Consolidated Financial Statements 2011

The English version of the Consolidated Financial Statements 2011 of HMS Bergbau AG is a one-to-one translation of the German version of the Consolidated Financial Statements 2011 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.

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 2011. 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 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, 12 April 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Plett	Ottenhus
Auditor	Auditor

Consolidated Balance Sheet as of 31 December 2011

Assets	EUR	31.12.2011 EUR	31.12.2010 EUR
A. Non-current assets			
I. Intangible assets			
1. Licences, industrial property rights, similar rights and values and licences in such rights and values			
		4,876,730.77	**5,079,307.52**
II. Property, plant and equipment			
1. Technical equipment and machinery	1,055,728.29		1,182,626.43
2. Other equipment, office and factory equipment	105,126.65		123,069.81
3. Advance payments and assets under construction	3,612.38		4,037.16
		1,164,467.32	**1,309,733.40**
		6,041,198.09	**6,389,040.92**
B. Current assets			
I. Inventories			
1. Advance payments	1,792,202.88		1,814,177.30
		1,792,202.88	**1,814,177.30**
II. Receivables and other assets			
1. Trade receivables	1,673,825.21		12,737,441.10
2. Receivables from associates	0.00		2,414,989.86
3. Other assets	1,060,545.54		775,338.21
		2,734,370.75	**15,927,769.18**
III. Cash and cash equivalents		**3,962,959.58**	**2,286,291.79**
		8,489,533.21	**20,028,238.27**
C. Accurals and deferrals		**60,480.64**	**39,133.67**
		14,591,211.94	**26,456,412.86**

Shareholders' equity and liabilities	EUR	31.12.2011 EUR	31.12.2010 EUR
A. Shareholders' equity			
I. Issued capital			
1. Subscribed capital		4,000,000.00	4,000,000.00
2. Own shares		-248,307.00	0.00
		3,751,693.00	**4,000,000.00**
II. Capital reserve		**748,014.97**	**1,991,800.00**
III. Profit reserves			
1. Statutory reserve		5,112.92	5,112.92
2. Other profit reserves		273,158.45	1,173,158.45
IV. Consolidated net profit		**-680,080.45**	**354,068.26**
V. Difference in equity due to currency conversion		**40,025.18**	**32,408.27**
VI. Minority interests		**47,370.92**	**51,312.76**
		4,185,294.99	**7,607,860.66**
B. Provisions			
1. Pension provisions and similar obligations	1,079,250.72		491,105.40
2. Tax provisions	407,858.00		561,858.00
3. Other provisions	240,607.98		422,735.28
		1,727,716.70	**1,475,698.68**
C. Liabilities			
1. Liabilities to banks	6,980,300.11		7,026,975.86
2. Prepayments received on orders	386,145.11		1,509,263.10
3. Trade payables	742,283.94		7,746,840.86
4. Other liabilities of which taxes EUR 44.222,66 thousand (pY. EUR 1.044.662,50 thousand)	569,471.09		1,089,773.70
		8,678,200.25	**17,372,853.52**
		14,591,211.94	**26,456,412.86**

Consolidated Income Statement 2011

		EUR	2011 EUR	2010 EUR
1.	Sales		106,669,321.02	151,779,839.47
2.	Other operating earnings		391,237.25	1,053,226.96
			107,060,558.27	152,773,066.44
3.	Cost of materials			
	a) Costs for raw materials and supplies and for goods purchased	102,654,017.89		145,814,659.33
	b) Cost for services purchased	675,072.02		171,849.60
			103,329,089.91	145,986,508.92
4.	Personnel costs			
	a) Wages and salaries	1,190,871.17		1,067,810.22
	b) Social security costs and pension support costs - of which for pensions EUR 149.865,00 (py. EUR 283.072,00)	281,838.11		403,846.66
			1,472,709.28	1,471,656.88
5.	Amortisation of intangible non-current assets and depreciation of property, plant and equipment		456,933.81	337,834.48
6.	Other operating expenses		2,157,404.40	2,856,479.05
7.	Earnings from investments	0.00		11,527.49
8.	Earnings from investments in associates	31,381.87		88,881.62
9.	Other interest and similarearnings	34,933.61		90,267.79
10.	Interest and similar expenses	516,056.48		947,100.89
			-449,741.00	-756,424.00
11.	Earnings from ordinary activities		-805,320.13	1,364,163.11
12.	Extraordinary expenses		222,748.32	222,748.40
13	Income taxes		5.17	775,966.48
14	Other taxes		10,016.93	1,874.10
15.	**Net loss (previous year: profit)**		**-1,038,090.55**	**363,574.13**
16.	Loss carried forward from the previous year		354,068.26	-16,447.11
15.	Loss attributable to minority interests for the period		3,941.84	6,941.24
16.	**Consolidated net loss (previous year: profit)**		**-680,080.45**	**354,068.26**

Consolidated Cash Flow Statement 2011

	2011 EUR thousand	2010 EUR thousand
1. Cash flow from current operating activities		
Net earnings for the period (including minority interests) before extraordinary items	-1,038	364
Depreciation and amortisation on non-current assets	457	338
Decrease in provisions	252	-60
Earnings from the disposal of consolidated subsidiaries and other business units as well as non-current assets	0	-12
Other non-payment related expenses (+)/earnings (-)	-22	115
decrease in inventories, trade receivables and other assets	13,098	1,508
Decrease in trade payables and other liabilities	-8,694	5,816
Other	-51	0
Cash flow from current operating activities	**4,002**	**8,069**
2. Cash flow from investment activities		
Cash outflow for investments in property, plant and equipment	-61	-1,297
Cash outflow for investments in intangible assets	0	-5,254
Cash inflow from the sale of consolidated companies	128	0
Cash outflow from investment activities	**67**	**-6,551**
3. Cash flow from financing activities		
Cash inflow from additions to equity	0	80
Cash outflow from the purchase of own shares	-2,392	0
Cash outflow from the repyment of other financial liabilitie	0	-1,500
Cash flow from financing activities	**-2,392**	**-1,420**
4. Cash and cash equivalents at the end of the period		
Changes of cash and cash equivalents affecting payment (sub totals 1 to 3)	1,677	98
Changes of cash and cash equivalents from changes in exchange rates, basis of consolidation and measurement	0	-89
Cash and cash equivalents at the start of the period	2,286	2,279
Cash and cash equivalents at the end of the period	**3,963**	**2,286**
5. Composition of cash and cash equivalents		
Cash and cash equivalents	3,963	2,286
Cash and cash equivalents at the end of the period	**3,963**	**2,286**

Consolidated Statement of Changes in Shareholders' Equity 2011

	Parent company						Minority interests		
	Subscribed capital common shares	Capital reserve	Generated consolidated shareholders' equity	Accumulated other consolidated net earnings Balancing item from currency conversion	Shareholders' equity acc. to consolidated balance sheet	Share-holders' equity	Minority interests	Minority Shareholders' equity	Consolidated shareholders' equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
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	19,054.00	19,054.00	7,136,512.42
Changes in basis of consolidation				40,625.52	40,625.52	40,625.52		0.00	40,625.52
Additions to capital reserve		40,800.00		-12,851.40	27,948.60	27,948.60	39,200.00	39,200.00	67,148.60
	0.00	40,800.00	0.00	27,774.12	68,574.12	68,574.12	39,200.00	39,200.00	107,774.11
Total consolidated net earnings	0.00	0.00	370,515.37	0.00	370,515.37	370,515.37	-6,941.24	-6,941.24	363,574.13
31.12.2010	4,000,000.00	1,991,800.00	1,532,339.63	32,408.28	7,556,547.91	7,556,547.91	51,312.76	51,312.76	7,607,860.66
Purchase of treasury shares	-248,307.00	-1,243,785.03	-900,000.00		-2,392,092.03	-2,392,092.03			-2,392,092.03
Other Changes				7,616.90	7,616.90	7,616.90			7,616.90
	-248,307.00	-1,243,785.03	-900,000.00	7,616.90	-2,384,475.13	2,384,475.13			-2,384,475.13
Total consolidated net earnings	0.00	0.00	-1,034,148.71	0.00	-1,034,148.71	-1,034,148.71	-3,941.84	-3,941.84	-1,038,090.55
31.12.2011	3,751,693.00	748,014.97	-401,809.08	40,025.18	4,137,924.07	4,137,924.07	47,370.92	47,370.92	4,185,294.99

