appropriately by assessing individual conditions and structuring contracts.

Political risks

The expansion of our trade business to Asia means that the group is more prone to legal or regulatory risks, such as from political influence, disruptions in the supply chain, riots, or disadvantageous economic policy strategies. Environmental and other geographical influences are also taken into account in these decisions. There are also uncertainties from the given legal condition that are and will be subject to change. In Asia in particular, above-average opportunities are associated with higher risks. To counter individual risks, our risk management attempts to stipulate corresponding contractual rules or eliminate them completely by involving experienced local partners.

Investment risk

Due to HMS group's investment in a Indonesian harbour operation, there are risks that relate to the investment's profitability and earnings power, which significantly hinge on the implementation of the investment strategy. By constantly monitoring the marketing strategy as well as the success of its implementation, we attempt to recognise and counter possible economic effects early by adapting the strategy.

Risks and opportunities resulting from company strategy

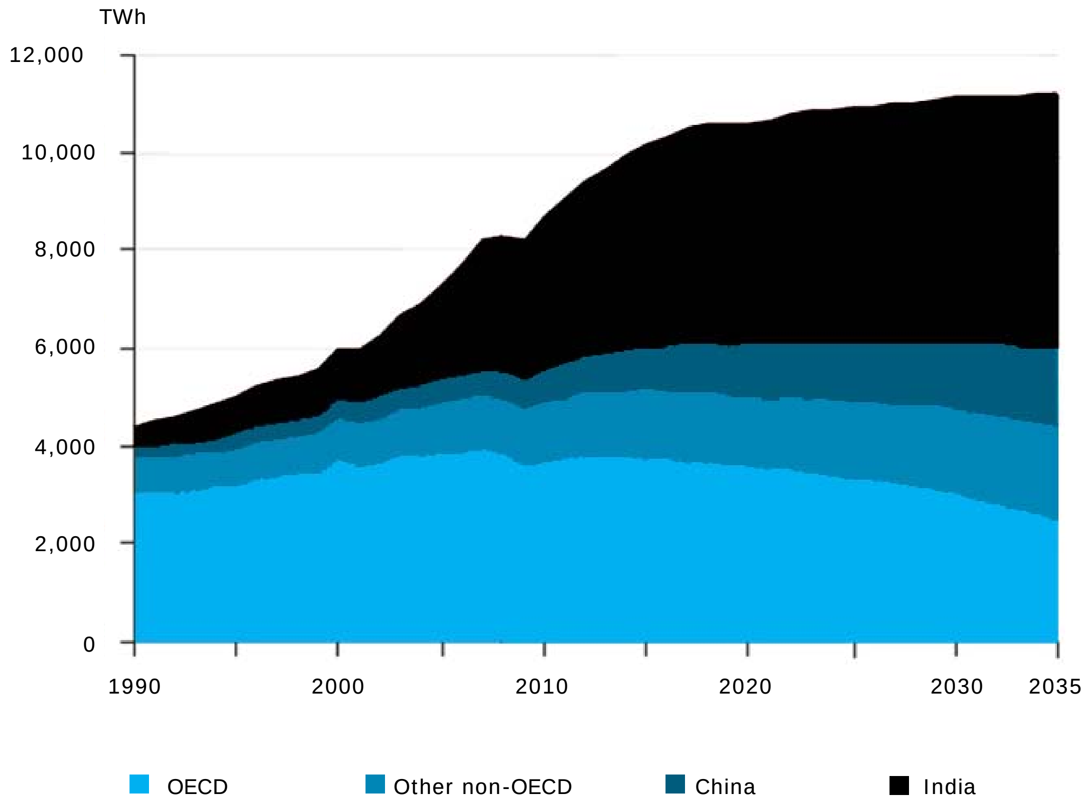
Decisions on investments and acquisitions are made by employing an assessment and approval process, as they carry considerable opportunities and risks. Experts are also consulted in certain cases. The Management Board of HMS Bergbau AG makes the final decision and if necessary obtains the approval of the Supervisory Board. Opportunities and risks of potential acquisitions must be thoroughly assessed and evaluated, particularly in the future coal production division. The main factors to examine are the size of the reserve, logistics infrastructure, financial situation, legal requirements, management and political situation. Our risk management system implements measures such as obtaining expert advice and reports. In the trade division, we are able to recognise opportunities and risks at the earliest possible stage by intensively monitoring and analysing markets and competitors.

Overall, the risk management system places HMS group in a position to mitigate the above risks and utilise any resulting opportunities.

9. Forecast report

Compared to other energy sources, coal has the largest reserves and resources in the world. According to calculations by the Federal Institute for Geosciences and Natural Resources (Bundesamt für Geowissenschaften und Rohstoffe – BGR), there are enough resources to last for 125 to 200 years, depending on the type of coal as well as global economic developments. It remains undisputed that the remaining coal reserves are sufficient to cover expected demand for many decades to come. In addition, scientific and market analyses show that the percentage of coal in global energy production will rise far above average.

According to the IEA (International Energy Agency), hard coal will continue to be the most important source for industrial electricity production. The following chart highlights the efforts made to compensate for the decline in global coal power generation with growing industries in China and India. The largest drivers of this development are the growing world population, which will hit 8.2 billion by 2030, as well as most certainly the growing energy consumption. The share of coal in global electricity production will go up from 40% today to 45% in 2030. Over the next 50 years, a primary energy matrix without coal is unimaginable.



Source: International Energy Agency „World Energy Outlook 2010“

The rising development of global energy consumption in recent years, with coal being the primary energy source, will continue in the years ahead. Coal prices will continue to climb, driven by the very quickly growing industrial demand in the Pacific region as well as current developments in the public opinion with regard to nuclear power. We expect the Pacific region to continue growing in importance as the largest sales market. HMS group is therefore increasingly focusing its strategic orientation on Asia. In our opinion, Indonesia will become one of the most important mining markets in the coming years as it has excellent resources, favourable mining conditions and a central location in the Pacific region. We can see significant growth potential – particularly for securing large coal resources and developing our own transhipment centres. By securing our own resources, we are aiming to guarantee supply in the long term for the end customers in the Asian market. We anticipate rising prices in the global market. Securing our own resources, and consequently the expansion of the value added chain to include all steps from production to end customer sales, therefore play an essential part in strengthening our market position in the long term.

The price hikes in the coming years are reflected in today’s futures prices on the API2 Index (CIF ARA) on the European Energy Exchange AG: One year ago, the prices expected per tonne of coal were predicted to be between USD 95 and USD 102; today they are up to USD 130.

Independent of the current situation in Germany and other European economies, we expect European demand for fossil fuels to climb. The uncertain starting position in the discussions regarding the lengthening of nuclear power plant terms and the resulting suspension of the current energy policy could mean that coal power production will become more important as a flexible energy source. We are concentrating our efforts on renewing contracts as well as signing new long-term agreements with European power plant operators, especially in Germany and Poland. The main focus in financial years 2011 and 2012 remains on further strengthening our market position and determinedly implementing our future projects. In Asia and Poland, this mainly includes developing our own production.

The beginning of financial year 2011 was on the whole stable. Orders received from the European market were as expected; deliveries to the Asian market even reached a high, reflecting the acceptance of the HMS group as a reliable business partner in the region. We signed more exclusive contracts with Indonesian coal producers, securing significant trading volumes of steam coal for HMS in the long term. This is another major step in securing large, high-quality coal resources, allowing us to emerge as a reliable trading partner. We continue to see considerable growth potential in Asia.

Considering the developments in the German and Asian sales markets as well as the development of the logistics business in Indonesia, we are looking forward to the coming two financial years with confidence. We expect sales to rise in the coming years. The vertical integration of business transactions and the coal that is sold via our harbour operation in Indonesia mean that we also expect a higher gross margin. The anticipated positive trend should also have a positive effect on group EBITDA.

10. Main features of the remuneration system

The Supervisory Board decides upon the remuneration system for the Management Board of HMS Bergbau AG, including all material contractual elements, and regularly reviews it. It also determines remuneration for individual Management Board members.

Management Board remuneration comprises fixed variable and performance-related components. Fixed remuneration is paid as a monthly salary, regardless of performance. Management Board members also receive additional non-cash benefits. They mainly consist of the private use of a company car, which is taxable. Performance-related remuneration is dependent on the company's annual result and personal performance of Management Board members. In financial year 2009, one Management Board member received share options within the scope of the conditional capital 2009/I decided on by the Annual General Meeting. Relevant targets and a waiting period of four years were agreed.