Notes to the consolidated financial statements

HMS Bergbau AG
Berlin, Germany

Financial year 2011

I. General information

The consolidated financial statements of HMS Bergbau AG were prepared in accordance with German commercial law and the additional regulations of the German Stock Corporation Act (AktG), applying the relevant regulations of the German Accounting Law Modernisation Act (BilMoG). 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	100	34	-2
HMS Bergbau AG Iron Ore & Metals Division	Berlin	100	16	-2
HMS Bergbau AG Oil & Gas Division	Berlin	51	96	-9
HMS Niwka Coal Production Company Sp. z o.o.	Katowice	100	-362	-127
PT. HMS Bergbau Indonesia	Jakarta	100	-824	-411

2. Investments

The parent company holds shares in the following investments:
Carbo-KH, Kemrowo, Russia (inactive)

The company's interest in KGHM HMS Bergbau AG was sold in 2011.

III. Consolidation principles

The annual financial statements of the consolidated subsidiaries were prepared on 31 December 2011, 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 balance sheet and 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.

Intercompany profits from intragroup deliveries and services did not arise.

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. The investment in KGHM HMS Bergbau AG, Berlin, was sold during the year under review. The positive difference arising from the difference between purchase price and book value according to the at-equity method was recorded as income in the income statement.

<u>IV. Currency conversion principles</u>

The consolidated financial statements are prepared in euros, 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 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 depreciation and amortisation was carried out according to the expected useful lives of assets.

Prepayments made on inventories were recognised at cost subject to the strict principle of lower of cost or market.

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

Pension obligations were calculated according to the projected unit credit method, using the "2005 G" mortality tables compiled by Prof. Klaus Heubeck, assuming a fluctuation and salary trend of 0% and a discount rate of 5.14% (previous year: 5.15%). In financial year 2010, due to the first-time application of the German Accounting Law Modernisation Act (BilMoG), the amount allocated for pension provisions, calculated in accordance with actuarial principles, came to EUR 3,341 thousand, which will be spread over a period of 15 years pursuant to Article 67 (1), sentence 1, of the Introductory Act to the German Commercial Code (EGHGB). EUR 446 thousand of this sum was allocated as of 31 December 2011. The remaining amount, which comes to EUR 2,895 thousand, will recorded to pension obligations, in an annual amount of EUR 223 thousand until the year 2024.

Tax provisions include taxes for the financial year 2010 that have not yet been assessed.

Other provisions take into account all discernible risks and contingent liabilities and are recognised to the amount of the settlement value, i. e. including expected increases in prices and costs.

Liabilities are recognised 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.

VI. Notes on the consolidated balance sheet

The 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.

As in the previous year, all receivables and liabilities have remaining terms of less than one year. After offsetting against the claims from the reinsurance of pension obligations (EUR 1,338 thousand), pension obligations amounted to EUR 1,079 thousand.

Other assets include receivables in the amount of EUR 516 thousand from securing the rights to a key real estate for the NIWKA project and prepayments on commissions in the amount of EUR 65 thousand.

Deferred taxes arise largely from the difference in valuation of the provision for pensions and from the valuation of the loss carry-forward, assessed as utilizable in the future. The calculation of the temporary differences uses the corporation and business tax rates for the financial year (31.83%). Calculation of taxes as of 31 December 2011 once again, as on the previous year's balance sheet date, resulted in a deferred tax asset surplus. The Company has exercised the option in Section 274 of the German Commercial Code (HGB) not to capitalise the tax relief calculated.

The statutory shareholders' meeting held on 12 October 2009 authorised the management Board of HMS Bergbau AG to acquire up to 10% of own shares of the share capital in existence at the time of the resolution, which amounted to EUR 4,000,000.00. The Management Board made use of this authorisation and the Company acquired 248,307 common bearer shares at a nominal value of EUR 1.00 each during the financial year. In accordance with Section 272 (1a) of the German Commercial Code (HGB), the difference between the nominal value and the purchase price was offset against other profit reserve to the amount of EUR 900 thousand and against the capital reserve to the amount of EUR 1,244 thousand.

The Group's contingent liabilities as of 31 December 2011 were as follows:

The Group is jointly liable for credit obligations of an external company up to a maximum amount of EUR 3,300 thousand, which can be called upon in USD, EUR or Polish Zlotys. These obligations were valued at USD 4,219 thousand as of 31 December 2011, while bank deposits of the entity sharing joint and several liability were valued at PLN 800 thousand and EUR 20 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.

On 31 December 2011, the group's purchase obligations from traded contracts amounted to EUR 19,993 thousand, all relating to 2011. Additional other financial liabilities largely arise from rental and leasing agreements. The maturities of liabilities are as follows:

Up to 1 year	EUR 127 thousand	127
Between 1 and 5 years	EUR 62 thousand	62
More than 5 years	EUR 0 thousand	0

Liabilities to banks amounted to EUR 6,980 thousand as of the balance sheet date; entirely with terms of less than one year.

The pension provision in the amount of EUR 1,079 thousand was offset against pledged plan assets serving exclusively to fulfil the pension obligations, which had a fair value of EUR 1,338 thousand as of the balance sheet date.

VII. Notes on the consolidated income statement

Sales of EUR 106,669 thousand were generated in the financial year, mainly from trade in coal products such as steam coal, coking coal and anthracite. Broken down by region, sales revenues were generated in Europe (41%), Asia (42%) and Africa (17%).

Material costs are principally attributable to the global purchase of steam coal, coking coal and anthracite.

Other operating earnings primarily encompass income from the reversal of provisions (EUR 197 thousand), whose most significant component is from the reversal of tax provisions for the financial year 2010 in the amount of EUR 154 thousand. Additionally, other operating earnings include reimbursement of advanced costs (EUR 65 thousand), a compensation payment (EUR 28 thousand) and currency conversion gains (EUR 23 thousand).

Other operating expenses result primarily from delivery costs (EUR 512 thousand), vehicle and travel expenses (EUR 499 thousand), legal and consulting expenses (EUR 261 thousand), money transfer costs (EUR 198 thousand), occupancy costs (EUR 147 thousand) and currency conversion expenses (EUR 106 thousand).

Investment income contains the project of the sale of the Company's investment in KGHM HMS Bergbau AG.

The financial result includes the net balance, amounting to EUR 219 thousand, of interest expenses on pension obligations and income from the pledged plan assets.

Extraordinary expenses include 1/15th of the addition of pension provisions resulting from the change in valuation pursuant to Section 253 (1) sentence 2 of the German Commercial Code (HGB).

VIII. Other information

1. Members of the Management Board and Supervisory Board

During the last financial year, the Company's transactions were conducted by the Management Board, whose members are as follows:

Heinz Schernikau, CEO

Sebastian Giese, CFO

Rüdiger Lorentz, COO

The total remuneration of the Management Board in financial year 2011 – excluding additions to pension provisions – was EUR 518 thousand (previous year: EUR 439 thousand).