The remuneration of the Chief Executive Officer also includes pension commitments.

11. Closing statement in accordance with Section 312 (3) of the German Stock Corporation Act (AktG)

According to the knowledge available to HMS Bergbau AG at the time of carrying out a legal transaction with an associated company, it received appropriate compensation for each legal transaction and neither implemented measures nor refrained from implementing measures neither on behalf of nor in the interest of the controlling company or an associated company during the reporting period.

12. Forward-looking statements

The management report includes forward-looking statements that reflect the current opinion of HMS group's management with regard to future events. Any statement contained in this report reflecting or building upon intentions, assumptions, expectations, forecasts and underlying assumptions is a forward-looking statement. Those statements are based upon plans, estimations and forecasts that are currently available to HMS group's management. They therefore only refer to the point in time at which they were made. Forward-looking statements naturally are subject to risks and uncertainties, which could result in actual developments differing significantly from these forward-looking statements or events implied or expressed therein. HMS group does not assume any responsibility and does not intend to update such statements in view of new information or future events.

Berlin, 20 May 2011

Heinz Schernikau	Sebastian Giese	Rüdiger Lorentz
CEO	CFO	COO

Consolidated Balance Sheet as of 31 December 2010

Assets	EUR	31.12.2010 EUR	31.12.2009 EUR
A. Non-current assets			
I. Intangible assets			
1. Licences, industrial property rights, similar rights and values and licences in such rights and values	5,079,307.52		220.00
		5,079,307.52	**220.00**
II. Property, plant and equipment			
1. Lease-hold improvements on third-party property	0.00		242,525.38
2. Technical equipment and machinery	1,182,626.43		0.00
3. Other equipment, office and factory equipment	123,069.81		139,344.40
4. Advance payments and assets under construction	4,037.16		3,654.60
		1,309,733.40	**385,524.38**
III. Financial assets			
Investments in associates	0.00		7,631.51
		0.00	**7,631.51**
		6,389,040.92	**393,375.89**
B. Current assets			
I. Inventories			
1. Finished goods and products	0.00		282,090.83
2. Advance payments	1,814,177.30		176,844.76
		1,814,177.30	**458,935.59**
II. Receivables and other assets			
1. Trade receivables	12,737,441.10		16,651,359.97
2. Receivables from associates	2,414,989.86		0.00
3. Other assets	775,338.21		8,232,597.60
		15,927,769.18	**24,883,957.57**
III. Cash and cash equivalents		**2,286,291.79**	**2,278,513.18**
		20,028,238.27	**27,621,406.34**
C. Accurals and deferrals		**39,133.67**	**102,585.43**
		26,456,412.86	**28,117,367.66**

Shareholders' equity and liabilities		31.12.2010	31.12.2009
	EUR	EUR	EUR
A. Shareholders' equity			
I. Subscribed capital		**4,000,000.00**	**4,000,000.00**
II. Capital reserve		**1,991,800.00**	**1,951,000.00**
III. Profit reserves			
1. Statutory reserve		5,112.92	5,112.92
2. Other profit reserves		1,173,158.45	1,173,158.45
IV. Consolidated net profit		**354,068.26**	**-16,447.11**
V. Difference in equity due to currency conversion		**32,408.27**	**4,634.16**
VI. Minority interests		**51,312.76**	**19,054.00**
		7,607,860.66	**7,136,512.42**
B. Provisions			
1. Pension provisions and similar obligations	491,105.40		1,051,827.36
2. Tax provisions	561,858.00		20,447.24
3. Other provisions	422,735.28		476,713.10
		1,475,698.68	**1,548,987.70**
C. Liabilities			
1. Liabilities to banks	7,026,975.86		15,438,494.52
2. Prepayments received on orders	1,509,263.10		
3. Trade payables	7,746,840.86		3,029,642.27
4. Other liabilities of which taxes EUR 1,045 thousand (previous year: EUR 25 thousand)	1,089,773.70		963,730.75
		17,372,853.52	**19,431,867.54**
		26,456,412.86	**28,117,367.66**