During the financial year, the Supervisory Board was composed of the following members:

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 the following companies: 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 Schemikau was also a member of the Supervisory Boards of the following companies: HMS Bergbau AG Iron Ore & Metals Division, Berlin; HMS Bergbau AG Coal Division, Berlin; and S+O Mineral Industries AG, Frankfurt am Main.

2. Remuneration of members of the Supervisory Board

Supervisory Board remuneration amounted to EUR 40 thousand (previous year: EUR 39 thousand).

3. Auditor's fee

The fee for the audit of the annual financial statements was EUR 60 thousand (previous year: EUR 65 thousand). The auditing firm did not carry out any other services for the Company.

4. Annual average number of employees

The average number of people employed during the financial year was 23.

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 in authorised capital.

Berlin, 5 April 2012

Heinz Schernikau CEO	Sebastian Giese CFO	Rüdiger Lorentz COO

Statement of changes in non-current assets as of 31 December 2011

	Historical costs					Accumulated amortisation and depreciation					Book values	
	01.01.2011	Currency conver-sion	Additions	Disposals	31.12.2011	01.01.2011	Currency conver-sion	Additions	Disposals	31.12.2011	31.12.2011	31.12.2010
	EUR	EUR	EUR	EUR	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	**5,259,072.30**	**63,506.75**	**0.00**	**0.00**	**5,322,579.05**	**179,764.78**	**11,547.27**	**254,536.23**	**0.00**	**445,848.28**	**4,876,730.77**	**5,079,307.52**
II. Property, plant and equipment												
Leasehold improvements on third-party property	-3,539.54	0.00	0.00	0.00	3,539.54	-3,539.54	0.00	0.00	0.00	-3,539.54	0.00	0.00
Technical equipment and machinery	1,286,530.44	9,905.38	40,921.38	0.00	1,337,357.20	103,904.01	7,715.08	170,009.82	0.00	281,628.91	1,055,728.29	1,182,626.43
Other equipment, office and factory equipment	353,224.87	-2,926.08	19,662.82	22,077.99	347,883.62	230,155.06	285.14	32,387.76	20,070.99	242,756.97	105,126.65	123,069.81
Advance payments and assets under construction	4,037.16	-424.78	0.00	0.00	3,621.38	0.00	0.00	0.00	0.00	0.00	3,612.38	4,037.16
	1,640,252.93	**6,554.52**	**60,584.20**	**22,077.99**	**1,685,313.66**	**330,519.53**	**8,000.22**	**202,397.58**	**20,070.99**	**520,846.34**	**1,164,467.32**	**1,309,733.40**
III. Financial assets												
Investments	**38,347.89**	**0.00**	**0.00**	**0.00**	**38,347.89**	**38,347.89**	**0.00**	**0.00**	**0.00**	**38,347.89**	**0.00**	**0.00**
	6,937,673.12	**70,061.27**	**60,584.20**	**22,077.99**	**7,046,240.60**	**548,632.20**	**19,547.49**	**456,933.81**	**20,070.99**	**1,005,042.51**	**6,041,198.09**	**6,389,040.92**

HMS Bergbau AG
Berlin, Germany

Group Management report

Financial year 2011

1. Overview

HMS Bergbau AG trades in coal and energy raw materials worldwide and supplies steam coal, coking coal and coking coal products to major European and international power plants, cement manufacturers and industrial consumers. HMS Bergbau AG focuses on building long-term, profitable business relationships with international producers and consumers, and is planning to further expand its international activities, particularly with regard to the Asian market.

The following table shows the HMS Group structure as of 31 December 2011:

	HMS Bergbau AG	Berlin, Deutschland
100%	HMS Niwka Coal Production Sp. z o.o.	Katowice, Polen
100%	HMS PT. HMS Bergbau Indonesia	Jakarta, Indonesien
51%	HMS Bergbau AG Oil & Gas Division	Berlin, Deutschland
100%	HMS Bergbau AG Iron Ore & Metals Division	Berlin, Deutschland
100%	HMS Bergbau AG Coal Division	Berlin, Deutschland

Our strategy of paying particular attention to long-term developments on the global commodity markets without losing sight of current trends continues to be based on the following factors:

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 continued price increases. This can also effectively counteract market fluctuations.

Internationalisation of the markets: The commodities markets are continuing to grow closer together as a result of international trade and improved logistics. At the same time, market transparency is increasing thanks to trading platforms and index-based trading activities. This also increases competition.

Need for investment: Investing in our own resources is essential if we are to push ahead with vertical integration within the value added chain and ensure that future supply covers the growing demand for energy. In this context, it makes particular sense for HMS to enter into exclusive marketing agreements financed by prepayments.

Our long-term 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 solid, long-term customer and supplier relationships and stable contributions to value.

Growth: We aim to generate adequate growth, which will arise from sustainable increases in earnings, by means of vertical integration and the competitive advantages arising from it. A key element in this growth will be our entering into exclusive marketing agreements.

Company culture: Our business embodies a performance-focused, international corporate culture across all Group companies; this helps to increase our attractiveness as an employer and hence our success in competition for qualified international employees to put our strategies successfully into practice.

2. Business and economic environment

Once again, developments in the industrialised and emerging nations varied this year. While developing and emerging countries, as defined by the International Monetary Fund (IMF), showed 6% growth in 2011, the industrialised nations grew by just 1.5%. The IMF's provisional forecast for global growth in 2011 comes to 4%.

In Germany, the economy once again showed strong growth in 2011, continuing economic recovery in the second year after the financial and economic crisis. Provisional figures issued by the German Federal Statistical Office put GDP, adjusted for prices, at 3.0% above that seen in the previous year, with the economic upturn being at its strongest in the first half of the year.

One of the factors driving growth was personal consumer spending, which increased by 1.5%, a rate last seen five years ago. Investments in equipment (up 8.3%) and buildings (up 5.4%) demonstrated particularly notable increases. The German export industry again delivered a high rate of growth, expanding by 8.2% in 2011, while imports of goods and services climbed by 7.2%.

There was also good news in terms of productivity in 2011, with economic recovery taking GDP per capita (economically active population), adjusted for price, up 1.6% year-on-year.

The positive economic developments and the consequent increase in tax revenue saw the public-sector budget deficit standing at EUR 26.7 billion, according to provisional calculations. This results in a deficit ratio of 1.0% when measured against GDP – well below the benchmark value of 3% defined in the Maastricht treaty, in contrast to 2009 and 2010, which saw the benchmark value exceeded.

Driving the global economy

The major factor driving global economic growth, worldwide energy consumption and the related increase in CO_2 emissions remains the rising global population, particularly in developing countries. According to figures based on a range of public sources, the global population continues to grow by an average of 1% to 1.2% annually, despite the economic crisis that has shook the world; if this trend proceeds at the same rate, 8.2 billion people will be living on the Earth by 2030.

However, energy consumption is increasing at a faster rate than population, as specific consumption per person is rising along with the number of people. This trend is attributable not only to the continuous rise in the urban population and the concomitant increase in specific energy consumption, but also, and above all, to catch-up effects in hitherto underdeveloped countries.