Consolidated Income Statement 2010

	EUR	2010 EUR	2009 EUR
1. Sales		151,719,839.47	73,708,606.91
2. Other operating earnings		1,053,226.96	1,369,757.52
		152,773,066.44	75,078,364.43
3. Cost of materials			
a) Costs for raw materials and supplies and for goods purchased	145,814,659.33		70,027,077.42
b) Cost for services purchased	171,849.60		13,600.00
		145,986,508.92	70,040,677.42
4. Personnel costs			
a) Wages and salaries	1,067,810.22		820,102.55
b) Social security costs and pension support costs - of which for pensions EUR 28,.072.00 283,072.00)	403,846.66		169,934.71
		1,471,656.88	990,037.26
5. Amortisation of intangible non-current assets and depreciation of property, plant and equipment		337,834.48	63,980.25
6. Other operating expenses		2,856,479.05	3,542,297.69
7. Earnings (previous year: costs) from investments	11,527.49		4,920.00
8. Earnings from investments in associates	88,881.62		0.00
9. Other interest and similarearnings	90,267.79		472,062.01
10. Interest and similar expenses	947,100.89		591,696.16
		-756,424.00	-124,554.15
11. Earnings from ordinary activities		1,364,163.11	316,817.66
12. Extraordinary expenses		222,748.40	0.00
13 Income taxes		775,966.48	193,405.43
14 Other taxes		1,874.10	20,108.12
15. Net profit for the period		**363,574.13**	**103,304.11**
16. Loss carried forward from the previous year		-16,447.11	-140,428.22
15. Loss attributable to minority interests		6,941.24	20,677.00
16. Consolidated net profit (previous year: loss)		**354,068.26**	**-16,447.11**

Consolidated Cash Flow Statement 2010

	2010 EUR thousand	2009 EUR thousand
1. Cash flow from current operating activities		
Net earnings for the period (including minority interests) before extraordinary items	364	103
Depreciation and amortisation on non-current assets	338	64
Decrease in provisions	-60	-121
Earnings from the disposal of consolidated subsidiaries and other business units as well as non-current assets	-12	0
Other non-payment related expenses (+)/earnings (-)	115	0
Increase (previous year: decrease) in inventories, trade receivables and other assets	1,508	-7,297
Decrease in trade payables and other liabilities	5,816	4,370
Cash flow from current operating activities	**8,069**	**-2,881**
2. Cash flow from investment activities		
Cash outflow for investments in property, plant and equipment	-1,297	-33
Cash outflow for investments in intangible assets	-5,254	-13
Cash outflow from investment activities	**-6,551**	**-46**
3. Cash flow from financing activities		
Cash inflow from additions to equity	80	80
Cash outflow from the repyment of other financial liabilities	-1,500	0
Cash flow from financing activities	**-1,420**	**80**
4. Cash and cash equivalents at the end of the period		
Changes of cash and cash equivalents affecting payment (sub totals 1 to 3)	98	-2,847
Changes of cash and cash equivalents from changes in exchange rates, basis of consolidation and measurement	-89	36
Cash and cash equivalents at the start of the period	2,279	5,090
Cash and cash equivalents at the end of the period	**2,286**	**2,279**
5. Composition of cash and cash equivalents		
Cash and cash equivalents	2,286	2,279
Cash and cash equivalents at the end of the period	**2,286**	**2,279**

Consolidated Statement of Changes in Shareholders' Equity 2010

	Parent company					
	Subscribed capital common shares	Capital reserve	Generated consolidated shareholders' equity	Accumulated other consolidated net earnings Balancing item from currency conver-sion	Shareholders' equity acc. to consolidated balance sheet	Shareholders' equity
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2008	4,000,000.00	1,991,800.00	1,037,843.15	-31,302.50	6,916,740.65	6,916,740.65
Additions to capital reserve		40,800.00		35,936.66	76,736.66	76,736.66
	0.00	40,800.00	0.00	35,936.66	76,736.66	76,736.66
Consolidated profit/loss for the period			123,981.11		123,981.11	123,981.11
Other consolidated net earnings					0.00	0.00
Total consolidated net earnings	0.00	0.00	123,981.11	0.00	123,981.11	123,981.11
31.12.2009	4,000,000.00	1,951,000.00	1,161,824.26	4,634.16	7,117,458.42	7,117,458.42
Changes in basis of consolidation				40,625.52	40,625.52	40,625.52
Additions to capital reserve		40,800.00		-12,851.40	27,948.60	27,948.60
	0.00	40,800.00	0.00	27,774.11	68,574.11	68,574.11
Consolidated profit/loss for the period			370,515.37		370,515.37	370,515.37
Other consolidated net earnings					0.00	0.00
Total consolidated net earnings	0.00	0.00	370,515.37	0.00	370,515.37	370,515.37
31.12.2010	4,000,000.00	1,991,800.00	1,532,339.63	32,408.27	7,556,547.90	7,556,547.90