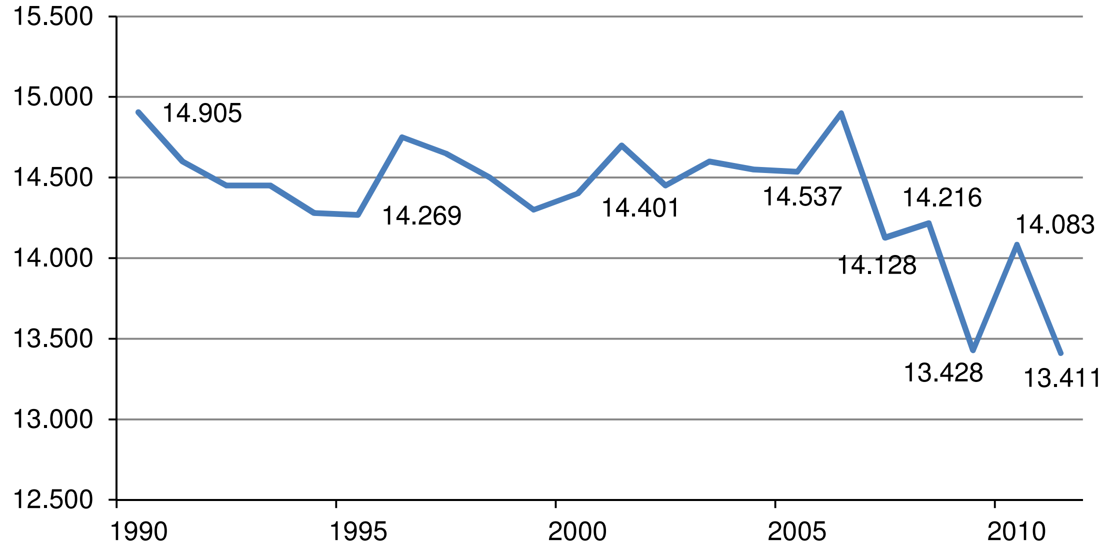
The International Energy Agency (IEA) estimates that more than 20% of the global population does not have access to electricity. Approximately 40% of the world's people still cook using traditional biomass (wood) and heat their homes with coal briquettes. Emerging and developing countries have a correspondingly large amount of ground to make up in terms of approaching the standards of living enjoyed in the industrialised nations.

This is also why emerging and developing nations are currently unwilling to fall into line with the demands of European industrialised countries on energy saving and cuts in emissions; from their perspective, the priorities are to meet their populations' basic needs for food and water, provide them with access to electricity, and in this way increase their standard of living.

Primary energy consumption in Germany

Despite an increasing demand for energy across the globe, energy consumption in Germany fell by almost 5% in 2011, hitting the lowest level seen since the beginning of the 1970s. Preliminary figures issued by the Working Group on Energy Balances (Arbeitsgemeinschaft Energiebilanzen e. V.) indicate that energy consumption sank to 13,411 petajoules (PJ), or, expressed differently, 457.6 million tonnes HCU. Mild weather was given as one reason for the decline. Adjusted for the effects of temperatures, energy consumption fell by just 1.0% in 2011. High energy prices and action to improve energy efficiency prompted by these price levels are likely to be substantial factors affecting the decrease.

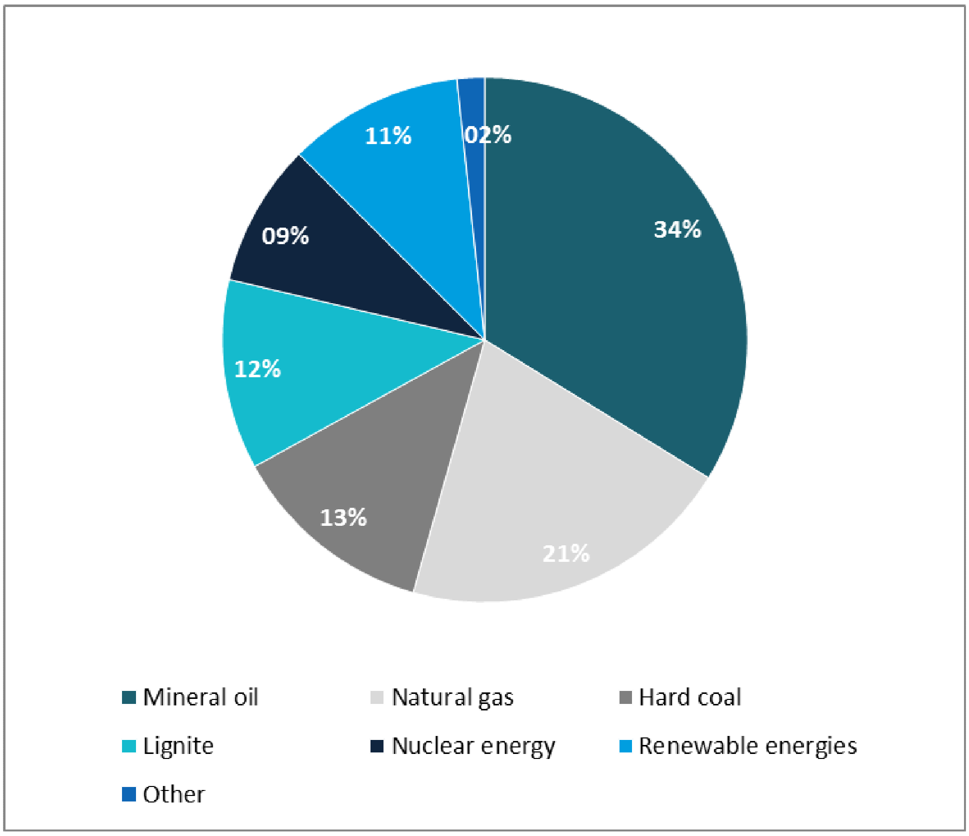
Development of primary energy consumption in Germany



Source: Arbeitsgemeinschaft Energiebilanzen e.V.; HMS Bergbau AG

Last year's consumption of mineral oil amounted to 4,549 PJ (155.2 million tons HCU), a year-on-year reduction of 3% which took consumption to the lowest level seen since 1990. Consumption of natural gas declined more steeply still, with 2,780 PJ (94.2 million tonnes HCU) of natural gas used in 2011, around 10% less than during the previous year. Hard coal consumption saw only a slight decline in 2011, by 0.7%, with a total of 1,685 PJ (57.5 million tonnes HCU) consumed. The use of hard coal in power plants, which accounted for over two-thirds of total consumption, fell by approximately 2% in 2011. By contrast, the steel industry's demand for hard coal rose by around 4%. Consumption of lignite increased likewise by almost 4%, to 1,568 PJ (53.5 million tonnes HCU). This growth reflects the positive development in deliveries to power plants, which account for around 90% of domestic lignite production. Nuclear energy's share of Germany's energy balance fell by almost 23% in the wake of the country's decision to exit nuclear power. By contrast, renewable energies expanded by 4.1% and saw their share of the country's energy rise to almost 11%, which translated to 1,449 PJ (49.4 million tonnes HCU). On balance, Germany's trading of power with its European neighbours produced a slight export surplus amounting to 5 billion kWh. Nevertheless, this development belies a marked increase in electricity imports and decline in power exports; the export surplus in 2010 was 17 billion kWh.

Germany's energy mix in 2011



Source: Arbeitsgemeinschaft Energiebilanzen e.V.; HMS Bergbau AG

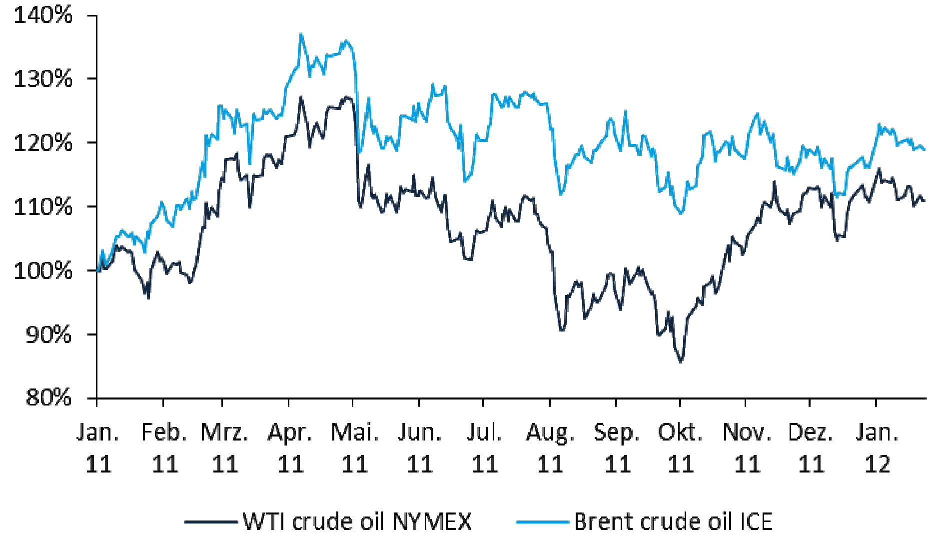
The decisions taken by policymakers in 2010 and 2011 on subsidies for renewables and the nuclear switch-off have given rise to small changes in proportions in 2011's primary energy balance; for instance, hard coal's share in the energy mix rose from 12% to 12.6%, and lignite now makes up 11.7% of energy sources used in Germany, after 10.7% in the previous year.

The decline in energy consumption has seen energy-related CO_2 emissions fall by over 3%. Adjusted for the effects of temperatures, this means an increase in emissions of around one per cent.

Developments in crude oil prices

Prices for the various types of crude oil showed varying trends in 2011. In the past, WTI prices were traditionally slightly higher than those for Brent crude. This changed in 2011, with WTI crude trading at USD 89.35 a barrel at the beginning of the year and USD 98.90 at its end, an increase of approximately 10.7%. Whereas Brent crude fetched USD 92.6 a barrel at the start of the year, it had seen a rise of about 16.1% by the year's conclusion, with the price per barrel standing at USD 107.5. At times, the spread between the two types of oil was as high as almost USD 30; the gap only began narrowing slightly again at the end of October 2011.

Development of WTI and Brent crude prices



Source: Ariva.de; HMS Bergbau AG

120 years' worth of coal reserves

When it comes to how long coal will still last, it is important to differentiate between resources and reserves. 'Resources' is the term used to refer to the total amount of a mineral substance, i.e. in this case coal, in a deposit. 'Reserves' are the part of these resources which are demonstrably present and which it is currently technologically possible and cost-effective to mine. In other words, if prices rise, parts of a deposit previously considered resources might be counted as reserves, because the higher prices mean higher mining and extraction costs can be absorbed. Conversely, a decline in prices might render deposits no longer cost-effective to mine.

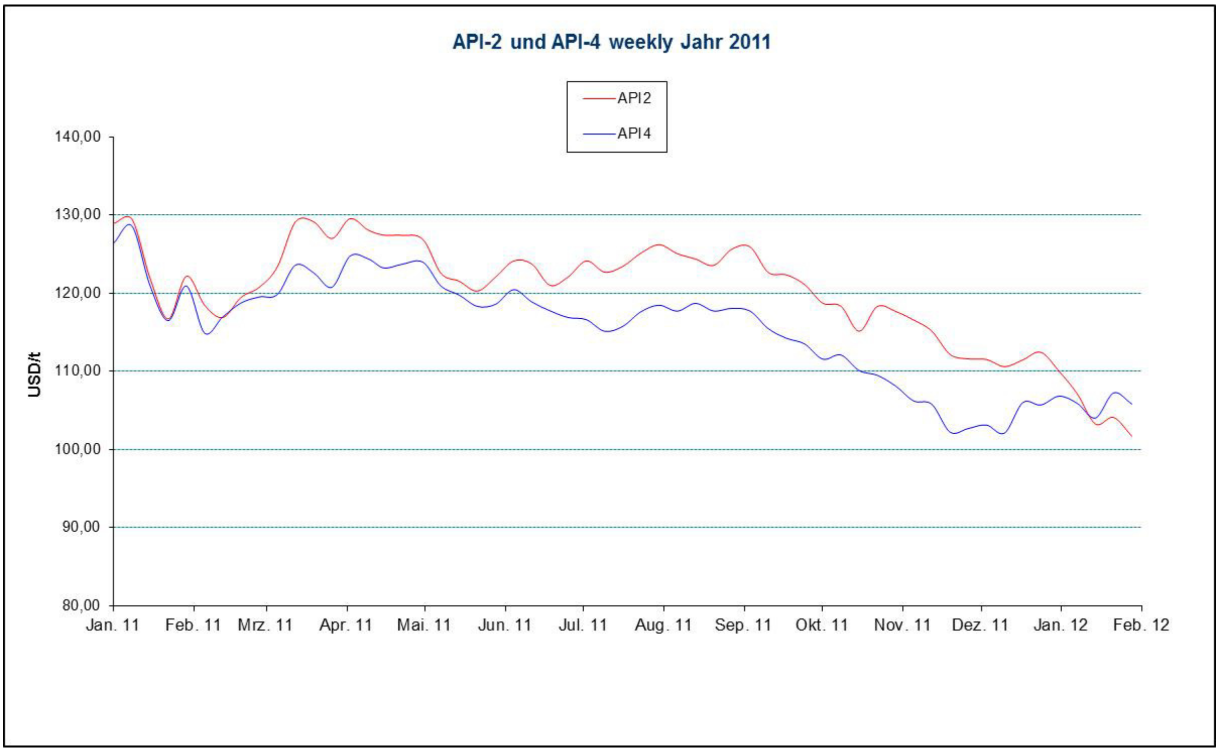
According to Germany's Federal Institute for Geosciences and Natural Resources (BGR), current knowledge of reserves that can be mined cost-effectively puts estimated global hard coal reserves at 723 billion tonnes.

The BGR estimates that hard coal resources stand at 17,167 billion tonnes; the resource/reserve ratio is approximately 23.7:1, and has improved notably since the BGR's last estimate (21:1). This is attributable to a substantial increase in the volume of resources.

These figures notwithstanding, global coal resources are nowhere near as precisely known as in the case of oil and natural gas. The statistical reach of coal resources is currently put at about 120 years (based on approximately 6.1 billion tonnes mined in 2009). At current rates of production, oil reserves will last 40 to 45 years and gas reserves 60 to 65 years.

Coal prices at moderate levels

Coal prices, which had been continuously on the rise since 2009, declined in 2011, according to the two key coal price indexes. The API2 index recorded a fall in coal prices from USD 131.81 per tonne at the beginning of the year to USD 112.40 per tonne at its end, which translates to a decline of almost 15%. The downward trend was more apparent still in the API 4 index, which opened the year 2011 at USD 129.16 per tonne and closed it about 18% lower, at USD 105.66 per tonne. Hereafter, API 4 saw a slight increase, while API 2 continued to move south.



Source: Argusmedia.com; HMS Bergbau AG

Trade
HMS Bergbau AG's international trading in coal is characterised by relationships of trust with customers and suppliers. HMS Bergbau AG's principal customers include power plant operators and cement manufacturers. We also supply coal to steel manufacturers and industrial companies such as glassworks and paper factories.

HMS Bergbau AG serves both the private and public sectors.

We purchase coal from reliable major-name production and sales companies, largely based in Indonesia, South Africa, Russia, Poland, and North and South America. In addition to this, we represent some international coal production companies exclusively, i.e. we handle all their coal marketing in particular markets.