	Minority interests		
	Minority interests	**Shareholders' equity**	**Consolidated shareholders' equity**
	EUR	EUR	EUR
31.12.2008	531.00	531.00	6,917,271.65
Additions to capital reserve	39,200.00	39,200.00	115,936.66
	39,200.00	39,200.00	115,936.66
Consolidated profit/loss for the period	-20,677.00	-20,677.00	103,304.11
Other consolidated net earnings		0.00	0.00
Total consolidated net earnings	-20,677.00	-20,677.00	103,304.11
31.12.2009	19,054.00	19,054.00	7,136,512.42
Changes in basis of consolidation		0.00	40,625.52
Additions to capital reserve	39,200.00	39,200.00	67,148.60
	39,200.00	39,200.00	107,774.11
Consolidated profit/loss for the period	-6,941.24	-6,941.24	363,574.13
Other consolidated net earnings		0.00	0.00
Total consolidated net earnings	-6,941.24	-6,941.24	363,574.13
31.12.2010	51,312.76	51,312.76	7,607,860.66

Statement of Changes in Non-Current Assets as of 31 December 2010

	Historical costs					
	01.01.2010 EUR	Currency conver-sion EUR	Changes in basis of consolidation EUR	Additions EUR	Disposals EUR	31.12.2010 EUR
I. Intangible assets						
Licences, industrial property rights, similar rights and values and licences in such rights and values	**4,699.00**	**0.00**	**0.00**	**5,254,373.30**	**0.00**	**5,259,072.30**
II. Property, plant and equipment						
Leasehold improvements on third-party property	270,340.66	9,014.84	-282,895.04	0.00	0.00	-3,539.54
Technical equipment and machinery	0.00	0.00	0.00	1,286,530.44	0.00	1,286,530.44
Other equipment, office and factory equipment	335,201.99	9,382.17	0.00	10,660.71	2,020.00	353,224.87
Advance payments and assets under construction	3,654.60	382.56	0.00	0.00	0.00	4,037.16
	609,197.25	**18,779.57**	**-282,895.04**	**1,297,191.15**	**2,020.00**	**1,640,252.93**
III. Financial assets						
Investments	**50,897.89**	**0.00**	**0.00**	**83,963.13**	**96,513.13**	**38,347.89**
	664,794.14	**18,779.57**	**-282,895.04**	**6,635,527.57**	**98,533.13**	**6,937,673.11**

	Accumulated amortisation and depreciation						Book values	
	01.01.2010	Currency conversion	Changes in basis of consolidation	Additions	Disposals	31.12.2010	31.12.2010	31.12.2009
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets								
Licences, industrial property rights, similar rights and values and licences in such rights and values	**4,479.00**	**3,848.94**	**0.00**	**171,436.84**	**0.00**	**179,764.78**	**5,079,307.52**	**220.00**
II. Property, plant and equipment								
Leasehold improvements on third-party property	27,815.28	-3,539.54	-57,618.47	29,803.19	0.00	-3,539.54	0.00	242,525.38
Technical equipment and machinery		2,283.36	0.00	101,602.65	0.00	103,904.01	182,626.43	
Other equipment, office and factory equipment	195,857.59	113.67	0.00	34,973.80	790.00	230,155.06	123,069.81	139,344.40
Advance payments and assets under construction	0.00	0.00	0.00	0.00	0.00	0.00	4,037.16	3,654.60
	223,672.87	**-1,142.51**	**-57,618.47**	**166,397.64**	**790.00**	**330,519.53**	**1,309,733.40**	**385,524.38**
III. Financial assets								
Investments	**43,266.38**	**0.00**	**0.00**	**0.00**	**4,918.49**	**38,347.89**	**0.00**	**7,631.51**
	271,418.25	**2,706.43**	**-57,618.47**	**337,834.48**	**5,708.49**	**548,632.20**	**6,389,040.92**	**393,375.89**

Notes to the Consolidated Financial Statements

HMS Bergbau AG

Berlin, Germany

Financial Year 2010

I. General information

HMS Bergbau AG's consolidated financial statements were prepared in accordance with German commercial law and the additional regulations of the German Stock Corporation Act (AktG) as well as in accordance with the applicable regulations of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) for the first time. Prior-year figures were not adjusted in accordance with Section 67 (8) Sentence 2 Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsbuch – EGHGB). The financial year of the group and all companies included in the consolidated financial statements corresponds to the calendar year.