Through the harbour operations in South Kalimantan, Indonesia, acquired in 2010 commenced HMS Bergbau AG trading as well as handling coal for third parties. We purchased volumes of coal from small local producers, processed, mixed and sold it. We plan to continue developing this part of our trading operations in the future and to expand it.

Raw materials production
We intend to secure a reliable supply for consumers in the long term by accessing our own raw materials resources. Pushing ahead with this strategy in 2011, we continued to realise and secure access to coal deposits through exclusive marketing, largely by means of exclusive marketing rights for smaller producers which do not have their own international sales organisations.

We entered into two long-term exclusive marketing contracts with coal producers in Indonesia in June 2011; these agreements secure us sole marketing rights to a significant production volume of steam coal in the highly promising Asian market.

Logistics
As a one-stop provider, we not only ensure our customers are supplied with the raw materials they need on time, but also take care of the complete transport and logistics process. Our team charters shipping where required, organises intra-country transport by water, rail or road, takes care of harbour procedures, warehousing management, coal processing and technical monitoring. We continued in the past year to develop the harbour operations in South Kalimantan, Indonesia, that we acquired in 2010; the acquisition has constituted a considerable improvement to our control over the logistics chain in this field.

Research and development
The global environmental drive for reducing greenhouse gases continues to pose a long-term challenge to the energy industry. We remain convinced that introducing a market-ready form of CCS technology and adapting power plants accordingly could enable the German fleet of coal-fired power plants to cut CO_2 emissions by approximately 80% by the year 2050 – a course of action to which there will be no alternative in the long run. However, the German federal government has once again failed to create the legal framework that would allow this to happen. We do not believe the current legal environment offers us a way of cost-effectively continuing the project embarked upon at HMS Bergbau AG Oil & Gas Division for CO_2 storage and investigation into a

corresponding aquifer structure; we do not anticipate this situation changing in the medium term.

Employees
HMS Group continues to participate intensively in international competition for qualified employees. We therefore aim for long-term employment relationships between staff and HMS Group. Company management continues to focus on ongoing employee development – together with highly specialised and continuing training – to reach the Company's strategic goals. In keeping with this strategy, we have hired additional employees, particularly in the Asian market, and are planning to hire further people. Risks resulting from employee fluctuations are accounted for with succession and substitute planning. We conducted training for employees, particularly those new to the Company.

3. Results of Group operations

Results of operations of HMS Group in financial year 2011 compared to the previous year were as follows:

	2011		2010		Change	
	EUR thousand	**%**	**EUR thousand**	**%**	**EUR thousand**	**%**
Sales revenues = Total performance	**106,669**	**100**	**151,720**	**100**	**-45,051**	**-30**
Material expenses	103,329	97	145,987	96	-42,657	-29
Personnel expenses	1,473	1	1,472	1	1	0
Amortisation and depreciation	457	0	338	0	119	35
Other operating costs						
/ other operating earnings	1,766	2	1,803	1	-37	-2
Taxes (excluding income taxes)	10	0	2	0	8	>100,0
Operating costs	**107,035**	**100**	**149,601**	**99**	**-42,566**	**-29**
Operating result	**-366**	**0**	**2,119**	**1**	**-2,484**	**<-100,0**
Earnings from investments and financial re	-450		-756		306	41
Earnings before income taxes	**-815**		**1,363**		**-2,178**	**<-100,0**
Income taxes	0		776		-776	-100
Extraordinary expenses	223		223		0	0
Minority interests	4		7		-3	-43
Net profit	**-1,034**		**371**		**-1,405**	**<-100,0**

The decline in sales revenues is largely quantity-related; in this context, we have not seen a continuation of the positive development registered in the previous year. Firstly, we recorded decreases in volumes due to the expiry of some European contracts. A further factor was the fact that, despite the unexpectedly steep rise in Indonesian trade agreements, sourcing in Indonesia was subject to delivery delays arising from unanticipated changes in the legal framework for producers and exporters and delays in the mines for which HMS possesses exclusive marketing rights. Overall, the increase recorded in Asia was unable to balance out the decline in our European business. This development is also reflected in the materials usage ratio. The higher-margin exclusive marketing business in Asia and high-margin European business contributed less, relatively speaking, to our result. Furthermore, our cooperation with German Pellets has failed to show a positive impact on our earnings position. Our harbour operations in Indonesia generated a significantly greater share of earnings in 2011 than in the previous year, showing continuous increases in volume; however, the performance continues to fall short of the expectations placed at the time of acquisition. Personnel costs remained steady year-on-year, with new hires, particularly in the Asian Trade, offset by staff reductions in the European Trade. Other operating cost, less other operating earnings, is primarily attributable to HMS Bergbau AG, as the principal determinant of the results of Group operations. Other expenditure less other earnings arises particularly from repair and maintenance expenses for the harbour operations, one-off expenses relating to our ongoing exploration of the Asian market, and selling costs, which are higher in our Asian than in our European business. The decline in our financial result largely reflects the reduced use, in line with the fall in sales, of our finance credit facilities trade. Further, the financial result includes the net balance, amounting to EUR 219 thousand, of interest expenses on pension obligations and income from the pledged plan assets. The previous year's income from investments arises primarily from the writ-up of the investment in KGHM HMS Bergbau AG, Berlin.

4. Group net assets

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

	31.12.2011		31.12.2010		Change	
	EUR thousand	**%**	**EUR thousand**	**%**	**EUR thousand**	**%**
Assets						
Non-current assets	6,041	41	6,389	24	-348	-5
Inventories	1,792	12	1,814	7	-22	-1
Receivables	2,052	14	15,153	57	-13,101	-87
Cash and cash equivalents	3,963	27	2,286	9	1,677	73
Remaining assets	743	5	814	3	-71	-9
	14,591	**100**	**26,456**	**100**	**-11,865**	**-45**
Capital						
Equity	6,577	45	7,608	29	-1,031	-14
Own shares	-2,392	-16	0	0	-2,392	
Non-current liabilities	1,079	7	1,991	8	-912	-46
Current liabilities	9,327	64	16,857	64	-7,530	-45
	14,591	**100**	**26,456**	**100**	**-11,865**	**-45**

The decline in non-current assets is primarily due to normal depreciation and amortisation on the Indonesian harbour operations. The inventories result entirely from prepayments made on coal deliveries. HMS Group held no coal stocks of its own as of the balance sheet date. Receivables related to trade receivables from power plant operators in Germany and customers in Asia. The year-on-year decline is substantially an effect of the balance sheet date. Other assets are comprised principally of a receivable in the amount of EUR 516 thousand from securing the rights to a key real estate for the NIWKA project. A share buy-back programme saw the Company acquiring own shares. The principal concern here was to provide acquisition currency for mining projects in Indonesia; acquisition via shares or in a mixed form is intended to increase the seller's commitment to the project and its interest in the project's long-term success to a level higher than that which would be seen in a cash acquisition. The concrete projects whose potential acquisition would have been financed by this have either not come to fruition after careful consideration or become subject to delays. Non-current liabilities include pension obligations. The EUR 1,500 thousand promissory note loan included in the previous year matures at the end of 2012, as such it is recorded in current liabilities. The Company also has current liabilities to suppliers and banks for financing trade.

5. Group financial position

Cash and cash equivalents developed as follows in financial year 2011:

		2011 EUR
1.	**Cash flow from current operating activities**	**4,001**
2.	**Cash flow from investment activities**	67
3.	**Cash flow from financing activities**	-2,392
4.	**Cash and cash equivalents at the end of the period**	
	Changes in cash and cash equivalents affecting payment	1,677
	Other changes in cash and cash equivalents	0
	Cash and cash equivalents at the beginning of the perio	2,286
	Cash and cash equivalents at the end of the period	3,963
5.	**Composition of cash and cash equivalents**	
	Cash and cash equivalents	3,963

The positive cash flow from current operating activities is primarily a reflection of developments in our working capital, while the positive cash flow from investment activities arises from the sale of our investment in KGHM HMS Bergbau AG. The negative cash flow from financing activities is the result of payouts for the buy-back of own shares.

In the context of the information given above, the financial year 2011 resulted in a loss of EUR 1,034 thousand, which represents a year-on-year decline of EUR 1,405 thousand. Further, the balance sheet total fell by EUR 11,865 thousand, due largely to a decrease in receivables and liabilities from our trade business.

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

HMS Bergbau AG is the parent company of HMS Group. HMS Bergbau AG remains responsible for the central control functions – strategy, finance, accounting/controlling – and all important trading activities. The majority of trade agreements are conducted via this company; in other words, the activities of HMS Bergbau AG are 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:

	31.12.2011		31.12.2010		Change	
	TEUR	%	TEUR	%	TEUR	%
Assets						
Non-current assets	7,774	64	7,314	27	460	6
Inventories	1,078	9	1,811	7	-733	-41
Receivables	1,891	15	15,957	59	-14,066	-88
Cash and cash equivalents	797	7	2,050	8	-1,253	-61
Remaining assets	709	6	31	0	678	>100,0
	12,249	**100**	**27,163**	**100**	**-14,914**	**-55**
Capital						
Equity	8,127	66	8,431	31	-304	-4
Own shares	-2,392	-20	0	0	-2,392	
Non-current liabilities	1,079	9	1,991	7	-912	-46
Current liabilities	5,435	44	16,741	62	-11,306	-68
	12,249	**100**	**27,163**	**100**	**-14,914**	**-55**

Net assets

As HMS Bergbau AG engages in trading activities, its net assets are mainly influenced by receivables from customers as well as current trade payables and liabilities to banks. Changes are largely due to balance sheet date effects. Further, net assets are influenced by the pursuit of the central control functions and strategic objectives, particularly by the issuance of a loan in the amount of EUR 7,172 thousand to the Indonesian HMS. Company in 2010 finance the acquisition of harbour operations. Inventories, amounting to EUR 1,078 thousand, are the result of prepayments made on future deliveries which in turn are financed by prepayments of customers. Non-current liabilities relate to pension provisions. Please refer to our discussion of Group net assets for information on our own shares.

	2011		2010		Change	
	EUR thousand	%	EUR thousand	%	EUR thousand	%
Sales revenues = Total performance	**101,354**	**100**	**147,329**	**100**	**-45,975**	**-31**
Material expenses	98,775	98	142,042	96	-43,267	-31
Personnel expenses	1,238	1	1,312	1	-74	-6
Amortisation and depreciation	27	0	31	0	-4	-13
Other operating costs						
/ other operating earnings	1,582	2	1,609	1	-27	-2
Taxes (excluding income taxes)	2	0	2	0	0	18
Operating costs	**101,625**	**100**	**144,996**	**98**	**-43,371**	**-30**
Operating result	**-271**	**0**	**2,333**	**2**	**-2,604**	**<-100,0**
Earnings from investments and financial re	190		-107		297	>100,0
Earnings before income taxes	**-81**		**2,226**		**-2,307**	**<-100,0**
Income taxes	0		776		-776	-100
Extraordinary expenses	223		223		0	0
Net profit	**-304**		**1,227**		**-1,531**	**<-100,0**

Results of operations

Ordinary trading activities are a major influence on results of operations of HMS Bergbau AG. The decline in sales revenues is largely quantity-related. Developments across the Group are also reflected in HMS Bergbau AG's materials usage ratio, which has increased on account of the relative decline in earnings generated by the higher-margin exclusive marketing business in Asia and high-margin business in Europe. Personnel costs declined slightly year-on-year, with staff reductions in Trade Europe offset by new hires, particularly in the Asia Trade division; these new hires were employed directly by HMS Bergbau Indonesia. The small rise in other expenditure less other earnings was due particularly to an increase in one-off expenses related to our ongoing entry into the Asian market and a rise in contract-related selling costs, which are higher in our Asian than in our European business. The increase of the financial result is particularly a reflection of earnings from intragroup loans and the reduced use, in line with the fall in sales, of trade finance credit lines.

Financial position

The financial position of HMS Bergbau AG also reflects the Company's functions. Trade financing as part of current operations amounted to EUR 2,224 thousand as of 31 December 2011. EUR 1,500 thousand of long-term base financing within the debt capital was repaid in financial year 2010, leaving short-term financing in the amount of EUR 1,500 thousand wich matures in November 2012. The Company has issued a long-term loan to its Indonesian subsidiary to finance the acquisition of harbour operations in Indonesia. The financial position of the HMS Group is significantly influenced by HMS Bergbau AG; please refer to the details we have provided in this context.

7. Events after the balance sheet date

Making use of authorised capital pursuant to Section 4 (4) of the Articles of Association, HMS Bergbau AG has increased the Company's share capital of EUR 4,000,000.00 by EUR 370,000 to up to EUR 4,370,000 against cash deposits by issuing 370,000 new common bearer shares. The new shares carry full entitlement to dividend for financial year 2012. The gross proceeds of the issue, which amount to EUR 3.0 million, are to strengthen HMS Bergbau AG's equity base and help finance further growth.

8. Risks and opportunities

The Management Board of HMS Bergbau AG is responsible for Group risk management, which is integrated into all operational processes at HMS Group. Future opportunities and risks are identified, classified, evaluated, controlled and monitored as part of business operations. It is and remains our policy to only enter into 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

In the HMS Group's traditional business, trade in coal using back-to-back contracts and index- or fixed-price-based purchasing and sales agreements, there are, no effects on contractually agreed margins for the individual transactions. Where the back-to-back principle is deviated from, as is the case in relation to small amounts of spots handled via our harbour operations or for individual business transactions in Asia which might specify different base values on the purchase and sale side for heating value calculation, price risks may arise. We evaluate such risks on a daily basis as part of our risk management system, taking into account current forward prices and expected volatility. In the context of the expansion of our trading activities in Asia, we continue to hold to the principle of avoiding significant risk positions in purchasing and sales and excluding these risks at contract stage. We will not alter our policy of aiming to realise solely back-to-back transactions.

Financial risks

Exchange rate and interest rate fluctuations can have a significant impact on HMS Group's earnings. Our financial risk management therefore aims primarily to hedge currency risks via currency forwards without entering into speculation transactions. Further, we attempt to eliminate currency differences in financing, purchasing and sales. All Group companies are obliged to assess all exchange rate risks and hedge against those identified. 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 and included in the assessment of each transaction. If deemed appropriate in the long term in a risk management context, and after evaluation of all possible scenarios, we exchange variable interest rates for fixed interest rates. HMS continues to be liable for bank liabilities to a third party; these amounted to EUR 3.1 million on the balance sheet date. The risk that this liability will be called in is considered slight; further, the right of recourse to the principal debtor remains in force.

Creditworthiness of business partners and counterparty risk

Credit risks arise from our business relationships with customers, and increase on account of the ongoing growth in the proportion of our business partners located in Asia. In this context, our risk management aims to obtain corresponding collaterals for vulnerable transactions or to insure our receivables where financially practicable. Further, we secure payment promises in advance of deliveries by using letters of credit. Failure or partial failure to deliver on the part of suppliers may also give rise to risks which cannot be transferred completely to the purchaser. Our risk management policies in respect to these risks involve deploying staff on the ground, examining individual contract terms in detail and paying specific attention to the content of contracts.