In accordance with Section 292 (1) of the German Commercial Code (HGB), the balance sheet, income statement, notes as well as cash flow statement and statement of changes in shareholders' equity were presented separately.

The income statement was prepared using the total cost method.

II. Basis of consolidation

1. Information on all group companies

All German and foreign associated subsidiaries were included in the consolidated financial statements.

Name	**Headquarter**	**Share**	**Shareholders' equity**	**Last annual result**
		%	**€ thousand**	**€ thousand**
HMS Bergbau AG Coal Division	Berlin, Germany	100	36	-2
HMS Bergbau AG Iron Ore & Metals Division	Berlin, Germany	100	17	-2
HMS Bergbau AG Oil & Gas Division	Berlin, Germany	51	105	-14
HMS Niwka Coal ProductionCompany Sp. z o.o.	Katowice, Poland	100	-270	-100
PT HMS Bergbau Indonesia	Jakarta, Indonesia	100	-399	-742

The company disposed of its investment in HMS Bergbau Polska Sp. zo.o. in 2010.

2. Investments

The parent company holds shares in the following investments:

- KGHM HMS Bergbau AG, Berlin, Germany
- Carbo-KH, Kemrowo, Russia (inactive)

The company disposed of its investment in KGHM HMS Bergbau AG in 2011 and thereby accounts for the investment as of the reporting date under current assets.

III. Consolidation principles

The annual financial statements of the consolidated subsidiaries were prepared on 31 December 2010, the same balance sheet date as the parent company.

The annual financial statements of the German subsidiaries were all prepared in accordance with German commercial law and the accounting and valuation principles of HMS Bergbau AG.

The annual financial statements of the foreign subsidiaries were prepared in accordance with the applicable laws of each country. They were reconciled with the financial reporting standards of the parent company. The income statement structure was adjusted to match that of the parent company.

The consolidated financial statements were prepared on the balance sheet date of the parent company.

1. Capital consolidation method

Pursuant to Section 301 (1) no. 1 of the German Commercial Code (HGB) (old version), the capital of the fully consolidated companies was consolidated on the date of acquisition according to the book value method by offsetting acquisition costs with the subsidiary's equity share at the time of acquisition or its initial consolidation. No new interests were purchased during the financial year.

2. Date of initial consolidation

The date on which capital within the meaning of Section 301 (2) of the German Commercial Code (HGB) must be consolidated is always the date of foundation by the parent company. The capital of subsidiaries established before the financial year is therefore also consolidated according to the value of the company at the time it was founded. Any profit and loss generated by the subsidiaries before 1 January 2008 was included in and offset against the profit reserve of the parent company. This did not result in a difference within the meaning of Section 301 (1) of the German Commercial Code (HGB).

3. Debt consolidation

Mutual receivables and liabilities between the consolidated companies are offset and eliminated when consolidating the company's debt.

4. Consolidation of costs and earnings, elimination of intercompany profits

Intragroup sales are offset against corresponding intragroup expenses.

Expenses and earnings from other business transactions between consolidated companies are also offset.

No intercompany profits from intragroup deliveries and services were incurred.

5. Consolidation principles for investments

Pursuant to Section 311 of the German Commercial Code (HGB), the 25.1% share in KGHM HMS Bergbau AG, Berlin, was included in the consolidated financial statements at equity according to the book value method. Shareholders' equity in KGHM HMS Bergbau AG, Berlin was increased by EUR 385 thousand in the financial year.

IV. Currency conversion principles

The consolidated financial statements are prepared in Euro, the functional and reporting currency of the parent company.

In accordance with Section 308a sentence 1 of the German Commercial Code (Handelsgesetzbuch –HGB), the balance sheets of foreign subsidiaries are converted at the spot exchange rate prevailing on the balance sheet date and their income statements at the average annual rate in accordance with Section 308a sentence 2 HGB. Shareholders' equity is converted at the historical rate.

Differences arising from currency conversion for assets and liabilities are recognised in equity without affecting income.

Differences from the conversion of income statement items were reported under consolidated net earnings as costs or earnings.

V. Accounting and valuation principles

1. Accounting and valuation

The consolidated financial statements comply with the applicable regulations of Section 298 of the German Commercial Code (HGB).

Intangible assets are valued at cost less scheduled straight-line amortisation .

Property, plant and equipment were recognised at historical cost and subject to scheduled depreciation if they had a finite useful life .

Please refer to III.5. “Consolidation principles for investments” for details on accounting and valuation principles for **investments**.

Scheduled **amortisation** and depreciation was carried out according to the expected useful lives of assets.

The **prepayments for inventories** were recognised at cost considering the lower of cost or market principle.

Receivables and **other assets** were recognised at nominal value or fair value as of the balance sheet date.

Pension obligations based on a pension of 60% of the final fixed salary and the final variable remuneration were calculated using the projected unit credit method based on Prof. Dr. Klaus Heubeck’s 2005 G mortality table. A fluctuation and salary trend of 0% and a discount rate of 5.15% were used.

Due to the first-time application of the BilMoG, pension provisions were calculated using actuarial principles based on an actuarial interest rate of 5.25% and a wage and salary trend of 0% as of 1 January 2010 and amounted to EUR 3,341 thousand. The company exercised the option in Section 67 (1) sentence 1 EGHGB to spread the required additions to pension obligations over 15 years and recognised the resulting EUR 223 thousand as an extraordinary expense.

Tax provisions include taxes for the financial year that have not yet been assessed.

Other provisions take into account all risks and discernible obligations and are recognised to the amount of the settlement value, i.e., including the expected price and cost increases.

Liabilities are carried at their settlement value.

The conversion of **business transactions concluded in foreign currencies** was carried out using the spot exchange rate in accordance with Section 256a HGB.

In order to hedge some of the risks from financial liabilities with variable interest rates, the company concluded corresponding interest hedges (swaps). As of the balance sheet date, the company hedged transactions totalling approximately USD 7.0 million. The fair value of the corresponding hedges amounted to approximately EUR -23 thousand as of the balance sheet date. Fair value is the amount at which financial instruments would be swapped, sold, acquired or repaid by expert, contractually willing and independent contracting parties on the balance sheet date. Fair value equals market value. Generally accepted valuation methods and models ("marking to market") were used. Both underlying transaction and hedge mature in February 2011. The offsetting changes in value will have broken even by this time. Generally accepted valuation methods and models were used.

VI. Notes on the consolidated balance sheet

The attached statement of changes in **non-current assets** shows the development of individual non-current assets, including details on amortisation and depreciation, during the financial year.

All **receivables** are due within one year. **Liabilities** with terms of one to five years amounted to EUR 1,991 thousand.

Other assets contained receivables to shareholders of EUR 2,415 thousand and were the result of the income from the sale of receivables.

Deferred tax assets were mainly the result of various pension provision calculations. The calculation of the temporary differences uses the corporation and business tax rates for the financial year (31.83%). The tax determination as of 31 December 2010 remained unchanged against that of the previous year: a deferred tax asset surplus. The company exercised the option in Section 274 HGB not to capitalise the calculated tax relief.

The group had the following **contingent liabilities** as of 31 December 2010:

Joint liability for the loan liabilities of the former HMS Bergbau Polska Sp. zo.o. subsidiary totalling

a) EUR 250 thousand
b) USD 4,000 thousand
c) EUR 4,500 thousand

as of 31 December 2010; these were valued at

a) EUR 0 thousand
b) USD 1,412 thousand
c) EUR 4,384 thousand

The risk of the joint liability being used has been classed as unlikely given the principal debtor's financial situation and the regulations put in place when the shares were sold.

In addition, HMS sold receivables of USD 7,485 thousand as of the reporting date in a reverse repurchase agreement. This transaction resulted in a liability for the company of this amount from the agreed repurchase agreement as of the reporting date.