Political risks

The expansion of our business to the Asian market exposes us to a higher level of legal and political risk from, for example, attempts to exert political influence, disruptions to the supply chain, civil disturbances or deleterious strategies as part of economic policies. We include risks from environmental and other geographical influences in this category. Further, uncertainties arise from the existing legal framework, which is and will remain subject to ongoing change. In the Asian market in particular, the excellent opportunities available to us go hand in hand with an increased level of risk. Our risk management responds to individual risks by attempting to draw up corresponding contractual arrangements or eliminate the risks by consulting with experienced local partners. Unfortunately, it is never possible to completely eliminate such risks. In Indonesia, for instance, the beginning of 2011 saw changes to mining regulations and related laws on coal exports for which some suppliers were unprepared, leading to delays in mining and delivery, some of which were significant.

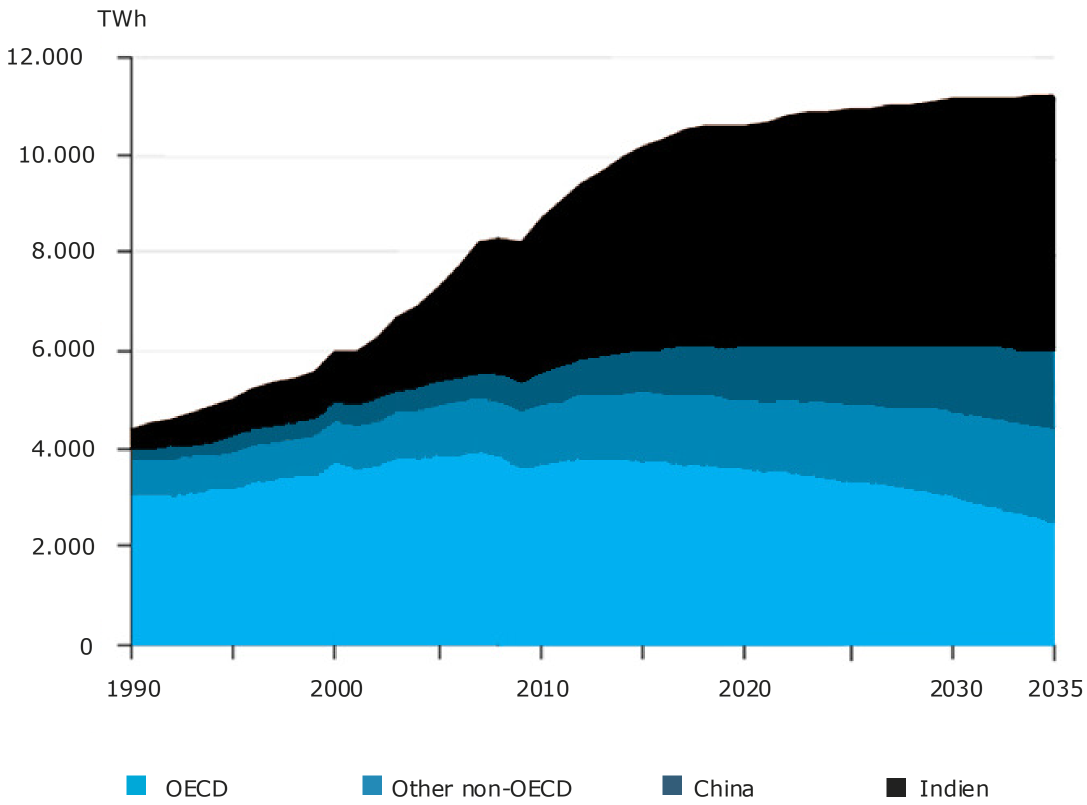
Investment risks

The HMS Group's investment in an Indonesian harbour operation continues to give rise to risks relating to the investment's cost-effectiveness and profitability, which are substantially dependent on the investment strategy's implementation. Our risk management attempts to identify potential negative impacts on our business at an early stage by means of continuous monitoring of the marketing strategy and of the status of its implementation in order to respond to such risks accordingly by adjustments to 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. We take particular care to exhaustively investigate and weigh up risks and opportunities when entering into long-term agreements. The main factors to examine are the size of the reserve, logistics infrastructure, the financial situation, legal requirements, management and the political landscape. Our risk management system implements measures such as obtaining expert advice and reports. In the Trade division, we are able to identify 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 continues to have the largest reserves and resources in the world. Figures compiled by the German Federal Institute for Geosciences and Natural Resources (BGR) indicate that reserves are sufficient to last a further 120 to 200 years, depending on the type of coal and global economic developments. It is an established fact that the remaining coal reserves are sufficient to cover expected demand for many decades to come. Scientific and market analyses show that the percentage of coal in global energy production will continue to rise at an above-average rate going forward. According to the IEA (International Energy Agency), hard coal is set to remain the most commonly used commodity for the production of electricity. The chart below illustrates how the growth of industry in China and India is compensating the global decline in coal-generated electricity. The largest driver of this development is the growing world population, which is set to reach 8.2 billion by 2030, as well, undoubtedly, as rising energy consumption. The share of coal in global power 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 steady rise in global energy consumption seen in recent years, with coal being the fastest growing primary energy source, will continue in the years ahead. Coal prices are likely to proceed on an upward trend, driven by the exponential growth in industrial demand from the Asia Pacific region and current developments in public opinion on 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 transshipment centres. By securing our own resources, we are aiming to guarantee supply in the long term for our 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 both play an essential part in strengthening our market position in the long term. The steep price increases we anticipate taking place in the years to come find their expression in the future prices for the API2 index (CIF ARA) at the European Energy Exchange's Leipzig trading centre for energy and energy-related products. One year ago, the price for a tonne of coal was expected to fetch in 2012 was between USD 95 and USD 102; it has now reached USD 104 to USD 112. We do not anticipate demand for fossil fuels to decline in Europe, particularly given the German government's decision to switch off the country's nuclear power plants and current difficulties in the realisation of the aimed-for shift to renewables. Coal-generated electricity is a flexible form of energy supply and will retain its significance, in Europe and elsewhere. We continue to focus our efforts on renewing expired agreements and entering into new long-term contracts with

European power plant operators. In financial years 2012 and 2013 in particular, our principal task remains to regain market share in Europe while pushing ahead with the expansion of our business in Asia. At the same time, we need to stick to our strategy of expanding the value added chain, particularly by means of entering into and realising exclusive marketing and cooperation agreements.

The beginning of financial year 2012 has progressed with very little change from developments in the last quarter of the previous year. As expected, incoming orders in the European market were low; however, we were able to access opportunities with regard to marketing American coking coal and expect deliveries to commence from the third quarter of this year. Price volatility in Asia means customer markets are behaving with a high degree of caution. We expect this trend to reverse in the second quarter on account of demand. We continue to see considerable growth potential in Asia. In this context, we anticipate that the next two financial years will represent a considerable improvement in performance compared to 2011. We expect increases in sales revenues, as well, we expect our pursuit of vertical integration to provide us with increased gross margins. 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 reviews it regularly. It also determines remuneration for individual Management Board members. Management Board remuneration comprises fixed elements along with variable, performance-related components. Fixed remuneration is paid as a monthly salary, regardless of performance. Management Board members also receive additional non-cash benefits, which mainly consist of the private use of a company car and are taxable. Performance-related remuneration is dependent on the Company’s annual result and the personal performance of the Management Board member in question. 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. These statements are based upon plans, estimates 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 are naturally 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 for such statements and does not intend to update such statements in view of new information or future events.

Berlin, April 2012

Heinz Schernikau CEO	Sebastian Giese CFO	Rüdiger Lorentz COO