On 31 December 2010, the group's purchase obligations from traded contracts amounted to EUR 65,100 thousand, all relating to 2011. Other financial obligations mainly resulted from rental and lease agreements. The maturities of liabilities are as follows:

- Up to 1 year EUR 203 thousand
- Between 1 and 5 years EUR 111 thousand
- More than 5 years EUR 0 thousand

The other shareholder of the subsidiary HMS Bergbau AG Oil & Gas Division contributed during the financial year EUR 80,000.00 into the **capital reserve**.

On the balance sheet date, **liabilities to banks** were secured to the amount of EUR 2,860 million in form of assignments of receivables.

The **pension obligations** of EUR 491 thousand were offset against pledged plan assets. As of the balance sheet date, these had a fair value of EUR 1,304 thousand.

VII. Notes on the consolidated income statement

Sales of EUR 151,720 thousand were generated in the financial year, mainly from the trade in coal products such as steam coal, coking coal and anthracite. In geographical terms, sales revenues were primarily generated in Europe (73%) and Asia (27%).

Material costs were mainly the result of the global acquisition of steam coal, coking coal and anthracite.

Other operating earnings mainly contained currency conversion gains.

Other operating expenses resulted primarily from delivery costs (EUR 996 thousand), vehicle and travel costs (EUR 508 thousand), currency conversion expenses (EUR 570 thousand) and legal and consulting costs (EUR 269 thousand).

Investment income contained the update of the at-equity valuation of the investment in KGHM HMS Bergbau AG as well as the profit from the sale of the investment in HMS Bergbau Polska Sp. zo.o.

The financial result contained the balance of EUR 207 thousand from the interest expense arising from pension obligations as well as the income from the pledged plan assets.

Extraordinary expenses contain 1/15th of the addition of pension provisions, which resulted from the change in the calculation in accordance with Section 253 (1) sentence 2 HGB.

VIII. Other information

1. Members of the Management Board and Supervisory Board

During the past financial year, the company's transactions were conducted by the Management Board:

- Herrn Heinz Schernikau, CEO,
- Herrn Sebastian Giese, CFO,
- Herrn Rüdiger Lorentz, COO.

On 28 June 2010, the Supervisory Board appointed Mr. Lorentz as a member of the Management Board with effect from 1 July 2010.

Management Board remuneration – excluding additions to pension provisions – totalled EUR 439 thousand in financial year 2010 (previous year: EUR 358 thousand).

The following members held positions on the Supervisory Board in the financial year:

- Dr. Hans-Dieter Harig; engineer, retired, Chairman,
- Dr. h.c. Michael Bärlein; lawyer, Berlin, Deputy Chairman,
- Michaela Schernikau, businesswoman, Managing Director, Berlin.

In the financial year, Dr. Hans-Dieter Harig was also a member of the Supervisory Boards of E.ON Energie AG, Munich, Rheinkalk GmbH, Wülfrath, Bilfinger Berger Power Services GmbH, Oberhausen and Möller Group GmbH & Co. KG, Bielefeld.

In the financial year, Michaela Schernikau was also a member of the Supervisory Boards of HMS Bergbau AG Iron Ore & Metals Division, Berlin and HMS Bergbau AG Coal Division, Berlin.

2. Remuneration of member of the Supervisory Board

Supervisory Board remuneration amounted to EUR 39 thousand (previous year: EUR 28 thousand).

3. Auditor's fee

The fee for the audit of the annual financial statements was EUR 65 thousand. The auditor performed no other services.

4. Annual average number of employees

An average number of 22 employees worked for the company during the financial year.

5. Types of shares

HMS Bergbau AG has share capital worth EUR 4,000,000.00, divided into:

4,000,000 common bearer shares at a nominal value of EUR 1.00 each.

6. Authorised capital

On the balance sheet date, HMS Bergbau AG still had EUR 2,000,000 authorised capital.

Berlin, 20 May 2011

Heinz Schernikau	Sebastian Giese	Rüdiger Lorentz
CEO	CFO	COO

Auditor's report

We issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by HMS Bergbau AG, Berlin, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, the cash flow statement, and the statement of changes in equity, together with the group management report for the fiscal year from 1th January to 31th December 2010. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 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 [German] principles of proper accounting 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 the 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 the legal requirements [and supplementary provisions of the partnership agreement/articles of incorporation and bylaws] and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with [German] principles of proper accounting. 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 relating to future development."

Berlin, 8 June 2011

Ernst & Young GmbH
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Plett	Wenning
Auditor	Auditor

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